FIBI FIRST INTERNATIONAL BANK OF ISRAEL

# ANNUAL REPORT

# 2020

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## STATEMENT BY THE CHAIRMAN OF THE BOARD

Dear stakeholders,

The year 2020 has been marked by a global health crisis, caused by the Corona epidemic. The health crisis had led to a deep economic and social crisis.

The uncertainty, low interest rate, high unemployment rates and negative growth were all part of the environment in which the economy, including the First International Bank Group, operates. Notwithstanding the above, the Group was successful in confronting the new reality, maintain and even increase the level of income and improve efficiency. This, thanks to the quality of management, financial stability and the appropriate risk appetite that characterize the First International Bank Group.

In recent years, the Group has undergone a process of strengthening the capital ratios and liquidity and improvement in profitability while emphasizing digitation, innovation and efficiency, simultaneously with facing the changing macro-economic conditions and the entry of new players into the market. As a result thereof, and in combination with the strategy and the appropriate policy of the Group, the First International Bank Group reached the crisis in a solid and stable position, a fact allowing it to confront the crisis, create growth and business continuity and stand by its customers, corporations and households. In the course of the crisis, the Group continued to follow and support its customers, focusing on small and middle-market businesses, inter alia, by means of the Governmental Corona Funds. Moreover, the group allowed the deferral of loan repayments, in order to help customers whose income had been impaired by the crisis. Due to the uncertainty existing in this period, the Bank has created a security cushion through the significant increase in credit loss expenses, most of it by increasing the collective provision for credit losses. At the same time, the high quality of the customers of the Bank Group is evident.

On background of this reality, the rating of the First International Bank remained both at the highest possible issuer rating of "AAA" by the local rating agencies "Ma'alot" and "Midrug", and at the rating of "A2" by the international rating agency Moody's. This reflects an expression of confidence in the solidity of the Bank and in the strategic moves led by the Bank in recent years and which brought about a continuous and consistent improvement in its results.

The technological revolution presents us with opportunities as well as challenges, which have become doubly important during the year. The Bank has introduces a series of breakthrough innovations and has expanded operations by digital means for the benefit of customers preferring to conduct their business at a distance, a move reaching a record high use of the digital and earning high customer satisfaction.

Among the technological innovations may be mentioned digital pension consulting and the digital investment consulting and management systems. The Bank has also reacted quickly by creating a secured response for work from home, in order to maintain business continuity and operational continuity, a fact that, inter alia, has made it possible to provide service to customers all along the crisis period, including the long lockdown periods that characterized the year 2020.

In the course of 2019, the Bank approved a new strategic plan, while focusing on private banking and maintaining the leadership in the capital market, concurrently with the growth in the small and middle market business lines. Efficiency measures were accomplished in accordance with the strategic outline, which includes the reduction in floor area and a gradual reduction in the workforce, following the improved efficiency of work procedures. This strategy, as modified during the year, has proved and is proving itself to be the correct one also during the crisis.

Concurrently with the implementation and intensification of the technological innovation and promotion of digital banking, the Bank Group strictly maintains professionalism and a high service level for its customers, which is customized to their needs, both by means of service at the branches and by telephone as well as by means of the different online digital channels. Satisfaction surveys regarding bank customers reflect a high level of satisfaction expressed by customers of the First International Bank and of its subsidiary, Massad Bank. We shall continue to invest resources in raising the level of service to our customers in the different segments of operation, and in creating value for them, emphasizing the continuing development of advanced digital channels and the marketing of new products and services, while strictly maintaining fairness and transparency.

The First International Bank maintains over the years a consistent dividend distribution policy, as part of its aspiration for creating value for its shareholders and for the modification of the capital to the scope of activity. Within this framework, the Bank distributed dividends in 2020 in the amout of NIS 125 million, in respect of the 2019 earnings.

In its activity in aid of the community, the Bank Group continued to focus on providing prospects to youth in risk situation, on supporting lone military personnel and on supporting and promoting business women coming from social and geographic peripheral areas. All this is being performed in cooperation with employees of the Group, who volunteer and contribute time, energy as well as accumulated knowledge in favor of the promotion of financial awareness and business entrepreneurship.

The First International Bank Group presents consistent and stable growth as well as improvement in efficiency, while implementing organizational actions supporting these moves. The employees of the Group, who are defined as vital employees providing essential service to the public, have braced themselves and also in this difficult year continued to perform zealously and with devotion for the benefit of customers, while protecting the health of both the employees and the customers. The gratitude of the Board of Directors is given to the employees of the Bank at the branches and at Head Office, to the Management of the Bank which leads the Bank Group securely and successfully and to the customers of the Group, private and corporate, which trust us.

**Ron Levkovich**
Chairman of the Board

Tel-Aviv, 16 March 2021

# Report of the Board of Directors and Management

## GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

## REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT FOR THE YEAR 2020

The meeting of the Board of Directors held on 16 March, 2021, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2020.

## GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

### Description of operation of the Bank Group

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 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, 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.

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

On July 23, 2020, Midrug ratified the evaluation of the Bank's internal financial stability at aa2.il/stable outlook, the Bank's short-term deposits at the rating of P-1.il, the Bank's long-term deposits and the senior debt at Aaa.il/stable outlook rating, its subordinate debt notes to Aa1.il/stable outlook, its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism at Aa3.il (hyb)/stable outlook rating.

On December 17, 2020, the international rating agency Moody's ratified the rating of foreign-currency and local currency long-term deposits with the Bank at A2, and the short-term deposits at "Prime-1", and the rating outlook at "stable".

On January 3, 2021, S&P Maalot ratified the issuer rating of the Bank at ilAAA/Stable and its subordinate debt notes at ilAA+ and the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.

## FORWARD-LOOKING INFORMATION

Part of the information detailed in these reports 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. In respect of which, see also the reservation in the chapter of major risks to which the Bank is exposed- the effect of he spread of the Coronavirus.

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** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| | | | | | percent |
| **Execution indices** | | | | | |
| Return on equity attributed to shareholders of the Bank | **8.6%** | 10.5% | 9.3% | 9.1% | 7.2% |
| Return on average assets | **0.49%** | 0.63% | 0.54% | 0.52% | 0.41% |
| Ratio of equity capital tier 1 | **11.18%** | 10.81% | 10.51% | 10.38% | 10.09% |
| Leverage ratio | **5.29%** | 5.81% | 5.76% | 5.50% | 5.52% |
| Liquidity coverage ratio(1) | **150%** | 128% | 122% | 123% | 123% |
| Ratio of total income to average assets | **2.7%** | 3.0% | 3.1% | 2.9% | 2.9% |
| Ratio of interest income, net to average assets | **1.7%** | 1.9% | 1.8% | 1.8% | 1.7% |
| Ratio of fees to average assets | **0.9%** | 0.9% | 1.0% | 1.0% | 1.0% |
| Efficiency ratio | **61.8%** | 64.4% | 68.4% | 69.5% | 73.5% |
| **Credit quality indices** | | | | | |
| Ratio of provision for credit losses to credit to the public | **1.38%** | 1.05% | 1.02% | 1.03% | 1.08% |
| Ratio of impaired debts or in arrears of 90 days or more to credit to the public | **0.86%** | 1.08% | 0.83% | 0.92% | 1.02% |
| Ratio of provision for credit losses to total impaired credit to the public | **221%** | 131% | 186% | 155% | 147% |
| Ratio of net write-offs to average total credit to the public | **0.10%** | 0.10% | 0.16% | 0.18% | 0.09% |
| Ratio of expenses for credit losses to average total credit to the public | **0.52%** | 0.16% | 0.20% | 0.15% | 0.10% |

| **Principal data from the statement of income** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| | | | | | NIS million |
| Net profit attributed to shareholders of the Bank | **750** | 865 | 733 | 678 | 521 |
| Interest Income, net | **2,637** | 2,602 | 2,486 | 2,302 | 2,169 |
| Expenses from credit losses | **464** | 138 | 166 | 121 | 80 |
| Total non-interest income | **1,523** | 1,520 | 1,637 | 1,450 | 1,480 |
| Of which: Fees | **1,371** | 1,286 | 1,325 | 1,305 | 1,300 |
| Total operating and other expenses | **2,569** | 2,654 | 2,819 | 2,607 | 2,683 |
| Of which: Salaries and related expenses | **1,532** | 1,601 | 1,696 | 1,579 | 1,581 |
| Dismissal expenses | **26** | 48 | 35 | 16 | 57 |
| Primary net profit per share of NIS 0.05 par value (NIS) | **7.48** | 8.62 | 7.31 | 6.76 | 5.19 |

| **Principal data from the balance sheet** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| | | | | | NIS million |
| Total assets | **167,778** | 141,110 | 134,120 | 135,717 | 127,907 |
| of which: Cash and deposits with banks | **57,802** | 37,530 | 31,303 | 39,186 | 29,150 |
| Securities | **13,105** | 10,995 | 12,595 | 10,238 | 15,776 |
| Credit to the public, net | **90,970** | 87,899 | 84,292 | 80,378 | 77,328 |
| Total liabilities | **158,243** | 132,186 | 125,707 | 127,333 | 119,973 |
| of which: Deposits from the public | **141,677** | 120,052 | 111,697 | 113,511 | 105,817 |
| Deposits from banks | **2,992** | 1,137 | 1,150 | 1,133 | 755 |
| Bonds and subordinated capital notes | **4,394** | 3,674 | 4,989 | 5,249 | 5,801 |
| Capital attributed to the shareholders of the Bank | **9,141** | 8,568 | 8,093 | 7,756 | 7,321 |

| **Additional data** | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Share price (0.01 NIS) | **8,514** | 9,989 | 7,860 | 7,202 | 5,650 |
| Dividend per share (0.01 NIS) | **125** | 410 | 355 | 310 | 199 |
| Average number of positions (2) | **3,895** | 4,086 | 4,285 | 4,429 | 4,650 |

(1) The ratio is computed in respect of the three months ended at the end of the reporting period.
(2) The number of positions includes conversion of overtime in terms of positions.

## 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.

## Developing risks

Developing risks are risks that may arise in new areas, or new risk focals in existing risks, deriving, among other things, from changes in the environment effecting the banking operations, including regulatory environment, competition, digital, etc.

Following are details regarding the principal developing risks:

1. **Macro-economic risk** - The business results of the banking sector in Israel and of the Bank being a part thereof, are directly affected by economic conditions in Israel and globally. Deterioration in economic, political and defense conditions, or the spreading of global morbidity, might lead to a recession in the economy or to a material economic slowdown. Recession may result in a significant rise in the rate of unemployment, decline in the standard of living in Israel and changes in consumption habits, which, inter alia, may be reflected in a decline in volume of credit card activity, or impact demand by households and businesses for other banking services, cause changes in capital market activity turnovers, and more. These factors might lead to impairment in income of the Group, increase the volume of troubled debts and adversely affect the results of the Group.

   The outbreak of the Coronavirus has created a significant change in the macro-economic environment, which may have a continuous impact on the economy, and as a result, on the activity of the banking sector generally, and on the bank as a part thereof. For additional information, see "Effect of the spreading of the Coronavirus" below.

2. **Strategic/business model risk** - Changes in the operating environment of the Bank and the material growth in the force of competition had been examined and reflected when forming the strategic plan of the group for the coming year. The strategic plan is being reviewed on an ongoing basis considering the changes in the competitive environment and the different challenges, including those generated by the Corona epidemic in Israel and globally.

   Changes affecting the business environment changing the force of competition:

   - Changes in regulation - the regulatory environment continues intensively to promote moves that raise the level of competition in different fields, such as payment services, consumer credit, credit database, implementation of the open banking Standard intended to allow the sharing of financial information of customers with third parties, the reform for the movement of customers between banks, promoting the establishment of a banking computerization services bureau, regulation which promotes the transformation to digital banking, and more.
   - Changes in customer needs - risks relating to social and consumer trends, including changes in customer needs that followed the outbreak of the Coronavirus.
   - Changes in classes of competitors – in recent years, competition regarding financial services and products has widened over and above the traditional competition between banks and old competitors, with new competitors flowing towards the traditional financial activities, including insurance companies, credit card companies, retail companies, startup and fintech companies, which develop innovative products in this field, as well as global big-tech corporations expected to start financial activity in the coming years.

- Technological changes – the transition to digital banking and the entry into financial activity of technological competitors create new technological risks and challenges as well as new security and cyber risk, to which the Bank is preparing.
- Demand for greater efficiency in the banking sector - The growing competition in the financial markets and the low interest environment, on background of demand for higher efficiency of the banking sector on the part of the Supervisor of Banks, have led to the promotion of efficiency measures, within the framework of which different steps were taken, including changes in the long-term goals of the Bank alongside efficiency in expenditure, resulting in improved efficiency ratios. In continuation of the efficiency measures, which the Bank adopts in recent years, the Bank institutes efficiency measures as part of its strategic plan, which inter alia include, continuing expansion of operations by digital means, reduction in the number of branches and improvement in work procedures at the branches and at Head Office. For additional information, see "The effect of the spreading of the Coronavirus" below.

3. **Regulatory risk** - This risk stems from the trend of increasing regulatory requirements in recent years in Israel and the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity and loss of income. The changes also require preparation, implementation and integration, which may result in heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, of compliance risk and of strategy risk.

   The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank and at the Group for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and reducing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support, inter alia, on basis of such developments.

   From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes. For details regarding material regulatory initiations with effect on the Bank's operations in the reported period see "Legislation regarding limitations, standards and special constraints affecting the Bank group", in the chapter of corporate governance, additional information.

4. **Cyber and data protection risks (as part of the operational risk)** - in accordance with Proper Conduct of Banking Business Directive No. 361, cyber risk is defined as potential for damage stemming from a cyber event, considering its probability level and the seriousness of its implications. The Bank conducts the cyber risk in accordance with Proper Conduct of Banking Business Directives Nos. 357,361,363, and 367, which consider this risk and the implications stemming from it. Cyber risks, leakage of information and data protection risks have a high potential for causing damage upon the happening of a significant event at high recovery costs. Innovation in banking and in communication entails operational risks with an emphasis on cyber and data protection risks. Consequently, for the purpose of the proper management of cyber risk, the existing framework of information technology and data protection risk management at the Bank has been broadened and adapted from the aspects of the dimension of the threat and the required defense capabilities. The Bank adopts many preventative actions designed to reduce the risk, including promoting awareness in cyber and data protection areas and conducting exercises. In addition, a strategy has been established and a cyber and data protection policy has been written, as well as the appointment of a cyber protection manager, responsible for the implementation of the policy. The cyber protection management is conducted also by means of two frameworks, the one

headed by the CRO "cyber protection management steering committee", and the other headed by the cyber protection manager "cyber information forum". Within the framework of the implementation of Proper Conduct of Banking Business Directive No.367 - "online banking", an online banking policy was formed. The Bank conducts forum meetings for the follow-up of developments in this field, and reports are submitted to the relevant functions in accordance with the policy. In view of the Corona crisis, the Group has expanded work distancing. All solutions for distant approach are accompanied by the data protection department, monitoring has been defined with respect to work distancing and work distancing procedures formed, which include data protection aspects.

The Bank has a designated insurance policy providing insurance cover to the Bank Group in respect of different damage events as a result of computer failure and/or cyber event.

5. **Information technology risk (as part of operational risk)** - The risk involves failure in information and or in the information and operating systems of the Bank, as well as inadequate support for the business services and processes required by the Bank in order to realize its business goals. In view of the fact that in recent years the technological environment is developing with an ever-growing dependence on it, need has arisen for increasing business and technical flexibility as well as need for the increasing use of new technologies. The risk is managed according to the Information Technology management policy and in accordance with Proper Conduct of Banking Business Directive No. 357. In addition, in accordance with Proper Conduct of Banking Business Directive No. 301, a Technology, Innovation and Administration Committee of the Board of Directors is in operation.

6. **Cross-border risks (as part of compliance risk)** - the Bank Group conducts business in different banking fields. Among its customers, the Bank Group provides services also to customers who are foreign residents. On background of the increased efforts made by different countries to discover funds of their residents held outside their country of residence as well as the growing trend of international cooperation in the campaign against tax evasion, the Bank's operations with foreign residents may increase exposure of the Bank to compliance risk stemming from cross-border activity as well as to reputation risk.

   The Bank has determined a designated policy regarding this issue, work procedures have been instituted, and decision has been taken regarding a series of operational steps for the management and reduction of risk, accounts identified as being of a high risk with respect to cross-border risks were identified and marked, and customers showing indications regarding foreign tax residency as well as all new customers are required to sign declarations regarding their tax residency and waiver of confidentiality regarding all their accounts. A computerized process is being conducted for the identification of signs indicating foreign tax residency, and where an existing account has such indications, the owner of the account is required to sign a declaration regarding his tax residency.

   - FATCA instructions – constituting US legislation established in an inter-state treaty with the State of Israel, by way of local legislation. In accordance with the FATCA rules, the Bank conducts internal procedures for the identification and documentation of US customers, and in September of each year, in respect of the preceding tax year, submits a report in their respect to the US tax authorities, via the Israeli Tax Authority. In accordance with the said rules, since their effective date, the Bank allows the opening of a new account, subject to the signing of a declaration by the customer regarding his tax residency.
   - CRS instructions – A Standard developed by the OECD, the aim of which is the collection of information regarding the tax residency of customers of a bank and reporting them to the tax authorities of the member countries by means of the Israeli Tax Authority. The Standard, which had been integrated by local legislation, is being implemented by the Bank, which submits reports in September of each year regarding customers who had declared foreign tax residency, or customers whose accounts show indications of such tax residency.

7. **Conduct risk (as part of compliance risk)** - the Bank Group has integrated values of fairness and transparency in its operation with customers, and is reinforcing these principles in its current conduct. As a general rule, the Bank group is required to verify that the offers made to customers are adapted to their needs and that services are provided without discrimination of any kind. Non-compliance with the proper conduct standard exposes the Group to different risks such as: compliance, legal, reputation and such like risks. The Bank approved a policy in the matter of proper business conduct, being part of the compliance policy, and one of the targets of the compliance officer is to integrate the said principles into the different divisions of the Bank.
8. **Environmental risks** - In recent years, global awareness of potential exposure to environmental risks and to climate risks from the financial aspects, has grown.

   Environmental risk is the risk of loss due to the effect of costs originating in instructions relating to the quality of the environment and the enforcement thereof, which may increase the risk from aspects of credit risk, market risk, operating risk, compliance risk and reputation risk, directly or indirectly, as follows:
   - Direct effect - stemming from the cost of environmental hazards that the Bank has to bear, including direct damage related to climate changes, or monetary loss that might be caused due to adoption of a climate and environmental policy, technological developments and changes in market preferences.
   - Indirect effect – such as effect on credit risk, which may stem from a deterioration in the financial condition of a borrower, following environmental effects and climate changes, inter alia, following non-compliance with the relevant environmental provisions of the law, due to heavy expenses required in order to comply with environmental regulation requirements, or due to a high penalty that may be imposed in respect of an environmental hazard as well as the materialization of other risks related to environmental risks, such as reputation risk.

   The Bank takes action to identify and manage the environmental risk, with a focus on credit risk, while striving to reduce or prevent the risk stemming from environmental effects having a hazard potential. The Bank attributes great value to the financing of projects/entities contributing to environmental development, such as the financing of projects in the field of renewable energy. The Bank continues to study the developing regulatory requirements and to integrate them into the ongoing risk management.

For additional information, see the Chapter on risk review below and the risk report on the Internet website of the Bank.

### Impact of the spreading of the Coronavirus

Approximately one year following the outbreak of the Coronavirus and the spreading thereof around the world, a new wave of morbidity is observed around the world, attributed, inter alia, to the formation of mutations causing faster contamination in a way which still makes it harder to forecast exactly when will the economies of the world return to full normality. Part of the countries around the world impose lockdowns in different ways, and a third lockdown was imposed in Israel in December, which became stricter with the rise in level of morbidity. Vaccination against the virus began in several countries, including Israel in the fourth quarter of 2020, with anticipation in Israel that the vaccination would allow the resumption of a kind of careful normality as from the end of the first quarter of 2021 and thereafter. In general, the year 2020 has ended with the global recovery of economic activity, following the steep deterioration in the first half of the year. Following the implementation of expansionary fiscal and monetary policies, a quicker recovery from the crisis is anticipated as compared to forecasts made in the previous quarter, though uncertainty still exists, depending on the pace of immunization in relation to the increasing morbidity, which leads to considerable differentiation in forecasting the rate of economic growth in the world in the coming years.

In accordance with the forecast by the research division of Bank of Israel, published at the beginning of January, two central scenarios have been formed with respect to Israel – a scenario that includes the speedy vaccination of the population until May 2021 (the GDP is expected to grow by 6.3% in 2021 and by 5.8% in 2022), alongside a forecast that includes a longer vaccination prtiod – until June 2022 (the GDP is expected to grow by 3.5% in 2021 and by 6% in 2022). In the opinion of Bank of Israel, risks are still running high and the impact on the economy, in the labor market in particular, is expected to be lengthy. It is repoted therefore, that Bank of Israel will continue to employ diverse tools in order to increase the extent of expansion of the monetary policy and ensure the continuity of the proper operation of the financial markets.

The Bank strictly implements the guidelines of the Ministry of Health and of Bank of Israel. Within the framework of maintaining business continuity, the Bank has taken a series of steps, inter alia, by means of splitting units, use of distant work and formation of "capsules" or team work, while strictly maintaining risk management and controls. Despite the fact that the Bank had performed well since the beginning of the crisis, a conclusion drawing process was conducted in the second quarter of the year with respect to the effect of the first wave of morbidity caused by the virus. This process was led by the Risk Management Division in participation with all divisions and groups of the Bank. The conclusion drawing process included reference to business continuity in the shadow of the virus, discussing also items concerning improvement of the preparations made by the Bank, which were implemented in the course of the second half of the year.

Management of the Bank and the Board of Directors maintain an ongoing follow-up regarding all matters and risks stemming from the crisis, its implications and its financial impact on the Bank, including the impact on credit risk, liquidity, the "nostro" investment portfolio, dealing rooms, etc. The Bank has maintained high liquidity balances as well as a liquidity coverage ratio in all operating segments, higher than required by the regulatory and internal limits. The liquidity coverage ratio for the three months ended December 31, 2020, amounted to 150%. Deposits from the public as of December 31, 2020, amounted to NIS 141,677 million, compared to NIS 120,052 million at the end of 2019, an increase of 18.0%.

The year 2020 was marked by the high use by customers of the digital channels, due to the Corona crisis, whih had brought about the diversion of activity from the branches to digital means. The Bank offered additional online services alongside the relief granted by Bank of Israel, while making the necessary adjustments to monitoring and control, and is continuing the expansion of the services provided by these channels.

On background of the spreading of the Coronavirus and in order to secure the ability of banks to continue and offer credit, the Supervisor of Banks reduced on March 31, 2020, the capital requirements relating to banks, as stated in the provisional instruction applying for a period of six months with option for extension. (On September 16, the period of the provisional instruction was extended to March 31, 2021). Accordingly, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required from the Bank by the Supervisor of Banks, on a consolidated basis, as of December 31, 2020 and for the period of the provisional instructions, are 8.29% and 11.79%, respectively (instead of 9.30% and 12.80%, respectively, prior to the provisional instructions).

On November 15, 2020, Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 250 – modification of the Directives for the purpose of confronting the Cotona crisis (Provisional instruction), within the framework of which Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio, had been updated. The update mitigates the leverage ratio requirement by one-half percentage point, so that the Bank has to maintain a leverage ratio of not less than 4.5%, on a consolidared basis (instead of 5%), and this due to the Bank being a banking corporation the total balance sheet assets of which, on a consolidated basis, is up to 24% of the total balance sheet assets of the banking system as a whole. This relief is in effect until March 31, 2021, when following this date, the relief shall continue for an additional period of twenty-four months, provided that the leverage ratio shall not be lower than the leverage ratio on date of expiry of the period of the Provisional Instruction, or the minimum leverage ratio applying to the banking corporation prior to the effective date of the Instruction, the lower of the two. On March 7, 2021, Bank of Israel published a draft amentment to the Instruction, according to which the period of the Provisional Instruction, with respect to most of the relief items, would be extended by an additional period of six months, until September 30, 2021.

In view of the letter of the Supervisor of Banks dated March 29, 2020, and of the Provisional Instruction of March 31, 2020, which amends Proper Conduct of Banking Business Directive No. 201, which included, inter alia, a requirement to re-examine the dividend distribution policy, on background of the Corona crisis and the uncertainty caused by the development of the crisis, the Board of Directors of the Bank held a discussion on April 16, 2020, with respect to the said dividend policy and decided that the Bank would avoid the distribution of dividends to its shareholders during the period of the provisional instruction (which originally applied to the period of six months untill September 30, 2020, with an option for extension for

an additional period of six months, and which on September 16, 2020, was extended until March 31, 2021). On background of the attitude of the Supervisor of Banks regarding the conduct of the banking system in this matter, based on the continuing economic uncertaunty and the possible adverse effect of the continuing hazard to the economy, The Board of Directirs of the Bank decided on March 16, 2021, to continue and avoid the distribution of dividends during this period.
It is clarified that beyond that stated above, no change has taken place in the Bank's dividend distribution policy and it remains as is. The Board of Directors of the Bank is entitled to examine at any time the decision regarding the implementation of the dividend distribution policy of the Bank and to change it at its discretion..
It is noted that on March 7, 2021, Bank of Israel published a draft amendment to the Provisional Instruction, according to which, the period of the Provisional Instruction would be extended to September 30, 2021.
As of December 31, 2020, the Tier I equity capital ratio amounted to 11.18% as compared to 10.81% at December 31, 2019, and the leverage ratio amounted to 5.29% as compared to 5.81% at December 31, 2019.

In the course of May 2020, Bank of Israel formed a uniform outline for the deferral of loan repayments ("the outline"), which was adopted by the banking sector, applying to three business segments – mortgages, consumer credit and business credit (as defined by the outline). Within the framework of the outline, minimum requirements were determined for each of the segments, in order for a loan to be included in the outline, the scope of discretion of the Bank regarding deferral of repayments as well as the rules for the format of deferral of repayments in each segment, the essence of which is the period of deferral of repayments, the dates for submission of deferral applications, prohibition on the charging of commission fee in respect of the deferral process, the rate of interest that may be charged on the deferred repayments, the manner of spreading the repayment of the loans, etc.
Since the application of the outline, Bank of Israel has twice extended it, allowing customers to submit until December 31, 2020, applications for deferral of repayments for a period of up to nine months, subject to the terms of the outline.
On November 30, 2020, Bank of Israel announced the formation of an additional outline for the deferment of mortgage and consumer loans repayments. This would apply to borrowers complying with a number of cumulative terms, which allow customers whose loans at December 31, 2020, had already been granted deferral of repayment, to continue and defer their mortgage and consumer loan repayments under a mitigating repayment schedule.
The additional outline is intended to help customers, who had been materially affected by the implications of the crisis and who comply with a number of cumulative terms. Such customers may apply to the Bank with a request to materialy reduce the amount of the monthly repayments for long periods of time, with no commission charges and at the original interest rates applying to the loans. The period for submission of applications under this outline is from January 1, 2021 to March 31, 2021.
Furthermore, Bank of Israel announced on December 10, 2020, an additional outline assisting small and minute businesses in the repayment of their loans, which is also in effect until March 31, 2021.

The Bank implements the guidelines of Bank of Israel while maintaining the principle of fairness regarding its customers, and continues to monitor the condition of borrowers and act in accordance with the outline.
Until December 31, 2020, deferred loan repayments (principal and interest) totaled NIS 125 million, comprising 0.14% of the net outstanding balance of credit to the public. For additional information, see the Chapter "Risk review" below.
In addition, the Bank has carried out a line of moves in order to assist customers, including providing finance within the framework of funds guaranteed by the State, assisting businesses that had been economically affected by the effects of the Coronavirus, or also through other means, based on a series of reliefs announced by Bank of Israel.
With the outbreak of the crisis the Bank examined the risk relating to all models regarding credit and took action to reduce the risk involved in extending new credit. As a general rule, the Bank manages the risk relating to the models, and in particular the credit risk models, in a way that reduces the level of risk.
On background of the spreading of the virus, its effect on the macro-economic environment and the considerable uncertainty created as a result, the Bank has increased the credit loss expense. Due to the crisis, the Bank decided to increase the collective provision for loan losses, by updating the qualitative adjustments in computing the collective provision, in order

to reflect the uncertainty, which might be expressed in the growth in the specific provision in the future. Following the spreading of the virus, the Bank had recorded expenses for credit losses in the amount of NIS 436 million in 2020. The expenses include the increase in volume of the collective provision in the amount of NIS 402 million, and the increase of NIS 34 million in the specific provision.

The Bank has updated the stress tests infrastructure in a way that would reflect also the effects of the crisis, this, following the tests devised, by the Bank and at the request of Bank of Israel. At the request of Bank of Israel addressed to the whole banking system, two uniform tests had been implemented during the year. The first of which during May and the second during November 2020, in view of the continuing crisis. The tests are in accordance with two levels of severity – a basic test reflecting the anticipated direction of the economy, and a stress tests. The capital ratios in all the stress tests are above the relevant limits.

Cyber and data protection risk (being part of operating risk) – The Corona crisis has led to a rise in attempts of cyber attacks against organizations all over the world, including a rise in phishing combined with social engineering. All along the period, the Bank adopted a large number of measures in order to reduce exposure to risk, among other things, strengthening and improving the protection mechanisms operating within the systems of the Bank. In addition, following the partial transition to remote working, the monitoring of all operations has been defined and awareness of employees to the proper manner of operation, to existing controls and to new threats has been increased.

Compliance risk - the Corona crisis requires increased vigilance on the part of the Bank, in order to avoid misuse of the crisis for money laundering and terror financing purposes. The Compliance Department of the Bank has prepared for conducting more intensive controls, with an emphasis on locating, identifying and treating transactions appearing to be unusual.

Strategy risk – following the crisis and the uncertainty characterizing the present period, the Bank continues the close follow-up of changes in the financial markets as well as the examination of the effects on the strategy and the work plan of the Bank of macro-economics, conduct of the customers and the conduct of the Bank. In cases where it is found that the crisis has a material effect on operations, the required adjustments for confrontation with the new situation are being made. A renewed examination of the strategic plan was brought for discussion in October 2020, as part of the periodic updating, and no need for a material change in the strategic outline has been found.

As stated, it is not possible, at this stage, to assess in full the impact of the event upon the Bank and its scope, this, due to the uncertainty existing with respect to the length of time the event and the spreading of the virus, the measures taken to curb the spreading thereof and their force, as well as the uncertainty regarding the derivative effects on economic activity, on capital market trends and the different financial measures that would be taken in the matter (by governments, central banks and regulators).

Assessments by the Bank regarding possible implications of the spreading of the Coronavirus and its impact upon the markets comprise forward looking information, as defined by the Securities Act, 1968, based, inter alia, on information, third party publications and estimates at the hands of the Bank at this date. Such assessments are uncertain and may materialize in a manner significantly different than that stated above, inter alia, depending on the spreading of the virus, the pace of vaccination, the reaction of governments and central banks and on the length of period of the event.

For additional details regarding the spreading of the Coronavirus, see Note 1F. to the financial statements and the risks report on the Internet website of the Bank.

### 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.

Since 2018, the Bank operates according to the digital strategy (approved at the end of 2017), the purpose of which is to support the business strategy of the Bank. The main parts of the strategy were validated during 2019, as pary of the corporate strategy. As part of the digital strategy and with adequacy to the Bank's strategy, 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.

On November 5, 2019 the Board of Directors of the Bank approved new corporate 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 is a direct continuation to the former corporate 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, alongside with rational risk management.

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.

Following the spread of the Coronavirus and its implications, the Bank has made adjustments in the annaual working plan, in accordance with the developments in the economy. The Bank continues to follow the implications of the Coronavirus and its effects on the operations of the Bank and its strategy. The Bank adjusts its working plan, if needed.

# 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 during the year 2020.

At the beginning of the year 2020, the Israeli economy was characterized by positive macro-economic data, good growth data, low unemployment, high financial stability, a low level of public debt and high foreign currency reserves. With the spreading of the Coronavirus in Israel during the first quarter of 2020, the Government of Israel announced wide restrictions on individuals and businesses. Following this, starting with the second half of March 2020, economic activity in many economic sectors was shutdown, with only a part of which resuming partial activity in the course of the second quarter of 2020, in accordance with level of risk involved in their activity during the crisis period. In the course of the summer months, following the first lockout and prior to the announcement of a second lockout, the Israeli economy recorded a speedy recovery in economic activity. In the wake of the growth in morbidity, a second lockout was declared in September 2020, and economic activity in a number of economic sectors was shutdown again, including the shutdown of the education system, which led to a steep decline in activity and in demand. Recovery in economic activity was recorded in the months of November and December, in view of the exit from the second lockdown, but differentiation in impairment caused to the economic segments continued. In view of the continuing growth in morbidity since the middle of December 2020, the outline for opening of the economy had stopped and an outline for stricter restrictions followed, including in respect of trade and the education system. At the beginning of February 2021, following a vaccination effort, the said restrictions have been mitigated.

Since the beginning of the outbreak of the epidemic, in order to reduce contamination and the spreading of the virus, a number of restrictions had been imposed, inter alia, on the opening of work places and presence of employees at their work place, a fact that did not allow regular work routine. Also imposed were different restrictions on conditions for the operation of places open to the public for trading and entertainment and recreation purposes, with a view of reducing the contamination risk in such places. In addition, restrictions have been imposed on the operation of places and businesses where a significant gathering of people is prevalent and concern exists for public health. The said restrictions have been altered from time to time in accordance with the spreading of the virus. In consequence of this situation, many employers placed their employees on unpaid leave or announced layoff of workers.

Economic developments throughout the year 2020, have once again demonstrated the stability of the Israeli economy. Restrictions and lockdowns caused a drop in economic activity, however whenever restrictions had been lifted, economic activity increased. A part of businesses managed to adapt the nature of their operation to the new situation, with the hi-tech services segment positively outstanding, as reflected in the continuing growth in the export of services, with the exception of tourism services. Impairment of operation was less severe during the second lockdown than in the first lockdown. Notwithstanding, the situation in the labor market, even prior to the entry into the third lockdown, was far from encouraging. Unemployment was not successful in returning again to a single digit rate, and different indices show that most of the damage is sufferred by the weaker workers in segments that in any case are characterized by low productivity and wages. Also among businesses, most of the damage centers on small businesses, particularly in segments the nature of which does not allow continuity of operations under the health restrictions. According to assessments, the year 2020 has recorded a net decline in the number of businesses in the economy, for the first time in many years.

Bank of Israel estimates that the present speedy rate of the vaccination process in Israel increases optimism for the quick return of the economy to a growth trend in the coming year. However, risks regarding economic activity are still high, and the damage to the economy, particularly to the labor market, is expected to be lengthy.

In May 2020, Bank of Israel announced a comprehensive outline, adopted by the banking system, for deferment in the repayment of loans – applying to mortgages, consumer credit and business credit – as assistance to customers of banks in confronting the Coronavirus crisis. In July 2020, in September 2020 and in November 2020, extension and expansion of the of the outline for the deferment of loan repayment were announced, with respect to households, including mortgages.

**Growth**

During the the year 2020, a significant deterioration took place in the real-time situation image, in comparison to the previous year. This under the shadow of the Corona crisis and in view of the preventive measures taken by the Government, with the aim of minimizing the continuation of the spreading of the Coronavirus.

The latest published nonfinancial economic activity indicators published for 2020, show an exceptional shrinking of the economy in 2020, on background of the Corona crisis and measures adopted by the Government intended to curb the Coronavirus. Based on data of the Central Bureau of Statistics ("CBS"), decline was recorded in the gross domestic product (hereinafter – "the GDP") in 2020, at a rate of 2.4%, in comparison to the year 2019, and a decline of 4.1% in the per capita product .

Data published by the CBS shows that decline of 9.4% was recorded in private consumption expenditure, with a decline of 11.1% in the per capita private expenditure. The decline in the per capita expenditure in 2020 reflects decline of 11.2% in the current per capita expenditure, decline of 9.4% in the per capita expenditure regarding semi-durable products, and decline of 7.8% in the per capita expenditure regarding durable products. Decline of 4.8% was recorded in investments in fixed assets and decline of 8.1% was recorded in the import of goods and services. Public consumption expenditure and the export of goods and services increased by 2.9% and by 0.6%, respectively.

The fourth quarter of 2020 in comparison to the third quarter of the year recorded an increase in the GDP of 6.3% (in annualized terms). The increase in the GDP in the fourth quarter reflects, inter alia, the impact of the significant increase in the import of motor vehicled in this quarter. Data published by the CBS shows that increases were recorded as follows: 18.2% in private consumption expenditure, 66.1% in investments in fixed assets, 26.0% in public consumption expenditure and 88.5% in the import of goods and services. Exports of goods and services declined by 4.9%.

On January 4, 2021, the Research Division of Bank of Israel updated its forecasts, according to which, the GDP is expected to shrink in 2020 by 3.7%. Under a scnario which include the speedy immunization of the population until May 2021 (hereinafter – "speedy immunization scenario"), growth of 6.3% is expected in 2021, and growth of 5.8% is expected in 2022. Under this scenario, economic activity would slightly slowdown at the beginning of 2021, with the present entry into effect of restrictions on activity, though with the lifting thereof, a relatively speedy recovery in activity is anticipated, lasting until the end of the second quarter of 2021, following the immunization of the population. Notwithstanding the above, due to the impairment in income of businesses and households, even with the lifting of all restrictions, activity would not revert to its ordinary level, which would require a prolonged additional period of time, so that in 2022 the level of activity is anticipated to be 2% lower than the long-term GDP trend.

Under a scenario that includes a longer process of immunization – until June 2022, on background of diverse factors, such as: the medical efficiency of the vaccine, the available inventory of vaccines in Israel, the logistic effort for the distribution of the vaccine, response of the public to vaccination or safety failure in the form of side effects discovered in Israel or abroad which may lead to delays in the process (hereinafter – "slow immunization scenario"), growth of 3.5% is expected in 2021, and growth of 6% is expected in 2022. The rate of growth in the GDP paframeters in 2021 is low in relation to the forecast under the speedy immunization scnario, however the forecast still reflects a slight recovery in activity in relation to 2020. The rate of growth in of the different parameters in 2022 is expected to be higher on background of the anticipated recovery with the completion of the vaccination process during the year.

Bank of Israel's Composite State-of-the-Economy Index, increased in 2020 by only 0.4%, in comparison to to a rise of 3.2% in the whole of 2019.

The impact on economic activity of the Coronavirus crisis is not uniform, and imairment centers mainly on segments directly affected by restrictions on activity and by social distancing requirements. Accordingly, the impact of the Coronavirus crisis on households, the income of which is dependent on the said segments, is particularly considerable, and the risk differences existing between the different segments may even continue and grow to the extent that the crisis continues.

### Credit risk of the economy

The level of risk of the Israeli economy, as reflected by the ratings awarded by the rating agencies and by the capital markets, is relatively low.

The international rating agency Fitch, ratified in April 2020, the credit rating of the State of Israel at a level of "A+" remaining with a stable outlook. The rating agency stated that the part of the external debt is low and the State of Israel enjoys a high financing flexibility. The State has a deep and liquid domestic market, which is supported, inter alia, by a plan for the purchase of bonds by Bank of Israel, a good access to international capital markets, as well as a guarantee plan by the US Government in the case of market unrest. During January 2021, the rating agency Fitch has again ratified the credit rating of the State of Israel.

The international rating agency Moody's, reduced at the end of April 2020, the credit rating outlook of the State of Israel from a level of "A1" with a positive outlook to a stable outlook. The reduction in the outlook came on the background of the evaluation that the credit rating is not going to rise in the coming months, and stemmed from two main factors: the leap in the budgetary deficit resulting from the Corona crisis, and the weakness of the Government's budgetary policy, in view of the increasing political polarization. Notwithstanding the above, the unchanged rating reflects a strong growth potential in the medium and long term. During the month of October 2020, Moody's ratified the credit rating of the State of Israel.

The international rating agency S&P ratified in May 2020, the credit rating of the State of Israel at a level of "AA-" remaining with a stable outlook. The rating agency stated that despite the fiscal challenges created as a result of the Corona crisis and the long political crisis, it is expected that the commitment to fiscal discipline will grow with the formation of a Government and will contribute to the continuation of a responsible macro-economic policy.

During November 2020, S&P ratified the credit rating of the State of Israel.

### State budget

On background of the dissolution of the Knesset, the State budgets for the years 2020 and 2021 had not been approved, and the Government had increased the base of the budget for 2020, so that the continual budget for 2021 would be less restrained than had been anticipated prior to the change.

At the beginning of the first half of 2020, the deficit declined, inter alia, on background of a budgetary restraint, stemming from the continued budget. Since then, the trend has changed and the deficit increased steeply, following the fiscal measures announced by the Government, on background of the spreading of the Coronavirus and the restrictions imposed on traffic and on economic activity.

In view of the serious crisis and the spreading of the Coronavirus, the Government was required to expend considerable amounts, over and above the expenditure framework stated in the continual budget, in order to curb the spreading of the Coronavirus and provide immediate treatment of contaminated patients, as well as for the significant assistance of the economy, in an effort to overcome the crisis.

A deficit in the State budget of NIS 160.3 billion was measured in 2020, comprising 11.7% of the GDP in comparison to a deficit of NIS 52.2 billion, comprising 3.7% of GDP measured in 2019. The increase in the deficit stems from the considerable expansion in Government spending on background of the Coronavirus crisis and from a decline in tax revenues. The original deficit target for 2020, determined prior to the crisis, was in the range of 3% to 3.3%.

According to an updated estimate of the Research Department of Bank of Israel of January 2021, based on the speedy immunization scenario, the Government deficit anticipated for the year 2021 is 8% of GDP and 3.6% of GDP anticipated for 2022. Based on the slow immunization scenario, the Government deficit anticipated for the year 2021 is 11% of GDP and 6% of GDP anticipated for 2022.

### Inflation

The inflationary environment in the economy is low and even negative, inter alia, due to the effect of the Corona crisis on the part of demand in the market, which significantly declines more than the decline in supply. In 2020, the Consumer Price

Index (CPI) "for the month" decreased by 0.7%, in comparison with an increase of 0.9% in 2019, while the "known" Index decreased by 0.6%, in comparison with a rise of 1.2% in 2019.
The decline in the inflationary environment, which had begun before the outbreak of the Corona crisis, has gathered strength with the breakout of the crisis. In the years 2018 and 2019, the annual inflation rate settled around the lower limit of the target for about one year, starting to decline at the end of the second half of 2019, with the declining trend continuing during the first half of 2020, until its rate stabilized at a low level in the second half of 2020. The annual inflation rate during the period under review, remained below the lower limit of Bank of Israel's targeted inflation range.
According to an update by the Research Division of Bank of Israel, dated January 4, 2021, the rate of inflation is expected to rise from its present low level, but would still remain below the lower limit of the target. According to the speedy immunization scenario, the rate of inflation in 2021 would amount to 0.6% and in 2022 to 0.9%. According to the slow immunization scenario, the rate of inflation in 2021 would amount to 0.1% and in 2022 to 0.8%. It is estimated in both scenarios that improvement in economic activity together with the decline in the effect of the decrease in the exchange rate of the US dollar against the shekel, which had prevailed until now, would lead to a moderate rise in inflation, so that at the end of 2022, inflation is expected to settle near the lower limit of the targeted inflation rate.

**Housing market**

According to the Housing Price Index published in February 2021 by the the CBS, an increase of 0.9% was recorded in the prices of transactions effected in the months of November and December 2020, in comparison with transactions effected in the months of October and November 2020. Prices of transactions in the months of November and December 2020 rose by 4.0% in comparison with the corresponding months last year.

**Labor market**

The Corona crisis had a significant effect on the labor market, which until the outbreak of the crisis had demonstrated strength. In accordance with the data produced by a manpower survey for December, for the fourth quarter and for the whole of 2020, published by the CBS, the unemployment rate in December 2020 reached 4.8%, in comparison to 5.0% in November 2020. Combining the data for the unemployed, with that of persons outside the workforce, who stopped working as from March 2020 due to dismissal or shutdown of their employment place, and employed persons who were temporarily absent from work for a whole week due to reasons connected to the Corona crisis, leads to an unemployment rate in December 2020 of 13.2% of the total workforce, comprising 553 thousand employees, as compared to the unemployment rate in November 2020 of 14.7% comprising 620 thousand employees. The average rate of unemployment for the whole of 2020 amounted to 4.3%, as compared to an unemployment rate of 3.8% in 2019.
Concurrently, the rate of participation in the workforce decreased since the beginning of the crisis and until the end of April 2020 to 62%, due to the discharge of workers from the work circle. In the first half of June 2020, this rate increased to 63.1%, on background of the opening of a number of economic sectors and the opening of the education system. In the second half of September, on background of the additional lockout of the education system, this rate declined to 61.3%, and in December 2020, the rate of participation continued to decline to a level of 60.5%. The average rate of participation in the workforce in the whole of 2020 reached 59.1%, in comparison to a participation rate of 61.1% in 2019.
In view of the third lockout towards the end of December 2020, the unemployment rate is expected to rise again. According to Bank of Israel, impairment of employment is higher in segments characterized by low wages.
According to an updated estimate of the Research Department of Bank of Israel, of January 2021, based on the speedy immunization scenario, the rate of unemployment is expected to stand at 9.6% in 2021 and at 6.2% in 2022. According to the slow immunization scenario, the rate of unemployment is expected to stand at 12.5% in 2021 and at 8.5% in 2022.

**Exchange rate**

The exchange rate of the shekel as against the US dollar declined in 2020 by 7.0% with considerable fluctuations between the quarters. The exchange rate of the shekel as against the Euro rose by 1.7%. The continuing downward trend in the dollar

exchange rate, which had been affected, inter alia, by the global weakening of the dollar, has led Bank of Israel to intervene in the market by way of purchasing foreign currency, the purchases in 2020 amounting to approximately NIS 21 billion.
At the beginning of January 2021, Bank of Israel announced that in order to support reaching the goals of Bank of Israel and the recovery from the Corona crisis, and particularly in order to support the export industries and imports alternatives impaired by the adverse effect of the drop in the exchange rate of the US dollar as against the shekel, Bank of Israel would purchase in 2021 an amount of US$30 billion. This amount is significantly higher than amounts purchased by Bank of Israel in the past, and from the estimates of Bank of Israel regarding the anticipated surplus on current account during 2021, so that such purchased would mitigate also appreciation trends stemming from financial factors.The purchases would continue so long as they do not lead to devaluation of a scope inconsistent with the goals of Bank of Israel with respect to price stability and financial stability. During anuary 2021, Bank of Israel purchased an amount of US$6.8 billion, comprising a purchase of 23% of the planned annual goal.

**Bank of Israel interest rate**

In view of the Corona crisis, which had cut off the growth trend in the economy, Bank of Israel lowered the interest rate in April 2020 to a level of 0.1%. On background of the continuation of the Corona crisis and the deterioration of economic conditions following the spreading of the Coronavirus and the measures adopted to prevent it, Bank of Israel has decided to employ additional tools in order to assist in the confrontation with the crisis. The adopted measures were intended to reduce the economic impact caused by the health crisis, to ensure continuity of the regular operation of the financial markets, to increase transmission from Bank of Israel interest rate to market interst rates and to encourage demand and inflation. All this, coupled with mitigation in credit terms, inter alia, by introducing unique and focused credit mechanisms. These tools include the granting of loans to banks, being conditional upon the granting of credit to small and minute businesses, including extending loans to banks at a fixed interest at a negative rate of 0.1%, on condition that banks would extend loans to small businesses at an interest rate not exceeding prime+1.3%. The measures included also the expansion of the plan within the framework of which, repurchase ("Ripu") transactions are made with financial bodies, so that such transactions could also include corporate bonds as security, in addition to the plan for the purchase of government bonds announced by Bank of Israel in order to stabilize the market. In addition, Bank of Israel announced plans for the purchase of corporate bonds on the secondary market in the scope of NIS 85 billion. Furthermore, Bank of Israel has expanded the scope of SWAP transactions made with the domestic banking system in order to reduce pressure of dollar liquidity.
In accordance with an updated assessment of the Research Division of Bank of Israel of January 2021, both under the speedy immunization scenario and the slow immunization scenario, the interest rate is expected to stand in the coming year within the range of between 0% and 0.1%. In the United States, the FED lowered the interest rate in 2020 in several stages, from a range of 1.50% to 1.75%, to a range of 0.00% to 0.25%.

**The global environment**

The global economy is recovering, but uncertainty continues in view of the beginning of the vaccination efforts on the one hand, and the continuous spreading of morbidity on the other hand. High differentiation is expected in the rate of growth of the different economies during the year 2021, and certain of the countries are not expected to recover completely from the crisis also in 2022, particularly if further outbreaks of the virus appear and the pace of vaccination is slow. The high rates of morbidity have led to a slowdown of activity in the services sector, mainly in Europe, while on the other hand improvement continues in industry and global trading. The rise in equity prices on the capital markets continues on background of the beginning of vaccination efforts, with a slight rise in returns on US government bonds. The increase in prices of oil and of industrial goods continues, though the inflation rate is expected to remain low, and the monetary policies of the principal central banks are expected to remain expansionary. A fiscal encouragement plan had been approved in the US and growth forecasts have been updated upwards, though private consumption and labor market data indicate moderation in activity. In Europe, the increasing morbidity is expected to lead to the shrinking in activity in the fourth quarter and growth forecasts for 2021 have dropped again. The agreement between the European Union and Britain has reduced the political uncertainty.

In Japan, despite the growth in morbidity, the quick indicators point at an improvement. In China, economic improvement continues on background of improvement in consumer sentiment and the growth in demand for exports.

**Capital market**

During the year 2020, the local capital market recorded a mixed trend in the principal share indices. During the first quarter of the year, mostly reductions were recorded in the principal share indices, on background of reductions recorded in markets around the world and the spreading of the Coronavirus. The TA-35 Index dropped in 2020 by 10.9% and the TA-125 Index dropped by 3%. The TA-90 Index rose by 18% and the Remaining Shares and Convertibles Index rose by 20%. The General Bond Index rose by 0.8%.

The trading turnover in equities on the local Stock Exchange recorded in 2020, an upward trend incomparison to the trading turnover in 2019, which was moderated as from the second quarter.

Capital markets around the world recorded a mixed trend following the crisis. During the first quarter of the year, a decrease in prices was recorded, while in the second, third and fourth quarters, price increases were recorded on the capital markets. During the year 2020, the S&P-500 Index rose by 16%, and the NASDAQ Index rose by 48%. In Europe, the Eurostocks-600 Index dropped by 4%, and the developing countries Index (the EM-MSCI Index) rose by 16%.

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

### PROFIT AND PROFITABILLITY

**Net profit attributed to the shareholders of the Bank** amounted to NIS 750 million, as compared to NIS 865 million in 2019, a decrease of 13.3%.

**The return of net profit to the capital attributed to the shareholders of the Bank** amounted to 8.6%, as compared to 10.5% in 2019.

### Condensed statement of income

| | Year ended December 31 | | |
|---|---|---|---|
| | **2020** | **2019** | **change** |
| | | NIS million | in % |
| Net financing earnings (1) | **2,785** | 2,827 | (1.5) |
| Expenses from credit losses | **464** | 138 | 236.2 |
| Net financing earnings after expenses from credit losses | **2,321** | 2,689 | (13.7) |
| Fees and other income | **1,375** | 1,295 | 6.2 |
| Operating and other expenses | **2,569** | 2,654 | (3.2) |
| Profit before taxes | **1,127** | 1,330 | (15.3) |
| Provision for taxes on profit | **368** | 478 | (23.0) |
| The bank's share in profit of equity-basis investee, after taxes | **29** | 51 | (43.1) |
| **Net profit:** | | | |
| Before attribution to non-controlling interests | **788** | 903 | (12.7) |
| Attributed to non-controlling interests | **(38)** | (38) | - |
| Attributed to shareholders of the Bank | **750** | 865 | (13.3) |
| Net return of equity attributed to the Bank's shareholders | **8.6%** | 10.5% | |

(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 net interest income and non-interest income to the net financing earnings.

## 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:

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | NIS million |
| Interest income | **2,878** | 3,085 |
| Interest expenses | **241** | 483 |
| Net interest income | **2,637** | 2,602 |
| Non-interest financing income | **148** | 225 |
| Net financing earnings | **2,785** | 2,827 |
| Elimination of non-current activities: | | |
| Reconciliations to fair value of derivative instruments | **(3)** | (6) |
| Income from realization and reconciliations to fair value of bonds | **28** | 12 |
| Earnings (losses) from investments in shares | **(2)** | 71 |
| Total non-current activities | **23** | 77 |
| Financing earnings from current activity [1] | **2,762** | 2,750 |

(1) Of which: in respect of changes in the CPI- an expense in the amount of NIS 20 million in the year 2020, compared with an income of NIS 2 million in the year 2019.

The financing earnings from current activity amounted to NIS 2,762 million, as compared to NIS 2,750 million in 2019. The increase stemmed from a rise in the volume of the business activity and from an increase in income from the dealing rooms due to an increase in the volume of transactions derived from the volatility of the markets, following the spearding of the Coronavirus. This increase was partially offset by the erosion of the spreads as a result of the decrease in the Bank of Israel interest rate and the decrease in the Dollar interest rate compared with the same period last year and from a reduction in income from linkage differences due to the changes in the known CPI rate between the periods.

Set out below are principal data in respect of income and expenses rates:

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | Percent |
| Income rate on assets bearing interest | **2.13** | 2.55 |
| Expense rate on liabilities bearing interest | **0.32** | 0.69 |
| Total interest spread | **1.81** | 1.86 |
| Ratio of net interest income to balance of assets bearing interest | **1.95** | 2.15 |

For additional information in respect of rate of income and expenses of the Bank and its consolidated companies and analysis of the changes in interest income and expenses, see appendix 1 to the chapter on corporate governance, appendices.

**Expenses from credit losses** totaled to NIS 464 million in 2020 compared with NIS 138 million in 2019, an increase of NIS 326 million.

In view of the state of uncertainty, the Bank has decided to increase the collective loan losses provision in 2020 by way of updating the qualitative adjustments in computing the collective provision, in order to reflect the possible growth in the specific provision, which might emerge in the future. The increase in the collective expense for cresit losses, reflects the changes in the macro-economic environment and the uncertianty, this by updating the qualitative adjustments in the calculation of the collective provision. For further details, see the chapter of "accounting policy and critical accounting estimates."

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

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | NIS million |
| Individual expense from credit losses | **156** | 213 |
| Decrease in individual expense in respect of credit losses and collection of debts written off in accounting | **(156)** | (194) |
| Net individual expense from credit losses | **-** | 19 |
| Collective expense from credit losses | **464** | 119 |
| Total Expense from credit losses | **464** | 138 |
| Of which: | | |
| Expense in respect of commercial credit | **346** | 66 |
| Expense in respect of housing credit | **41** | 3 |
| Expense in respect of other private credit | **77** | 69 |
| Ratio of individual expense from credit losses to average total credit to the public | **-** | 0.02% |
| Ratio of collective expense from credit losses to average total credit to the public | **0.52%** | 0.14% |
| Ratio of total expense from credit losses to average total credit to the public | **0.52%** | 0.16% |

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

**Fees income** totaled NIS 1,371 million in 2020, compared with NIS 1,286 million in 2019, an increase of 6.6%. Most of the increase derives from a rise in income from the activity in the capital market, explained by an increase in the volume of transactions in the stock exchange, and from an increase in income from conversion differences, due to a rise in the volume of activity and the volatility in the currencies exchange rate, as a result of the Corona crisis. This increase was partially offset by a decrease in account management fees, fees from financing transactions and other fees, which are mainly explained by a reduction in the volume of activity as a result of the Coronavirus effects.

Set out below are details of fees income:

| | Year ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | NIS million |
| Account management | **208** | 228 |
| Credit cards | **101** | 102 |
| Transactions in securities | **708** | 610 |
| Conversion differentials | **173** | 148 |
| Fees from financing transactions | **79** | 86 |
| Other Fees | **102** | 112 |
| Total Fees | **1,371** | 1,286 |

**Operating and other expenses** totaled NIS 2,569 million in 2020 compared with NIS 2,654 million in 2019, a decrease of 3.2%.

Set out below are details of operating and other expenses:

| | Year ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| | | NIS million |
| Salaries and related expenses | **1,532** | 1,601 |
| Maintenance and depreciation of premises and equipment | **344** | 353 |
| Amortization of intangible assets | **96** | 92 |
| Dismissals and reductions | **26** | 50 |
| Other expenses except dismissals and reductions | **571** | 558 |
| Total operating and other expenses | **2,579** | 2,654 |

**Salaries and related expenses** totaled NIS 1,532 million in 2020 compared with NIS 1,601 million in 2019, a decrease of 4.3%. The decrease in salaries expenses explained mainly by decrease in salaries due to reduction in the manpower position in the Group and from reduction in bonus expenses, partialy offset by increase in salaries.

**Maintenance and depreciation of buildings and equipment expenses** amounted to NIS 344 million in comparison to NIS 353 million in 2019, a decrease of 2.5%, stemming from reduction in the volume of the real estate assets in the Group due to the efficiency measures. This decrease was partialy offset by an increase in operating expenses due to the outbreak of the Coronavirus.

**Other expenses** totaled NIS 597 million in 2020 compared with NIS 608 million in the same period last year, a decrease of 1.8%, stemming mainly from a decrease in the amount of NIS 24 million compared to 2019, in dismissal expenses due to early retirement of employees and from a decrease in the amount of NIS 16 million in marketing and advertising expenses. This reduction was partialy offset by an increase in the capital market commissions in the amount of NIS 43 million, due to an increase in the volume of activity.

**Other expenses in the forth quarter amounted to NIS** 173 million, compared with NIS 141 million in the third quarter of the year, an increase of 22.7%, stemming mainly from an increase in dismissal expenses due to warly retirement. Dismissal expenses in the forth quarter of 2020 amounted to NIS 21 million, compared with NIS 1 million in the third quarter of 2020.

On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 constant employees of the Bank, belonging to the defined target population, will be allowed to retire in early retirement and with preffered conditions.

**The provision for taxes on operating earnings** amounted to NIS 368 million in 2020 compared with NIS 478 million in 2019. The effective tax rate as a proportion of earnings before taxes amounted to 32.7%, compared with 34.2% statutory tax rate. The decline in tax expenses and in the effective tax rate derives from tax income in respect of previous years, in the amount of NIS 40 million, compared to NIS 26 million in 2019.

For additional details, see Note 8 to the financial statements.

**The Bank's share in the operating earnings of investee company after the tax effect** amounted in 2020 to NIS 29 million, compare to NIS 51 million in 2019. The decrease in the Bank's share in the operating earnings of investee company stems fron the reduction in the earnings of Israel Credit Card Ltd., affected mainly from the increase in provision for credit losses, in order to reflect the increase in the anticipated credit losses for the period in respect of borrowers negatively affected from the crisis, but yet to be identified, from a decrease in the volume of transaction abroad and in Israel and from the cost of one-time voluntary retirement plan. On the other hand, the profit was affected by one-time income, in rexpect of the sale of the shares of Vias Inc.

**The total comprehensive profit attributed to the shareholders of the Bank** amounted to NIS 698 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 750 million, by other comprehensive loss in respect of adjustments of available-for-sale bonds in an amount of NIS 3 million and by other comprehensive loss in respect of employees' benefits in an amount of NIS 49 million.

For details of income and expenses by quarters for the years 2019 and 2020 see appendix 3 of corporate governance section, appendices.

## INFORMATION AND COMPUTER SYSTEMS

**MATAF - Computing and Financial Operation Ltd.** (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other companies in the group.

MATAF manages and operates entire computerization infrastrcture, systems, software products and cyber defense needed to the bank and the Group including interfaces and channels connected to this infrastructure.

### Investments and expenses in respect of the IT network

Software purchased by the Group is measured by cost, usualy including transaction costs less accrued depreciation and losses from impairement.

Costs relating to the development of software for the purpose of own use were only discounted if: the initial phase in the project is completed; and Management, which has the appropriate athority, approved and has the liability to finance, directly or indirectly, a project of developing software and it is expected that the development will be completed and if future economic benefits are expected from it. Costs that were recognized as intangible assets include direct costs of services and direct labor costs for employees. Other costs in respect of development activity and expenses in the initial phase are recognized as an expense as they arise.

### Details of expenses and investments in information systems carried out:

Additions to assets in respect of the information technology system not charged as an expense:

| | | | | Year 2020 | | | | Year 2019 |
|---|---|---|---|---|---|---|---|---|
| | Software | Hardware | Other | Total | Software | Hardware | Other | Total |
| | | | | NIS million | | | | NIS million |
| Costs in respect of wages and related expenses | **33** | **-** | **-** | **33** | 36 | - | - | 36 |
| Outsourcing costs | **8** | **-** | **-** | **8** | 9 | - | - | 9 |
| Costs of acquisitions or usage licenses | **79** | **-** | **-** | **79** | 56 | - | - | 56 |
| Costs of equipment, buildings and land | **-** | **16** | **-** | **16** | - | 34 | - | 34 |
| Total | **120** | **16** | **-** | **136** | 101 | 34 | - | 135 |

Balances of assets in respect of the information technology system:

| | | | | As of December 31, 2020 | | | | As of December 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| | Software | Hardware | Other | Total | Software | Hardware | Other | Total |
| | | | | NIS million | | | | NIS million |
| Total depreciated cost | **264** | **70** | **3** | **337** | 238 | 79 | 3 | 320 |
| Of which: in respect of wages and related expenses | **105** | **-** | **-** | **105** | 107 | - | - | 107 |

Expenses in respect of the information technology system as included in the statement of profit and loss:

| | | | | Year 2020 | | | | Year 2019 |
|---|---|---|---|---|---|---|---|---|
| | Software | Hardware | Other | Total | Software | Hardware | Other | Total |
| | | | | NIS million | | | | NIS million |
| Expenses in respect of wages and related expenses | **180** | **4** | **-** | **184** | 187 | 3 | - | 190 |
| Expenses in respect of acquisitions or usage licenses not discounted to assets | **65** | **-** | **-** | **65** | 64 | - | - | 64 |
| Outsourcing expenses | **19** | **18** | **-** | **37** | 20 | 18 | - | 38 |
| Depreciation expenses | **94** | **25** | **-** | **119** | 89 | 24 | - | 113 |
| Other expenses | **-** | **2** | **28** | **30** | - | 1 | 31 | 32 |
| Total | **358** | **49** | **28** | **435** | 360 | 46 | 31 | 437 |

For additional information regarding technological changes and innovation, see chapter corporate governance, additional information.

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

**The consolidated balance sheet** as of December 31, 2020 amounted to NIS 167,778 million compared with NIS 141,110 million as of December 31, 2019, an increase of 18.9%.

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

| | As of December, 31 | | |
|---|---|---|---|
| | 2020 | 2019 | Change |
| | | NIS million | % |
| Credit to the public, net | **90,970** | 87,899 | 3.5 |
| Securities | **13,105** | 10,995 | 19.2 |
| Cash and deposits with banks | **57,802** | 37,530 | 54.0 |
| Deposits from the public | **141,677** | 120,052 | 18.0 |
| Bonds and subordinated capital notes | **4,394** | 3,674 | 19.6 |
| Capital attributed to the shareholders of the Bank | **9,141** | 8,568 | 6.7 |

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

| | As of December, 31 | | |
|---|---|---|---|
| | 2020 | 2019 | Change |
| | | NIS million | % |
| **Off-balance sheet financial instruments excluding derivatives:** | | | |
| Documentary credit | **177** | 135 | 31.1 |
| Guarantees and other liabilities | **7,163** | 7,551 | (5.1) |
| Unutilized credit lines for derivatives instruments | **2,364** | 2,268 | 4.2 |
| Unutilized revolving credit and other on-call credit facilities | **10,683** | 9,463 | 12.9 |
| Unutilized credit lines for credit card facilities and Facilities for the lending of securities | **8,718** | 8,200 | 6.3 |
| Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees | **7,797** | 6,708 | 16.2 |
| Total | **36,902** | 34,325 | 7.5 |

**Derivative financial instruments:**

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Face value | Positive fair value | Negative fair value | Face value |
| | | | | | | NIS million |
| Interest contracts | **221** | **453** | **18,914** | 249 | 384 | 21,290 |
| Currency contracts | **885** | **1,071** | **73,814** | 391 | 414 | 74,927 |
| Contracts in respect of shares | **789** | **789** | **55,159** | 450 | 450 | 44,337 |
| Commodities and other contracts | **2** | **2** | **171** | 1 | 1 | 156 |
| Total | **1,897** | **2,315** | **148,058** | 1,091 | 1,249 | 140,710 |

**Credit to the public** as of December 31, 2020 amounted to NIS 92,247 million compared with NIS 88,829 million as of December 31, 2019, an increase of 3.8%.

**Credit to the public, net** as of December 31, 2020 amounted to NIS 90,970 million compared with NIS 87,899 million as of December 31, 2019, an increase of 3.5%.

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

| | As of December, 31 | | Change | | Segment's share of credit to the public on December, 31 | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | | **Change** | **2020** | **2019** |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **75,077** | 73,316 | 1,761 | 2.4 | **82.5** | 83.4 |
| - CPI-linked | **11,185** | 10,273 | 912 | 8.9 | **12.3** | 11.7 |
| Foreign currency (including f-c linked) | **4,143** | 3,664 | 479 | 13.1 | **4.6** | 4.2 |
| Non-monetary items | **565** | 646 | (81) | (12.5) | **0.6** | 0.7 |
| Total | **90,970** | 87,899 | 3,071 | 3.5 | **100.0** | 100.0 |

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

| | As of December, 31 | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| | | NIS million | % |
| Large business segment | **16,724** | 17,280 | (3.2) |
| Medium business segment | **5,385** | 5,539 | (2.8) |
| Small and minute business segment | **18,876** | 17,264 | 9.3 |
| Household segment excluding housing loans | **21,351** | 21,835 | (2.2) |
| Housing loans | **28,336** | 25,583 | 10.8 |
| Private banking segment | **70** | 67 | 4.5 |
| Institutional entities | **1,505** | 1,261 | 19.3 |
| Total | **92,247** | 88,829 | 3.8 |
| Of which: consumer credit excluding housing loans and credit cards | | | |
| Household segment | **17,889** | 18,196 | (1.7) |
| Private banking segment | **39** | 33 | 18.2 |
| Total | **17,928** | 18,229 | (1.7) |

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 129,440 million on December 31, 2020 compared with NIS 123,687 million on December 31, 2019, an increase of 4.7%.

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

| Sector | As of December 31, 2020 | | As of December 31, 2019 | | |
|---|---|---|---|---|---|
| | 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) | **15,591** | **12.0** | 14,940 | 12.1 | 4.4 |
| Construction and real estate | **17,062** | **13.2** | 16,433 | 13.3 | 3.8 |
| Industry | **10,263** | **7.9** | 10,020 | 8.1 | 2.4 |
| Commerce | **7,368** | **5.7** | 7,854 | 6.3 | (6.2) |
| Private customer, including housing loans | **65,820** | **50.9** | 61,878 | 50.0 | 6.4 |
| Others | **13,336** | **10.3** | 12,562 | 10.2 | 6.2 |
| Total | **129,440** | **100.0** | 123,687 | 100.0 | 4.7 |

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 December 31, 2020 | | | |
|---|---|---|---|---|---|
| Borrower no. | Sector of the economy | Balance-sheet credit risk (*) | Off-balance-sheet credit risk | Total credit risk | Total credit risk after permitted deductions |
| | | | | | NIS million |
| 1. | Financial services | **500** | **500** | **1,000** | **1,000** |
| 2. | Industry | **298** | **609** | **907** | **907** |
| 3. | Electricity and water supply | **586** | **191** | **777** | **777** |
| 4. | Financial services | **422** | **290** | **712** | **557** |
| 5. | Financial services | **501** | **5** | **506** | **506** |
| 6. | Construction and Real estate - construction | **94** | **401** | **495** | **396** |

| | | As of December 31, 2019 | | | |
|---|---|---|---|---|---|
| Borrower no. | Sector of the economy | Balance-sheet credit risk (*) | Off-balance-sheet credit risk | Total credit risk | Total credit risk after permitted deductions |
| | | | | | NIS million |
| 1. | Financial services | 1,042 | 5 | 1,047 | 165 |
| 2. | Financial services | 662 | 274 | 936 | 648 |
| 3. | Industry | 404 | 391 | 795 | 795 |
| 4. | Financial services | 651 | 50 | 701 | 701 |
| 5. | Electricity and water supply | 402 | 223 | 625 | 625 |
| 6. | Financial services | 601 | 6 | 607 | 607 |

* Including credit to the public, investment in bonds and other assets in respect of derivative instruments.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2020, as stated in Note 29.c to the financial statements, 50% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 22% of total credit risk, and credit amounts of over NIS 20 million accounted for 28% of the Group's total credit risk.

**Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:**

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | **Consolidated and The Bank** |
| | | | | | | **December 31, 2020** |
| **Credit range for borrowers** | **Balance-sheet credit risk** | **Off-balance-sheet credit risk** | **Total** | **Permitted deductions** | **Net indebtedness** | **No. of borrowers** |
| NIS thousand | | | | | NIS million | |
| From 400,000 to 800,000 | **2,343** | **1,044** | **3,387** | **591** | **2,796** | **6** |
| From 800,000 to 1,200,000 | **798** | **1,109** | **1,907** | **-** | **1,907** | **2** |
| Total | **3,141** | **2,153** | **5,294** | **591** | **4,703** | **8** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | **Consolidated and The Bank** |
| | | | | | | **December 31, 2019** |
| **Credit range for borrowers** | **Balance-sheet credit risk** | **Off-balance-sheet credit risk** | **Total** | **Permitted deductions** | **Net indebtedness** | **No. of borrowers** |
| NIS thousand | | | | | NIS million | |
| From 400,000 to 800,000 | 2,057 | 670 | 2,727 | - | 2,727 | 4 |
| From 800,000 to 1,200,000 | 1,705 | 279 | 1,984 | 1,170 | 814 | 2 |
| Total | 3,762 | 949 | 4,711 | 1,170 | 3,541 | 6 |

For detailed information regarding credit risk, see chapter of risks review below, additional supervisory disclosures and risk report at the Bank's internet site**.**

**The investment in securities** totaled NIS 13,105 million compared with NIS 10,995 million at the end of 2019, an increase of 19.2%.

Set out below is the composition of the portfolio:

| | **As of December 31** | | **Share of total securities** | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | | NIS million | | % |
| Government bonds | **11,831** | 8,379 | **90.3** | 76.2 |
| Banks' bonds (1) | **321** | 649 | **2.5** | 5.9 |
| Other bonds (corporate) | **634** | 885 | **4.8** | 8.0 |
| Other bonds (corporate and asset-backed guaranteed by governments) | **12** | 743 | **0.1** | 6.8 |
| Shares (2) | **307** | 339 | **2.3** | 3.1 |
| Total | **13,105** | 10,995 | **100.0** | 100.0 |

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed and owned by foreign governments in the amount of NIS 32 million (December 31, 2019 - NIS 615 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 80 million, investment in foreign currency shares and ETF of NIS 55 million and investment in shares and ETF traded on the Tel Aviv Stock Exchange amounting to NIS 135 million (December 31, 2019 - Investment in shares includes investment in private equity funds in the amount of NIS 89 million, investment in foreign currency shares and ETF of NIS 92 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 124 million).

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

| | As of December, 31 | | | | Segment's share of total securities | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | | 2020 | 2019 |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **6,719** | 3,634 | 3,085 | 84.9 | **51.3** | 33.0 |
| - CPI-linked | **285** | 349 | (64) | (18.3) | **2.2** | 3.2 |
| Foreign currency denominated & linked | **5,794** | 6,673 | (879) | (13.2) | **44.2** | 60.7 |
| Non-monetary items | **307** | 339 | (32) | (9.4) | **2.3** | 3.1 |
| Total | **13,105** | 10,995 | 2,110 | 19.2 | **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 December 31, 2020:

| | Price quoted in active market | Indicative price* | Counter-party price** | Total |
|---|---|---|---|---|
| | | | | NIS million |
| Shares and private investment funds | **187** | **35** | **85** | **307** |
| Local currency government bonds | **6,468** | **-** | **-** | **6,468** |
| Local currency corporate bonds | **302** | **234** | **-** | **536** |
| Non-asset backed foreign-currency and f-c linked bonds | **95** | **5,699** | **-** | **5,794** |
| Total | **7,052** | **5,968** | **85** | **13,105** |
| % of portfolio | **53.8** | **45.5** | **0.7** | **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 December, 31 | |
|---|---|---|
| | 2020 | 2019 |
| | | NIS million |
| Israel (incl. Israel Government - NIS 4,051 million, 31.12.19 - NIS 3,092 million) | **4,150** | 3,220 |
| USA (incl. US Government - NIS 1,312 million, 31.12.19 - NIS 1,957 million) | **1,352** | 2,071 |
| France | **29** | 183 |
| Canada | **28** | 10 |
| Germany (owned by the German government or guaranteed by it) | **50** | 432 |
| Far East, New Zealand and others (4 countries; 31.12.19 - 3 countries) | **84** | 83 |
| Europe - others (3 countries; 31.12.19 - 2 countries) | **101** | 296 |
| Total | **5,794** | 6,295 |

It should be noted that there is no issuer (except the Israel and US Governments) whose bond balance exceeds 0.4% of the shareholders' equity of the Bank.

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

| | As of December, 31 | |
|---|---|---|
| | 2020 | 2019 |
| | | NIS million |
| Electricity and water | **125** | 148 |
| Construction and real estate | **169** | 204 |
| Financial services | **60** | 75 |
| Banks | **82** | 9 |
| Industry | **30** | 50 |
| Commerce | **15** | 54 |
| Transportation | **51** | 97 |
| Hotels, hospitality and food services | **-** | 11 |
| Public and community services | **4** | 4 |
| Total | **536** | 652 |

**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 5,794 million (Dollar 1,802 million) (includes foreign corporations in an amount of NIS 332 million, foreign currency denominated Israel Government bonds amounting to NIS 4,051 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 99 million and bonds of foreign governments amounting to NIS 1,312 million). All of the foreign bonds are investment grade and of which 98% is rated A or higher; 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 (excluding Israel and US governments) does not exceed 1% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 4 years. The balance of unrealized gross earnings (included in shareholders' equity under reconciliations to fair value in respect of the presentation of bonds available for sale) as of the report date in respect of this portfolio amounted to NIS 42 million (Dollar 13 million) compared with NIS 59 million (Dollar 17 million) on December 31, 2019.

The balance of gains, net (before tax effect) included in other comprehensive profit, in respect of the difference between fair value of available for sale bonds and their amortized cost, as of December 31, 2020 amounted to NIS 78 millions.

**Cash and deposits at banks** on December 31, 2020 totaled NIS 57,802 million compared with NIS 37,530 million at the end of 2019, an increase of 54.0%.

**Deposits from the public** on December 31, 2020 totaled NIS 141,677 million compared with NIS 120,052 million at the end of 2019, an increase of 18.0%, derived mainly from the transfer of customers' investments in the capital market to deposits, due to the implications of the spread of the Coronavirus.

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

| | As of December, 31 | | | | Segment's share of total deposits from the public on December, 31 | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | | 2020 | 2019 |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **112,861** | 94,780 | 18,081 | 19.1 | **79.7** | 79.0 |
| - CPI-linked | **5,365** | 5,315 | 50 | 0.9 | **3.8** | 4.4 |
| Foreign currency denominated & linked | **22,885** | 19,309 | 3,576 | 18.5 | **16.1** | 16.1 |
| Non-monetary items | **566** | 648 | (82) | (12.7) | **0.4** | 0.5 |
| Total | **141,677** | 120,052 | 21,625 | 18.0 | **100.0** | 100.0 |

### Deposits from the public by segment of activity

| | As of December, 31 | | |
|---|---|---|---|
| | 2020 | 2019 | Change |
| | | NIS million | % |
| Large business | **12,867** | 11,018 | 16.8 |
| Medium business | **5,707** | 5,491 | 3.9 |
| Small and minute business | **24,358** | 19,157 | 27.1 |
| Household | **63,338** | 51,572 | 22.8 |
| Private banking | **9,097** | 7,734 | 17.6 |
| Institutional entities | **26,310** | 25,080 | 4.9 |
| Total | **141,677** | 120,052 | 18.0 |

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

The total of the securities portfolios of customers of the Bank Group as of December 31, 2020, amounted to NIS 388 billion, as compared to NIS 342 billion at the end of 2019, an increase of 13.5%.

**Bonds and deferred debt notes** amounted at the end of the year to NIS 4,394 million, as compared with NIS 3,674 million at December 31, 2019, an increase of 19.6%.

On February 10, 2020 the First International Issuance Ltd., a wholly owned subsidiary of the Bank, issued on public placement bonds, at par value of NIS 800 million in proceeds of NIS 814 million. The proceeds of the placement were deposited at the Bank. The Bank commited to fullfil the terms of the issued bonds.
On June 23, 2020, the First International Issuance Ltd. issued on public placement bonds, at par value of NIS 339 million for proceeds of NIS 344 million and subordinated capital notes with loss absorbtion mechanism, at par value of NIS 300 million for proceeds of NIS 300 million. The proceeds of the placements (in respect of the bonds and the subordinated capital notes) were deposited at the Bank. The Bank commited to fullfil the terms of the issued bonds and issued subordinated capital notes.

For details regarding assets and liabilities according to quarters in the years 2019 and 2020, see Appendix 5 to the Chapter "Corporate governance", appendices.

# CAPITAL AND CAPITAL ADEQUACY

**The capital attributed to the shareholders of the Bank** amounted on December 31, 2020 to NIS 9,141 million, as compared with NIS 8,568 million on December 31, 2019, an increase of 6.7%.
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. 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 24% 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.
On the background of the spreading of the Coronavirus and as part of the adjustment to Proper Banking Management directives and in order to secure the ability of Banks to continue the offer of credit, The Supervisor of Banks, in the framework of a Provisional Instruction, published on March 31, 2020, concerning the update of directive 201, which includes a reduction of 1% of the capital requirements of banks and an update to directive 329 which cancel the demand of additional 1% on housing loans that were granted during the period of the crisis, in order to secure the ability of the banks to offer credit. This requirements were valid for a period of six months with the possibility of extension for another six months. On September 16, 2020 the Supervison of Banks published a circular, according to which, the provisional instruction was extended until March 31, 2021. On March 7, 2021, the Bank of Israel published a draft amendment for the directive, according to which the provisional instruction will be extended for another six months, in respect of most of the reliefs, until September 30, 2021. After these periods, if relevant, the Bank will have to present progressive delineation for the reaccumulation of the capital, as much as was eroded, over a period of two years.
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 8.29% and 11.79%, respectively.

In addition to the above, the process of setting the capital goals was based on the following main parameters:

- The findings of the ICAAP based on the risk profile of the Group, taking into consideration the business goals of the Group and the planned growth.
- The result of the stress tests as detailed below.
- The capital goals is the higher capital requirement of the findings of the ICAAP and the stress tests.
- Conservativeness coefficient and confidence cushion combining estimates and forcasts in respect of the risk profile and capital base.

For detailed information, see the risk report on the Bank's website.

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 9.30%, and the ratio of the comprehensive capital will be np less than 12.79%. Given the relief granted by the Bank of Israel, Tier I equity capital will be no less than 8.30% and the ratio of the comprehensive capital will be no less than 11.79%.
- 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%.

The capital goals take into consideration the risks to which the Bank is exposued to, the main of which are: credit risks, financial risks (including interest risk), operational risks including cyber and information security, compliance risk and anti money laundering risk, strategy risk, legal risk and reputation risk. All of this is carried out with adequacy to the dialog with the Bank of Israel. Estimation of the risk, also considers the aspects of the corona crisis and its possible implications on the Bank.

### Stress tests

The Bank implements infrastructure of stress tests in order to examine the capital propriety and examines the capital ratios according to the triennial capital planning. The outline includes, inter alia holistic stress tests, "rolling" over three years, in respect of credit risks, financial risks, operational risks including cyber, AML, compliance, strategy, reputation, operational etc. The outline of the stress tests also includes extreme effects of the corona crisis.
For detailed information, see the risk report on the Bank's website.

### 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, 2020 the maximum rate of instruments qualified as regulatory capital amounts to 20%.

### 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 December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines, until December 31, 2021.

- 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 December 31, 2020 would have reduced the capital adequacy ratios by 0.03%.
- 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 December 31, 2020 would have reduced the capital adequacy ratios by additional 0.04%.

- On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 constant employees of the Bank, belonging to the defined target population, will be allowed to retire in early retirement and with preffered conditions.

  The plan increased other comprehensive loss (gross) in an amount of NIS 48 million in respect of severence compensation liability and post retirements benefits.

  In addition, in the forth quarter of the year, an additional provision for enlarge severance compensation was recorded, in an amount of NIS 50 million, in respect of another early retirement anticipated in the following years. Total net effect, after tax in respect of these actions amounted to NIS 65 million.

  The effect on the capital adequacy ratios is spread over five years and is estimated as of December 31, 2020 by a decrease of 0.08%.

### Implementation of the 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 June 30, 2020, 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.

| | | December 31, | |
|---|---|---|---|
| | | **2020** | **2019** |
| **1.** | **Capital for calculation of capital ratio, after deduction and supervisory adjustments** | | |
| | Tier 1 capital, after deductions and supervisory adjustments | **9,369** | 8,785 |
| | Tier 2 capital after deductions | **2,749** | 2,345 |
| | Total capital | **12,118** | 11,130 |
| **2.** | **Weighted balances of risk assets** | | |
| | Credit risk | **76,203** | 73,862 |
| | Market risk | **883** | 875 |
| | Operational risk | **6,729** | 6,512 |
| | Total weighted balances of risk assets | **83,815** | 81,249 |
| **3.** | **Ratio of capital to risk assets (in %)** | | |
| | Raito of tier 1 equity capital to risk assets | **11.18%** | 10.81% |
| | Total ratio of capital to risk assets | **14.46%** | 13.70% |
| | Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **8.29%** | 9.31% |
| | Minimal ratio of capital required by the Supervisor of Banks | **11.79%** | 12.81% |

The Tier I equity capital ratio as of December 31, 2020, amounted to 11.18%, in comparison with 10.81% on December 31, 2019. The ratio of comprehensive capital to risk components as of December 31, 2020, amounted to 14.46%, in comparison with 13.70% on December 31, 2019.

The comprehensive capital as of December 31, 2020 amounted to NIS 12,118 million, in comparison with NIS 11,130 million on December 31, 2019.

The change in the capital base stemmed mostly from the annual profit of NIS 750 million, an increase of NIS 232 million in instruments issued by the Bank qualified for inclusion in the supervisory capital and an increase in the collective provision for credit losses in the amount of NIS 176 million. This increase was partially offset by dividend paid in the amount of NIS 125 million, from other comprehensive loss from employees' benefits in the amount of NIS 49 million and by other comprehensive loss in respect of adjustment of available for sale bonds to fair value in the amount of NIS 3 million.

The risk assets as of December 31, 2020 amounted to NIS 83,815 million as compared with NIS 81,249 million on December 31, 2019.

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

| | December 31, | |
|---|---|---|
| | **2020** | **2019** |
| | | In percent |
| **Bank Massad Ltd.** | | |
| Ratio of Tier 1 capital to risk assets | **14.03%** | 13.50% |
| Ratio of overall capital to risk assets | **15.19%** | 14.52% |

**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. 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 24% of total stated assets of the banking sector as a whole (including the Bank). On November 15, 2020 the Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 250 – Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Coronavirus crisis (Provisional Instruction), within its framework was updated Proper Conduct of Banking Business directive No. 218 in the matter of Leverage Ratio. The update relieves the requirement of the leverage ratio by 0.5 percent point, so the Bank has to comply with leverage ratio of no less than 4.5% (instead of 5%) on a consolidated basis, for a banking corporation, the total consolidated stated assets of which is up to 24% of total stated assets of the banking sector as a whole (including the Bank). The relief will be valid until March 31, 2021. After this date the relief will be valid for another 24 months, in which the leverage ratio will not be less than the leverage ratio at the date of the end of the Provisional Instruction, or the minimal leverage ratio applying to a banking corporation prior to the Provisional Instruction, whichever is lower. On March 7, 2021 the Bank of Israel published a draft amendment to the directive, according to which, the period of the provisional instruction will be extended, in respect of most of the reliefs, by another six months, until September 30, 2021. The leverage ratio of the Bank as of December 31, 2020, amounts to 5.9%, compared to 5.81% as of December 31, 2019. The decrease derives mainly by an increase in the Bank of Israel deposits, due to the increase in deposits from the public. Accordingly, the decrease in the leverage ratio, does not reflect an increase in the risk profile of the Bank.

## 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.

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.

Following are details regarding dividends distributed by the Bank, as from the year 2018:

| Declaration date | Payment date | Total dividend paid | Dividend per share |
|---|---|---|---|
| | | NIS million | NIS |
| 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 |
| 26 November 2019 | 12 December 2019 | 110 | 1.10 |
| 15 March 2020 | 31 March 2020 | 125 | 1.25 |

On the background of the letter of the Supervisor of Banks, dated March 29, 2020, addressed to all the commercial banks and with respect to the Provisional Instruction dated March 31, 2020, amending Proper Conduct of Banking Business directive 201, in which boards of directors of banks are requested, inter alia, to re-examine their dividend policies, on the background of the Coronavirus crisis and the uncertainty deriving from it. The Board of Directors of the Bank held a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which originaly was set for six months, until September 30, 2020, with an option for extension of another six months. On September 16, 2020, the provisional instruction was extended until March 31, 2020. On the background of the anticipation of the Supervisor of Banks in respect of the banking system in ths matter, based on the continuance of the economic uncertainty and the possible impact of the continued impairement of the economy, the Board of Directors decided on March 16, 2021, to continue not to divide dividends at this time.

It is clarified that the dividend distribution policy remains unchanged. The Board of Directors of the Bank would be entitled to examine the resolution regarding implementation of dividend distribution and modify it at its discretion.

It should be noted, that on March , 2021, Bank of Israel bulished draft amendment to the directive, according to which the period of the provisional instruction would be extended until September 30, 2021.

## 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 28A 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 details regarding segments of activity according to management approach see Note 28A to the financial statements.

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

### a. Total income*

| | For the year ended December 31, | | | Segment's share of total income December 31, | |
|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 |
| | | NIS million | % | | % |
| Large business segment | **404** | 385 | 4.9 | **9.7** | 9.3 |
| Medium business segment | **226** | 240 | (5.8) | **5.4** | 5.8 |
| Small and minute business segment | **967** | 968 | (0.1) | **23.3** | 23.5 |
| Household segment | **1,804** | 1,793 | 0.6 | **43.4** | 43.5 |
| Private banking segment | **101** | 106 | (4.7) | **2.4** | 2.6 |
| Institutional entities | **251** | 265 | (5.3) | **6.0** | 6.4 |
| Financial management segment | **407** | 365 | 11.5 | **9.8** | 8.9 |
| Total | **4,160** | 4,122 | 0.9 | **100.0** | 100.0 |

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

| | For the year ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | | NIS million |
| Large business segment | **109** | 116 |
| Medium business segment | **29** | 71 |
| Small and minute business segment | **122** | 193 |
| Household segment | **161** | 159 |
| Private banking segment | **22** | 27 |
| Institutional entities | **49** | 53 |
| Financial management segment | **258** | 246 |
| Total | **750** | 865 |

* Including net interest income and non-interest income.

## c. Average balance sheet balances*

| | Credit to the public | | | Segment's share of credit to the public | |
|---|---|---|---|---|---|
| | For the year ended December 31, | | | For the year ended December 31, | |
| | 2020 | 2019 | Change | 2020 | 2019 |
| | NIS million | | % | % | % |
| Large business segment | **17,425** | 16,599 | 5.0 | **19.4** | 19.4 |
| Medium business segment | **5,592** | 5,623 | (0.6) | **6.2** | 6.6 |
| Small and minute business segment | **17,827** | 16,653 | 7.0 | **19.8** | 19.5 |
| Household segment | **47,443** | 45,476 | 4.3 | **52.9** | 53.2 |
| Private banking segment | **50** | 50 | - | **0.1** | 0.1 |
| Institutional entities | **1,405** | 1,039 | 35.2 | **1.6** | 1.2 |
| Total | **89,742** | 85,440 | 5.0 | **100.0** | 100.0 |

| | Deposits from the public | | | Segment's share of deposits from the public | |
|---|---|---|---|---|---|
| | For the year ended December 31, | | | For the year ended December 31, | |
| | 2020 | 2019 | Change | 2020 | 2019 |
| | NIS million | | % | % | % |
| Large business segment | **12,317** | 9,861 | 24.9 | **9.5** | 8.6 |
| Medium business segment | **5,413** | 4,968 | 9.0 | **4.2** | 4.3 |
| Small and minute business segment | **21,759** | 18,660 | 16.6 | **16.7** | 16.3 |
| Household segment | **59,151** | 50,896 | 16.2 | **45.5** | 44.3 |
| Private banking segment | **8,666** | 7,611 | 13.9 | **6.7** | 6.6 |
| Institutional entities | **22,553** | 22,825 | (1.2) | **17.4** | 19.9 |
| Total | **129,859** | 114,821 | 13.1 | **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 year ended December 31, 2020 | | | | For the year ended December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Small and minute business segment | Medium business segment | Large business segment | Total | Small and minute business segment | Medium business segment | Large business segment | Total |
| | | | | | | | | NIS million |
| Net interest income | **623** | **155** | **304** | **1,082** | 655 | 165 | 274 | 1,094 |
| Non-interest income | **344** | **71** | **100** | **515** | 313 | 75 | 111 | 499 |
| Total income | **967** | **226** | **404** | **1,597** | 968 | 240 | 385 | 1,593 |
| Expenses from credit losses | **162** | **84** | **98** | **344** | 35 | 12 | 18 | 65 |
| Operating and other expenses | **621** | **100** | **152** | **873** | 632 | 110 | 161 | 903 |
| Net profit attributed to the shareholders of the Bank | **122** | **29** | **109** | **260** | 193 | 71 | 116 | 380 |
| Average balance of credit to the public | **17,827** | **5,592** | **17,425** | **40,844** | 16,653 | 5,623 | 16,599 | 38,875 |
| Balance of credit to the public at the end of the reported period | **18,876** | **5,385** | **16,724** | **40,985** | 17,264 | 5,539 | 17,280 | 40,083 |
| Average balance of deposits from the public | **21,759** | **5,413** | **12,317** | **39,489** | 18,660 | 4,968 | 9,861 | 33,489 |
| Balance of deposits from the public at the end of the reported period | **24,358** | **5,707** | **12,867** | **42,932** | 19,157 | 5,491 | 11,018 | 35,666 |

### Main changes in the result of activity in the year 2020 compared with the year 2019

Total net interest income amounted to NIS 1,082 million, compared with NIS 1,094 million in 2019, a decrease of 1.1%.

Non-interest income amounted to NIS 515 million, compared with NIS 499 million in 2019, an increase of 3.2%, derived mainly from an increase in income from the capital market and from an increase in exchange differences due to a rise in the volume of activity and the volatility in the exchange rate of the currencies, as a result of the corona crisis.

Expenses in respect of credit losses amounted to NIS 344 million, compared with NIS 65 million in 2019. The increase is explained by a collective provision for credit losses, due to the implication of the corona crisis, as a result of which and in-light of the uncertainty created, the Bank updated the qualitative adjustments in calculating the collective provision.

Operating and other expenses amounted to NIS 873 million, compared with NIS 903 million in 2019, a decrease of 3.3%, derived mainly from reduction in the payroll expenses due to a decrease in manpower in the Group, reduction in bonuses to employees and from decrease in dismissal expenses, due to early retirement of employees, compared with 2019.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 260 million, in comparison with NIS 380 million in 2019, a decrease of 31.6%, derived mainly from the expenses in respect of credit losses, as detailed above.

Average balance of credit to the public amounted to NIS 40,844 million, in comparison with NIS 38,875 million in 2019, an increase of 5.1%.

Credit to the public as of December 31, 2020 amounted to NIS 40,985 million, in comparison with NIS 40,083 million on December 31, 2019, an increase of 2.3%.

Average balance of deposits from the public amounted to NIS 39,489 million, in comparison with NIS 33,489 million in 2019, an increase of 17.9%.

Deposits from the public as of December 31, 2020 amounted to NIS 42,932 million, in comparison with NIS 35,666 million on December 31, 2019, an increase of 20.4%.

## PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLD AND PRIVATE BANKING

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

| | For the year ended December 31, 2020 | | | For the year ended December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | household segment | private banking segment | Total | household segment | private banking segment | Total |
| | | | | | | NIS million |
| Net interest income | **1,218** | **24** | **1,242** | 1,244 | 38 | 1,282 |
| Non-interest income | **586** | **77** | **663** | 549 | 68 | 617 |
| Total income | **1,804** | **101** | **1,905** | 1,793 | 106 | 1,899 |
| Expenses from credit losses | **117** | **1** | **118** | 72 | - | 72 |
| Operating and other expenses | **1,395** | **67** | **1,462** | 1,443 | 65 | 1,508 |
| Net profit attributed to the shareholders of the Bank | **161** | **22** | **183** | 159 | 27 | 186 |
| Average balance of credit to the public | **47,443** | **50** | **47,493** | 45,476 | 50 | 45,526 |
| Balance of credit to the public at the end of the reported period | **49,687** | **70** | **49,757** | 47,418 | 67 | 47,485 |
| Average balance of deposits from the public | **59,151** | **8,666** | **67,817** | 50,896 | 7,611 | 58,507 |
| Balance of deposits from the public at the end of the reported period | **63,338** | **9,097** | **72,435** | 51,572 | 7,734 | 59,306 |

### Main changes in the result of activity in 2020 compared with 2019

Total net interest income amounted to NIS 1,242 million, as compared with NIS 1,282 million in 2019, a decrease of 3.1%. This decrease is explained by the decrease in the financial spread in deposit takig activity due to the decline in the Bank of Israel interest and the decline in the foreign currency interest. This decrease was partialy offset by an increase in the housing loans activity.

Non-interest income amounted to NIS 663 million, compared with NIS 617 million in 2019, an increase of 7.5%, derived mainly from an increase in the income from the capital market activity.

Operating and other expenses amounted to NIS 1,462 million, as compared to NIS 1,508 million in 2019, a decrease of 3.1% explained mainly by a decrease in payroll expenses due to a decline in the manpower of the Group, from a decrease in employees' bonuses and from a decrease in dismissal expenses due to early retirement of employees compared wih 2019.

Expenses in respect of credit losses amounted to NIS 118 million, compared with NIS 72 million in 2019. The increase is explained by a collective provision for credit losses, due to the implication of the corona crisis, as a result of which and in-light of the uncertainty created, the Bank updated the qualitative adjustments in calculating the collective provision.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes household and private banking, amounted to NIS 183 million, compared with NIS 186 million in 2019.

Average balance of credit to the public amounted to NIS 47,493 million, in comparison with NIS 45,526 million in 2019, an increase of 4.3%.

Credit to the public as of December 31, 2020 amounted to NIS 49,757 million, in comparison with NIS 47,485 million on December 31, 2019, an increase of 4.8%.

Average balance of deposits from the public amounted to NIS 67,817 million, in comparison with NIS 58,507 million in 2019, an increase of 15.9%.

Deposits from the public as of December 31, 2020 amounted to NIS 72,435 million, in comparison with NIS 59,306 million on December 31, 2019, an increase of 22.1%.

## FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 407 million compared with NIS 365 million in 2019.
The net profit of the Financial Management Segment amounted to NIS 258 million compared with NIS 246 million in 2019.

Total income from trading activity attributed to this segment mounted to NIS 13 million.
Total interest income (expenses) (Note 2 to the financial statements) and non-interest income (Note 3 to the financial statements) in respect of trading activity amounted to NIS 22 million.
The difference in the amount of NIS 9 million, derives from income from activity in derivatives for trading, which does not attributed to this segment.

## 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 410 million on December 31, 2020.

Total assets of Massad on December 31, 2020 amounted to NIS 10,349 million compared with NIS 8,694 million on December 31, 2019, an increase of 19.0%.

Shareholders' equity of Massad on December 31, 2020, totaled NIS 804 million compared with NIS 726 million on December 31, 2019, an increase of 10.8%.

Net earnings of Massad totaled NIS 77.0 million in 2020, compared with NIS 77.7 million in 2019, a decrease of 0.9%.

The Bank's share in Massad's operating results for 2020 amounted to NIS 39.3 million compared with NIS 39.6 million in 2019.

Net return on equity (annualized) amounted to 10.1% in 2020, compared with 11.3% in 2019. The ratio of comprehensive capital to risk assets amounted to 15.19%, compared with 14.12% at the end of 2019. The Tier 1 equity capital ratio amounted to 14.03% compared with 13.04% at the end of 2019.

In the framework of the ICAAP process for the data of June 30, 2020 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.

**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 636 million on December 31, 2020.

The ratio of comprehensive capital to risk assets amounted to 14.8%, compare with 14.0% at the end of 2019.

The Bank’s share in the net earnings of ICC before the tax effect amounted in 2020 to NIS 33.5 million compared with NIS 57.0 in 2019, a decrease of 42.2%. The decrease in profit is mainly explained by an increase in provision for credit losses, in order to reflect the increase in the anticipated credit losses for the period, in respect of borrowers negatively affected from the crisis, but yet to be identified, from a decrease in the volume of transaction abroad and in Israel and from the cost of one-time voluntary retirement plan. On the other hand, the profit was affected by one-time income in the amount of NIS 49 million, net after tax effect, in respect of the sale of the shares of Vias Inc.

See note 25 to the financial statements 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

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 risk including cyber and information security risk and information technology risk, compliance risk and AML risk, strategy risk, legal risk and reputation risk. Members of the Board of Management 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. Risk management is carried on Group level, 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. The second line is maintained by units of the Risk Management Division and Chief Accountant and legal department 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.
f. Those responsible for risk management at the Group are:
   Mr. Eli Cohen, CPA - serves 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 is subordinated to him).
   Mr. Bentzi Adiri CPA, Head of the Business Division-serves as Credit Risk Manager (until January 1, 2021 were managed by Mr. Ilan Batzri, CPA).
   The Strategic risk is managed by Mrs. Ella Golan, head of resources division (until January 1, 2021 were managed by Mr. Bentzi Adiri CPA).
   Mr. Amir Birenboim - compliance manager, including, among other things Money Laundering risk, Finance of Terror risks and cross border risks. Manages the internal enforcement unit in securities law and in-charge of the internal enforcement unit in economic competition law. Also appointed as Responsible Officer in-charge of implementation of the FATCA and CRS directives and QI agreement.
   Mrs. Iris Levanon, deputy CEO and replacement of CEO of MATAF -IT risk manager (until January 1, 2021 were managed by Mr. Ron Grisaro - the CEO of MATAF).
   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;

For changes in the Bank's management see the section "appointments and retires" in the section of corporate governance.

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management members of the Board of Management and department heads in the areas for which they are responsible.
h. Risk management is carried out at the banking subsidiary 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 the 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 and the Group has variety of stress scenarios for the unique risks, as embedded in the various policy documents.

   The Bank applies stress scenarios for reviewing capital adequacy and the capital ratio according to the triennial capital planning. The stress scenarios are additional tool for the mapping and managing the risks embedded in the overall activities of the Bank and the risks derived from them. The scenarios and their results are tool for identifying weakness points and taking decisions. The Bank has management plans for coping with the stress scenarios, by taking different measures. In addition, according to the Bank of Israel requirement, the Bank calculates stress test on the basis of parameters which re uniform to the banking system. The uniform scenarios, are tool for the Bank of Israel, in order to receive an updated holistic picture of the Israeli economy and the ability of the banking system to continue and grant credit to the public while maintaining its stability. During 2020, two stress scenarios were carried out in two level of severity- basic, which represent the anticipated path of the economy, and stressed. Both scenarios were carried out in May, and again in November, in-light of the continuance of the crisis.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

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

# CREDIT RISK

## General

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
As required under Proper Conduct of Banking Business Regulation 311, the credit risk is managed by applying an overall credit risk management policy.

## Effect of the spreading of the Coronavirus

In light of the continued coping with the coronavirus crisis, and as part of the outline presented by the Bank of Israel, the Bank continues to support the needs of its customers in this period, and allows, among other things, to defer the repayment of loans, as well as, grants loans in respect of different credit funds, partially garuanteed by the government.
However, in light of the uncertainty as to the effect of the Coronavirus event on the customers and mainly their ability to survive the crisis, the Bank increased its qualitative adjustments received in the quantitive model, used for claculating the collective provision in significant rates. Simultaneously, during the second quarter of the year, a reavaluation process was carried out in respect of the classification and credit rating of borrowers. The classifications were adjusted to the financial position of the borrower, its repayment ability, collateral and more.
For details regarding the collective provision, see chapter of accounting policy and critical accounting estimates.

## Risk policy and risk appetite

### General

The risk management division leads the process of the formulation of the credit risk policy, with the participation of the employees in charge of the credit extension in the Bank. The credit policy is discussed and approved at least once a year by the Management, loan and risk management committee and the Board of Directors of the Bank and is revised according to changes in the financial markets in Israel and globally, changes in regulation, etc., as detailed below. The Bank's procedures in the area of credit and credit risk management support and express this policy in practice.
The Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk by defining risk apetite. In this respect were defined areas of activities which are not in the marketing focus of the Bank, in cases were the risk level imbedded in them are high or if the level of management and control over them is not high enough, even though the potential yield from them is expected to be high.

### Risk appetite

The Group's credit risk appetite reflects proportional willingness of taking credit risks, corresponding with coutious banking activity, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. Accordingly, the Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the activities areas that are notable for a high level of risk.

## Credit risk measurement, estimation and management systems

The Bank employs internal models for rating the credit risk inherent in the customer’s activity. The models are based mostly on objective criteria relating to the borrower’s position (the customer’s characteristics, the composition of his collateral, the financial resilience apparent in the customer’s financial reports, sector-specific data and other financial data).

## Collaterals management policy

The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral.
Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary.

## Problem loan policy and the provision for credit losses

- The Bank has lucid and orderly working procedures for facilitating the early detection of problem borrowers. The Bank determined procedures for identification of problematic debts and classification of problematic debts. In addition, the Bank determined a policy for the measurement of the provision for credit losses in order to maintain provision in an appropriate level to cover anticipated credit losses.
- Operating within the Bank are specialist units that process problem loans.
- As stated in the section on accounting policy and accounting estimates in critical matters, under a new directive from the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk and the allowance for credit losses, since January 1, 2011, and as adopted in the directives for reporting to the public, the Bank has applied US accounting standards in the matter (ASC 310) and the positions adopted by the banking supervision authorities, and the US Securities and Exchange Commission (SEC).

## Supervision and control of the management of credit risk exposure

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.
Credit risk exposure management is examined and reviewed constantly, within the review of all risks, by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.
The Bank has a system for documenting the legal documents creating the liens on the assets pledged as colateral in the customers files and a system that controls the value of the assets, enabaling current daily supervision.

## Reporting on exposure to credit risks

Management and the Board of Directors of the Bank receive a range of reports on exposure to credit risks, and in various cross-sections by management, supervision and control entities.
In addition, actual credit risk exposure as compared to the permitted frameworks and restrictions determined by the Board of Directors and the authorities for their management are reported in the quarterly Risks Document as required in Proper Conduct of Banking Business Regulations 310 and 311.

## Significant exposures to borrower groups

As of December 31, 2020 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.

## Changes in terms of debts within the framework of confrontation with the Corona crisis

In view of the spread of the Coronavirus and its possible implications on the condition of the economy and of borrowers, and with the aim of encouraging banking corporations to act towards the stabilization of borrowers who are not able, or who may not be able to honor their contractual repayment commitments due to the Corona crisis, Bank of Israel has published focal points for the treatment of debts the terms of which had been changed. The letter states that changes in terms of loans do not automatically lead to the classification of such loans as restructured troubled debts. Bank of Israel encourages the banks to perform carefull changes in the terms of loans, which are based on the understanding of the credit risk of the borrower and which are consistant with laws, regulations and relevant directives and can assist to the repayment of the debt. However, the continuance of the crisis and and the entrance to the second and third lockdowns, causing intensified uncertainty as to the condition of the customers and specificaly their ability to survive the crisis, the Bank has set additional criteria for the classification of borrowers.

For details regarding the guidelines of the Supervisor of Banks within the framework of the confrontation with the effects of the Coronavirus event, see Note 1C (2) to the condensed financial statements.

**Additional information regarding debts, the terms of which had been changed within the framework of facing the Coronavirus events, and which are not classified as a restructure of a troubled debt:**

| | | | | | | | | | | | | December 31, 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Debts, repayment of which is deferred as of the reporting date (1) | | | Additional details of the stated debt balance repayment of which is deferred | | | | | Additional details of debts, repayment of which is deferred, according to length of the deferment period (3) | | Debts, the deferred period of repayment of which expired as of the reporting date | |
| | | | | | Performing debts | | | | Debts, repayment thereof was deferred | | | |
| | Stated debt balance | Number of loans | Amount of deferred payments | Troubled debts | Debts not having a credit granting rating | Debts having a credit granting rating in arrears for 30 days or more | Debts not in arrears having a credit granting rating | Total performing debts | more than 3 and up to 6 months | for over 6 months | Stated balance of debt | Of which: in arrears for 30 days or more |
| **Borrowers activity in Israel** | | | | | | | | | | | | NIS million |
| Large business | **147** | **5** | **21** | **2** | **4** | **18** | **123** | **145** | **123** | **22** | **45** | **-** |
| Medium business | **12** | **5** | **4** | **2** | **4** | **-** | **6** | **10** | **10** | **-** | **114** | **7** |
| Small and minute business | **401** | **1,076** | **39** | **67** | **45** | **-** | **289** | **334** | **154** | **120** | **1,160** | **36** |
| Private individuals - housing loans | **986** | **1,301** | **40** | **73** | **152** | **1** | **760** | **913** | **412** | **419** | **4,425** | **54** |
| Private individuals - others | **208** | **3,391** | **21** | **58** | **23** | **-** | **127** | **150** | **79** | **60** | **334** | **6** |
| **Total as of 31.12.2020** | **1,754** | **5,778** | **125** | (2)**202** | **228** | **19** | **1,305** | **1,552** | **778** | **621** | **6,078** | **103** |
| **Total as of 30.9.2020** | **2,858** | **7,257** | **144** | | | | | | | | | |
| **Total as of 30.6.2020** | **6,880** | **14,951** | **235** | | | | | | | | | |
| **Total as of 31.3.2020** | **3,889** | **10,047** | **86** | | | | | | | | | |

(1) Of which: Deferrals granted outside the wide range framework totaling NIS 252 million.

(2) Of which: Classified as impaired debts not accumulating interest income in the amount of NIS 43 million.

(3) The repayment deferral period is the cumulative periods of deferral granted to a debt since the beginning of confrontation with the Coronavirus, and does not include deferral to which the debtor is entitled under any law.

| | January 31, 2021 | | |
|---|---|---|---|
| | Debts, repayment of which is deferred as of the reporting date | | |
| | Stated debt balance | Number of loans | Amount of deferred payments |
| **Borrowers activity in Israel** | | | NIS million |
| Large business | 145 | 3 | 20 |
| Medium business | 3 | 1 | 3 |
| Small and minute business | 262 | 634 | 30 |
| Private individuals - housing loans | 405 | 583 | 16 |
| Private individuals - others | 126 | 2,062 | 15 |
| **Total** | 941 | 3,283 | 84 |

Since the wake of the corona crisis, the Bank adopted the regulatory reliefs given by the Bank of Israel and allows its customers to defer repayments of loans. Most of the request were received in the beginning of the crisis, in the months of March- April and mainly in residential loans.

At the end of the first deferral period, June 30, 2020, a significant decline occurred, both in the volume of the residential loans and non-residential loans, which were deferred.

In September, the Bank of Israel announced the expension of the outline and requested that the banks will allow further deferral until the end of the year. The Bank embraced the outline and allowed its customers to defer the repayment of loansto a period of up to nine months, subject to the outline's conditions.

On November 30, 2020, the Bank of Israel announced the formalization of additional outline for the deferral of mortgages repayment and consumer loans, which was to aid customers who were severely affected from the crisis and their loans are at repayment deferral status, as of December 31, 2020, subject to several comulative conditions. These customers can submit a request to the Bank to reduce the monthly repayments, for a long period of time, without fees and in accordance with the original interest rate of the loans. The period for the submission of the requests was set between January 1, 2021 to March 31, 2021.

Furthermore, on December 10, 2020, the Bank of Israel announced an additional outline for the granting of aid to small and minute businesses for the repayment of loans. This outline is also until March 31, 2021.

In addition, the Bank allowed business customers, which were interested, to defer loan payments. Concurrently, the Bank grants its business customers loans in the framework of the credit fund guaranteed by the State, enabaling them to cope with the continuance of the crisis and its implications.

## Credit granted guaranteed by the State in the framework of facing with the Corona crisis

| | December 31, 2020 |
|---|---|
| Borrowers activity in Israel | NIS million |
| Small and minute business | **1,308** |
| Medium business | **431** |
| Large business | **165** |
| **Total** | **1,904** |

In the wake of the crisis, the Bank signed an agreement with the general controller together with other banks in the banking system, to extend loans guaranteed by the State the purpose of which is to assist businesses in Israel to cope with cash flows difficulties ocurred as a result of the spreading of the Coronavirus. For this purpose special credit funds were formed in the name of "The small and medium size businesses fund affected by the corona" and "The large business fund for the confronting the spread of the Coronavirus".

According to the agreements it is possible to extend credit to borrowers that meet all the conditions:

- The borrower is a business corporated in Israel.
- The borrower submitted a request for a loan in order to cope with the cash flows needs of the business deriving from the spread of the Coronavirus.

The loans were guaranteed by the State. The rate of the State's guarantee amount to 75% to 85% for a single loan and up to 12% to 15% (in the aviation sector 75%) of the total amount of the loans. The maximum rate of colateral from the borrower is not to exceed 5%.

In July the Finance Committee aprroved a new course of loans framework- assistance for small and medium businesses which encountered cash flow difficulties and were defined at high risk. The rate of the State's guarantee is up to 95% for single loan and up to 60% of the total amount of the loans. In these businesses a significant decline of 40% and above in their turnover was recorded in one or more of the three months preciding the submission of the request for the loan from the fund, compared with the same period last year, or, alternatively, presented a decline of at least 25% of the turnover during the corse of a quarter starting with the second quarter of 2020, compared with the same quarter last year.

### Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 2,295 million compared with NIS 1,859 million at the end of 2019, an increase of 23.5%.

The ratio of problematic credit risk to total credit risk at the group amounted to 1.8%, compared with 1.5% at the end of 2019.

20.0% of problematic credit risk at the group are attributed to the manufacturing sector, 12.6% to the real estate sector, 10.7% to the commerce sector and 27.7% to the private customers sector including housing loans.

The ratio of impaired debt not accruing interest income to total credit to the public amounted to 0.57%, compared with 0.74% at the end of 2019.

The ratio of problematic credit risk to total credit to the public amounted to 2.2%, compared to 1.9% at the end of 2019.

For additional information regarding credit quality see note 29.b.(1) to the financial statements.

## Problematic credit risk, non-performing assets and credit quality analysis

| | December 31, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial | Housing | Private | Total | Commercial | Housing | Private | Total |
| | | | | | | | | NIS million |
| **Credit risk in credit granting rating[1]** | | | | | | | | |
| Balance sheet credit risk | **41,529** | **27,721** | **20,438** | **89,688** | 41,405 | 25,037 | 20,411 | 86,853 |
| Off-balance sheet credit risk | **18,696** | **2,946** | **13,068** | **34,710** | 17,476 | 2,217 | 12,277 | 31,970 |
| Total credit risk in credit granting rating | **60,225** | **30,667** | **33,506** | **124,398** | 58,881 | 27,254 | 32,688 | 118,823 |
| **credit risk not in credit granting rating:** | | | | | | | | |
| Non problematic | **1,449** | **329** | **569** | **2,347** | 1,330 | 321 | 942 | 2,593 |
| Problematic[2] | **1,421** | **286** | **329** | **2,036** | 1,112 | 225 | 318 | 1,655 |
| -Special supervision[3] | **932** | **250** | **119** | **1,301** | 476 | 215 | 99 | 790 |
| -Inferior | **54** | **-** | **57** | **111** | 79 | - | 73 | 152 |
| -Impaired | **435** | **36** | **153** | **624** | 557 | 10 | 146 | 713 |
| Total balance sheet credit risk | **2,870** | **615** | **898** | **4,383** | 2,442 | 546 | 1,260 | 4,248 |
| Off-balance sheet credit risk | **525** | **3** | **131** | **659** | 486 | 3 | 127 | 616 |
| Total credit risk not in credit granting rating | **3,395** | **618** | **1,029** | **5,042** | 2,928 | 549 | 1,387 | 4,864 |
| Of which: non-impaired debts in arrears of 90 days or more | **43** | **156** | **18** | **217** | 37 | 186 | 26 | 249 |
| Total overall credit risk of the public | **63,620** | **31,285** | **34,535** | **129,440** | 61,809 | 27,803 | 34,075 | 123,687 |
| **Non-performing assets** | | | | | | | | |
| Impaired debts - not accruing interest income. | **368** | **36** | **120** | **524** | 523 | 10 | 117 | 650 |

(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
(2) Impaired, inferior or special supervision credit risk.
(3) Including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears and are in arrears of 90 days of more.

## Changes in impaired debts in respect of credit to the public**

| | For the year ended December 31, 2020 | | | For the year ended December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Commercial | Private | Total | Commercial | Private | Total |
| | | | NIS million | | | NIS million |
| Balance of impaired debts at beginning of the year | **553** | **156** | **709** | 367 | 100 | 467 |
| Classified as impaired during the period | **179** | **99** | **278** | 369 | 104 | 473 |
| Removed from impaired classification | **(44)** | **(1)** | **(45)** | (3) | - | (3) |
| Accounting write-offs | **(69)** | **(20)** | **(89)** | (77) | (14) | (91) |
| Collection of debts | **(232)** | **(44)** | **(276)** | (103) | (34) | (137) |
| Balance of impaired debts at end of the year | **387** | **190** | **577** | 553 | 156 | 709 |
| **Of which: movement in problematic restructured debts** | | | | | | |
| Balance of restructured debts at beginning of the the year | **140** | **108** | **248** | 150 | 83 | 233 |
| Debts restructured during the period | **96** | **60** | **156** | 85 | 71 | 156 |
| Accounting write-offs of restructured debts | **(33)** | **(20)** | **(53)** | (39) | (14) | (53) |
| Collection of restructured debts | **(89)** | **(35)** | **(124)** | (56) | (32) | (88) |
| Balance of problematic restructured debts at end the year | **114** | **113** | **227** | 140 | 108 | 248 |
| **Changes in provision for credit losses in respect of impaired debts** | | | | | | |
| Balance of provision for credit losses at the beginning of the the year | **169** | **35** | **204** | 121 | 23 | 144 |
| Increase in provisions | **96** | **22** | **118** | 146 | 27 | 173 |
| Collection and write-offs | **(121)** | **(20)** | **(141)** | (98) | (15) | (113) |
| Balance of provision for credit losses at the end of the the year | **144** | **37** | **181** | 169 | 35 | 204 |

## Risk Indices

| | 2020 | 2019 |
|---|---|---|
| Ratio of impaired credit to the public to total credit to the public | **0.86%** | 1.08% |
| Of which: | | |
| Ratio of impaired credit to the public to total credit to the public | **0.63%** | 0.80% |
| Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public | **0.23%** | 0.28% |
| Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public | **1.77%** | 1.50% |
| Ratio of expenses for credit losses to average total credit to the public | **0.52%** | 0.16% |
| Ratio of net write-offs in respect of credit to the public to average total credit to the public | **0.10%** | 0.10% |
| Ratio of provision for credit losses in respect of credit to the public to credit to the public | **1.38%** | 1.05% |
| Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public | **221.3%** | 131.2% |
| 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 | **160.8%** | 97.1% |
| Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public | **6.9%** | 8.9% |

## Additional information regarding credit risk

The Bank continues to locate risk centers in its credit portfolio and monitor customers which might be affected by the crisis . This in order to determine ways of operation and adopt measures to minimize credit risk.

The analysis of credit by segments of operation and by economic sectors indicates that the sectors identified as those which might be significantly affected by the crisis are business services (including, inter alia, travel agencies, hotels, catering and food services and trading). Households may also be hit by the crisis, mainly in view of the steep growth in the rate of employment seekers and the economic and employment uncertainty.

The Bank adopted the regulatory reliefs ranted by the Bank of Israel, and allows its cusromers to defer loan repayments.

At the end of the first deferral, on June 30, 2020 a significant decline occurred n the volume of the deferred credit. As of December 31, 2020 the rate of deferred credit amounts to 1.9% of the total credit to the public and the rate of deferred housing loans comprise of 3.5% of the balance of the housing loans. Concurrently, the Bank monitors on a current basis the actual collection of debts and the customers' needs, allowing further deferral of loan repayments, according to the regulation reliefs and the position of the borrower.

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

| | as at December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | 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 | **10,038** | **9,376** | **460** | **157** | **73** | **29** | **237** |
| Construction and Real estate - construction (5) | **10,997** | **10,618** | **139** | **59** | **18** | **(2)** | **90** |
| Construction and Real estate - real estate activities | **6,037** | **5,647** | **145** | **96** | **8** | **(8)** | **36** |
| Commerce | **7,266** | **6,591** | **245** | **44** | **83** | **23** | **214** |
| Financial services | **14,727** | **14,669** | **14** | **7** | **9** | **-** | **31** |
| Other business services | **13,221** | **12,018** | **636** | **166** | **149** | **14** | **267** |
| Total commercial (6) | **62,286** | **58,919** | **1,639** | **529** | **340** | **56** | **875** |
| Private individuals - housing loans | **31,285** | **30,667** | **287** | **36** | **41** | **(2)** | **164** |
| Private individuals - others | **34,535** | **33,506** | **348** | **156** | **77** | **34** | **318** |
| Total public - activity in Israel | **128,106** | **123,092** | **2,274** | **721** | **458** | **88** | **1,357** |
| Banks and Israeli government in Israel | **12,740** | **12,740** | **-** | **-** | **-** | **-** | **-** |
| Total activity in Israel | **140,846** | **135,832** | **2,274** | **721** | **458** | **88** | **1,357** |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | **1,334** | **1,306** | **21** | **21** | **6** | **-** | **6** |
| Banks and foreign governments abroad | **4,120** | **4,120** | **-** | **-** | **-** | **-** | **-** |
| Total activity abroad | **5,454** | **5,426** | **21** | **21** | **6** | **-** | **6** |
| Total | **146,300** | **141,258** | **2,295** | **742** | **464** | **88** | **1,363** |

NOTES:
(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 95,870, 12,798, 11, 1,897 and 35,724 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, inferior, 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 88 million and off balance sheet credit risk amounting to NIS 101 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 3,001 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 (Cont'd)

(NIS million)

| | as at December 31, 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 | 9,959 | 9,227 | 402 | 197 | (8) | (8) | 191 |
| Construction and Real estate - construction (5) | 10,266 | 9,838 | 97 | 61 | (24) | (19) | 71 |
| Construction and Real estate - real estate activities | 6,143 | 5,905 | 84 | 71 | (3) | (3) | 22 |
| Commerce | 7,837 | 7,366 | 259 | 92 | 62 | 49 | 159 |
| Financial services | 13,936 | 13,903 | 12 | 3 | (7) | (4) | 21 |
| Other business services | 12,342 | 11,324 | 441 | 247 | 69 | 25 | 126 |
| Total commercial (6) | 60,483 | 57,563 | 1,295 | 671 | 89 | 40 | 590 |
| Private individuals - housing loans | 27,803 | 27,254 | 228 | 10 | 3 | 1 | 121 |
| Private individuals - others | 34,075 | 32,688 | 328 | 148 | 69 | 65 | 275 |
| Total public - activity in Israel | 122,361 | 117,505 | 1,851 | 829 | 161 | 106 | 986 |
| Banks and Israeli government in Israel | 8,643 | 8,643 | - | - | - | - | - |
| Total activity in Israel | 131,004 | 126,148 | 1,851 | 829 | 161 | 106 | 986 |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | 1,326 | 1,318 | 8 | 8 | (23) | (23) | 1 |
| Banks and foreign governments abroad | 4,419 | 4,419 | - | - | - | - | - |
| Total activity abroad | 5,745 | 5,737 | 8 | 8 | (23) | (23) | 1 |
| Total | 136,749 | 131,885 | 1,859 | 837 | 138 | 83 | 987 |

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 92,002, 10,656, 9, 1,091 and 32,991 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, inferior, 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 233 million and non-utilized credit facilities amounting to NIS 91 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 2,718 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

### a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent. Counter-party credit risk in the Bank is expressed in activity in derivatives against financial institutions.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions may change over the lifetime of the transaction, due to changes in the relevant parameters in the market.

### b. Policy

The Bank has risk policy and risk appetite at the Group level for activity with financial institutions, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it and based on parameters derived from the financial resilience of the counter-party.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default.

As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and financial institutions.

### c. 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 (5) | As of December 31, 2020 | | | As of December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | 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- | **107** | **27** | **134** | 528 | 2 | 530 |
| A+ to A- | **3,068** | **10** | **3,078** | 1,403 | 47 | 1,450 |
| BBB+ to BBB- | **142** | **7** | **149** | 76 | 16 | 92 |
| BB+ to B- | **34** | **-** | **34** | 41 | - | 41 |
| Total credit exposure to foreign financial institutions | **3,351** | **44** | **3,395** | 2,048 | 65 | 2,113 |
| 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 27.B 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 227 million on December 31, 2020 (December 31, 2019 - NIS 304 million).

Following the Coronavirus crisis an increase in the Bank's credit exposures was observed, mainly due to an increase in the collateral demand and clearing balances, due to an increase in the securities turnover of the Bank's customers. Most of the exposure is to foreign financial institutions with high financial resilience, which most of them are included in investment grade A- and above. During the year these financial institutions did not lose their external grading.
The credit spreads increased from a level of 0.3%-0.6% before the crisis to a level of 0.5%-1.5% at the peak of the crisis. Starting with the second quarter a trend of improvement in the spreads occurred and as of December 31, 2020, the credit spreads reduced to a level of 0.3%-0.7%, similar to the levels before the crisis.

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 (95%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 4% 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 207 million investment in foreign currency bonds. All these bonds are investment grade bonds, of which 56% are rated A- or higher. The average duration of the portfolio is 3 years.
In addition, balance-sheet credit risk includes NIS 2.3 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2020 there is no country for which the Group has credit exposure to foreign financial institution exceeding 15% of the Bank’s equity capital, which amounted to NIS 1,807 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

**d. Reporting of exposure to counter-party credit risks**

Management and the Board of Directors of the Bank and its committees receive a range of reports on the exposure to counter-party credit risks in various cross-sections by management, supervision and control entities.

## 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 December 31, 2020 | | | As at December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Balance sheet exposure(2) | Off Balance sheet exposure(2)(3) | Total | Balance sheet exposure(2) | Off Balance sheet exposure(2)(3) | Total |
| United States | **3,067** | **33** | **3,100** | 3,601 | 68 | 3,669 |
| Other | **2,525** | **349** | **2,874** | 2,711 | 408 | 3,119 |
| Total exposure to foreign countries | **5,592** | **382** | **5,974** | 6,312 | 476 | 6,788 |
| Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain) | **23** | **2** | **25** | 18 | 4 | 22 |
| Off which: Total exposure to LDC countries | **168** | **41** | **209** | 140 | 47 | 187 |
| Off which: Total exposure to countries with liquidity problems | **5** | **2** | **7** | 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

### Credit policy at the Bank Group regarding mortgages

The Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly, and is updated in accordance with changes and transformations taking place in Israel, changes in regulation, etc. As part of this policy, the Bank currently follows developments in the mortgages portfolio and adopts different measures for the management of the risk inherent therein.

Risks are examined in accordance with the policy adopted in respect of risk appetite in the mortgage field, both at the level of the single transaction and at the level of the whole mortgage portfolio of the Group. The Bank manages the risks, inter alia, by imposing restrictions regarding certain parameters, such as the financing ratio (LTV), ratio of repayment to income, the rate of loans carrying variable interest, the rate of loans for long periods (exceeding 25 years), and more.

Upon the granting of a mortgage loan, the Bank examines the probability of default by using a statistical model, as well as examines the repayment ability of the borrower in possible scenarios of changes in interest rates. The Bank takes extra care in cases of assets the registration position of which is complex, while giving greater consideration to the quality of the borrower and to the financing ratio.

The Bank performs monthly control on the development of risk characteristic of the mortgage portfolio, in accordance with restrictions according to parameters of the credit policy. In addition, the Bank monitors changes in the volume of troubled debts in the mortgage portfolio, as well as the rate of arrears thereof, comparing the data with that of the whole banking sector.

### Volume of housing loans

| | For year ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| | | NIS million | % |
| **Housing loans extensions** | | | |
| Loans from bank funds | **5,915** | 4,374 | 35.2 |
| Loans from treasury funds | **29** | 21 | 38.1 |
| Grants from treasury funds | **16** | 11 | 45.5 |
| Total new loans | **5,960** | 4,406 | 35.3 |
| Refinanced loans from bank funds | **825** | 525 | 57.1 |
| Total extensions | **6,785** | 4,931 | 37.6 |

| | As at December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| | | NIS million | % |
| **Balance of housing loans, net** | | | |
| Loans from bank funds | **28,259** | 25,692 | 10.0 |
| Loans from treasury funds* | **285** | 320 | (10.9) |
| Grants from treasury funds* | **46** | 31 | 48.4 |
| Total balance of housing loans | **28,590** | 26,043 | 9.8 |

* 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 December 31, 2020 included 70% of credit granted at an LTV of up to 60%, similar to December 31, 2019. 97% of total loans were granted at an LTV of up to 75%, compared with 94% on December 31, 2019.

Housing loan extensions from the Bank's sources in 2020 included 67% of credit granted at an LTV of up to 60%, compared with 71% in 2019. All loan extensions were granted at an LTV of up to 75%, similar to 2019.

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 December 31, 2020 included 89% of credit granted at a debt-income ratio of up to 35% compared with 88% on December 31, 2019. 98% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to December 31, 2019.

Housing loan extensions from the Bank's sources in 2020 included 93% of credit granted at a debt-income ratio of up to 35% similar to 2019. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to 2019.

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 December 31, 2020 includes 60% of credit that was granted at floating-rate interest and amounts to NIS 17,034 million.

Housing loan extensions from the Bank's sources in 2020 include NIS 1,962 million of credit granted at floating-rate interest of up to five years constituting 33% of extentions. An amount of NIS 1,275 million is floating-rate credit for five years, constituting 22% of extentions .

### Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2020 includes 82% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 23,302 million.

Housing loan extensions from the Bank's sources in 2020 include 71% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 4,173 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 |
| 31.12.20 | **7,671** | **28.0** | **11,818** | **43.1** | **3,362** | **12.3** | **4,532** | **16.6** | **13** | **-** | **27,396** | **863** | **28,259** |
| 31.12.19 | 6,489 | 26.1 | 10,869 | 43.7 | 3,246 | 13.1 | 4,215 | 17.0 | 20 | 0.1 | 24,839 | 853 | 25,692 |

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

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Total housing loan extensions (NIS million) | **5,915** | 4,374 | 4,149 | 3,756 | 4,337 |
| Rate of change in housing loan extensions compared with previous year | **35.2%** | 5.4% | 10.5% | (13.4%) | (9.6%) |
| Rate of expense (income) on credit losses relative to mortgages at the Bank's risk | **0.14%** | 0.01% | - | (0.01%) | 0.01% |
| Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk | **0.59%** | 0.49% | 0.50% | 0.51% | 0.55% |

**Effect of the spreading of the Coronavirus on residential credit**

In March 2020, the bank started the treatment of borrowers, who had encountered difficulties following the Coronavirus crisis, to defer the monthly payment of the housing loans. The treatment included deferral of repayment of residential loans for a period of up to nine months to the tune of NIS 40 million, as of December 31, 2020, this in accordance with that stated in Note 1C (2) to the financial statements. In accordance with the expended outline formed in conjunction with Bank of Israel, the deferral period for housing loans will be as follows: borrowers which deferred the reapyment of the loans of up to six months, will be able to get a further deferral until December 31, 2020. Borrowers which did not deferred their repayment before and want to do so, will be able to get a deferral of up to six months. The requests for deferral should have been submitted until December 31, 2020.

On November 30, 2020, the Bank of Israel published another outline in respect of mortgages and consumer loans, which is intended to aid a specified group of customers, which were significantly hit by the crisis and comply with several accumulated criteria. In this outline, an emphasis is placed on the return of borrowers to repay their loans, simultaneously with arranging a lenient repayment schedule (differing from "freezing" or defering the debt). The period for applying for the deferral of the payments of loans, according to the latest outline, is between January 1, 2021 to March 31, 2021.

Furthermore, Bank of Israel has published regulatory relief related to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of residential loans". In accordance with the said relief, the Bank may approve a residential loan that is not intended to finance the purchase of a right in real estate, up to a financing level of 70%, in contrast to the present limit of 50%, subject to the declaration of the borrower that the loan is not intended for the purpose of purchasing an apartment as an investment. Moreover, under certain circumstances, the Bank may rely on the income of the borrower for the three months preceding his being suspended on unpaid leave or downgraded to a part-time position due to the Coronavirus crisis. The validity of the reliefs is until March 31, 2021.

**The update of the limitation in respect of part of residential loan in floating rate interest**

On December27, 2020, an amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of residential loans" was published, which canceled the Prime interest limitation (according to which, the ratio between the part of the loan which bears floating interest rate that can be changed during a period of less than five

years from the date of approving the loan, or from the date in which the previous rate was determined, does not exceed 33%) and to be satisfied with the limit of the floating rate, which rules that at least a third of the loan is to be granted at fix interest rate and the other two thirds are to be granted at floating rates.
The implementation of the amendments to the directive was set at January 17, 2021. In respect of a housing loan designated for the early repayment of a loan at the Bank, or at other bank, the amendment will apply from February 28, 2021.

## Private individuals credit risk (excluding housing loans and derivative instruments)

### General

The private consumption is in growth trend during the last years and up to the outbreak of the corona crisis, 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 in the Group 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 in Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Part of the 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.
79% 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.

### Effect of the spreading of the Coronavirus on credit to private individuals

The event of the Coronavirus and its implications on the economy globaly and in Israel brought an economic crisis exceptional in size, which is reflected in volatility in the openning and closing of businesses and work places and in sharp increase in the rate of unemployement including employees placed on unpaid leave. The Bank embraced the outlines suggested by the Bank of Israel and performed deferral of loans repayments to private individuals. The adoption of the said outlines, delayed the realization of the exsisting risks of the customers and a difficulty in assessing the full impact on credit to private individuals. However, the Bank examined the risks, as known so far, classified additional debts of private individuals as problematic debts and increased the collective provision accordingly.

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

| | As of December 31 | | |
|---|---|---|---|
| | **2020** | **2019** | **change** |
| | | NIS million | % |
| Current account and utilized balances of credit cards | **4,865** | 5,448 | (10.7) |
| Other loans | **16,468** | 16,221 | 1.5 |
| Total balance credit risk | **21,333** | 21,669 | (1.6) |
| Unutilized current account credit lines | **4,693** | 4,273 | 9.8 |
| Unutilized credit lines in credit cards | **7,287** | 6,851 | 6.4 |
| Other off-balance credit risks | **1,204** | 1,265 | (4.8) |
| Total off-balance credit risk | **13,184** | 12,389 | 6.4 |
| Total credit risk | **34,517** | 34,058 | 1.3 |
| Average volume of credit, including overdrafts, credit cards and loans | **20,529** | 20,655 | (0.6) |

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

| | As of December 31 | | |
|---|---|---|---|
| | **2020** | **2019** | **change** |
| | | NIS million | % |
| Impaired credit risks | **156** | 148 | 5.4 |
| Unimpaired problematic credit risk | **192** | 180 | 6.7 |
| Non-problematic credit risk | **34,169** | 33,730 | 1.3 |
| Total credit risk | **34,517** | 34,058 | 1.3 |
| Of which: unimpaired debts in arrears of 90 days or more | **18** | 26 | (30.8) |
| Balance of restructured debts out of the problematic credit | **113** | 108 | 4.6 |
| Expense rate of credit losses out of total credit to the public | **0.36%** | 0.32% | |

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

| 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 |
|---|---|---|---|---|
| | | | | December 31, 2020 |
| NIS thousands | | | | NIS million |
| No fixed income | **401** | **45** | **446** | **219** |
| Up to 10 | **3,640** | **475** | **4,115** | **2,360** |
| From 10 to 20 | **4,910** | **1,510** | **6,420** | **3,717** |
| Over 20 | **5,413** | **4,939** | **10,352** | **6,888** |
| Total | **14,364** | **6,969** | **21,333** | **13,184** |

| 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 |
|---|---|---|---|---|
| | | | | December 31, 2019 |
| NIS thousands | | | | NIS million |
| No fixed income | 393 | 35 | 428 | 206 |
| Up to 10 | 3,964 | 456 | 4,420 | 2,333 |
| From 10 to 20 | 5,112 | 1,296 | 6,408 | 3,404 |
| Over 20 | 6,260 | 4,153 | 10,413 | 6,446 |
| Total | 15,729 | 5,940 | 21,669 | 12,389 |

* 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)

| Period | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | | Balance sheet credit risk |
| | | NIS million |
| Up to one year | **5,347** | 6,012 |
| From one to three years | **2,959** | 3,019 |
| From three to five years | **4,762** | 4,822 |
| From five to seven years | **2,864** | 2,730 |
| Over seven years | **5,401** | 5,086 |
| Total | **21,333** | 21,669 |

## Distribution by size of credit to the borrower*

| | | | December 31, 2020 | | | December 31, 2019 |
|---|---|---|---|---|---|---|
| Credit range to the borrower | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** |
| NIS thousands | | | NIS million | | | NIS million |
| Up to 10 | **197** | **470** | **667** | 277 | 631 | 908 |
| From 10 to 20 | **383** | **873** | **1,256** | 403 | 816 | 1,219 |
| From 20 to 40 | **1,096** | **2,040** | **3,136** | 1,136 | 1,874 | 3,010 |
| From 40 to 80 | **2,848** | **3,432** | **6,280** | 3,054 | 3,150 | 6,204 |
| From 80 to 150 | **5,656** | **3,391** | **9,047** | 5,873 | 3,125 | 8,998 |
| From 150 to 300 | **6,633** | **2,262** | **8,895** | 6,728 | 2,141 | 8,869 |
| Over 300 | **4,520** | **716** | **5,236** | 4,198 | 652 | 4,850 |
| Total | **21,333** | **13,184** | **34,517** | 21,669 | 12,389 | 34,058 |

* 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

| | Balance sheet credit risk | |
|---|---|---|
| | December 31, 2020 | December 31, 2019 |
| **Type of credit** | | NIS million |
| Current account | **1,372** | 1,775 |
| Credit card | **3,493** | 3,673 |
| Credit carrying variable interest | **15,862** | 15,581 |
| Credit carrying fixed interest | **606** | 640 |
| Total | **21,333** | 21,669 |

Collateral

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk |
| | | | NIS million | | | NIS million |
| Total credit secured by collateral* | **4,096** | **880** | **4,976** | 4,107 | 1,125 | 5,232 |
| * Of which: | | | | | | |
| Non-liquid collateral | **3,705** | **853** | **4,558** | 3,434 | 877 | 4,311 |
| Liquid collateral | **391** | **27** | **418** | 673 | 248 | 921 |

## 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.

As a result of the effect of the Coronavirus, there is a concern that demand for yielding real estate, specially offices and trade, will decline. The Bank adopts a proportional and careful credit policy and most of the credit is secured by properties.

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

| | December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | NIS million |
| **Overall credit risk(1)** | | |
| Projects not yet completed | | |
| Of which: Open land | **2,296** | 2,123 |
| Property under construction | **4,613** | 4,467 |
| Completed building projects | **4,494** | 4,255 |
| Other(2) | **5,631** | 5,564 |
| Total | **17,034** | 16,409 |

(1) Of which: credit secured by housing property in the amount of NIS 5,348 million, Credit secured by industrial property in the amount of NIS 770 million and credit secured by commercial property in the amount of 5,285 million (31.12.19 - NIS 5,107 million, NIS 634 million and NIS 5,104 million, respectively).

(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 by corporations (as defined in the Bank of Israel directive 323) that meets certain criteria, and credit granted to debtors characterized with high finance leverage levels. The Bank considers leveraged finance as credit included in one of the following four classes:

A. Credit for the purpose of a capital transaction, as defined in Bank of Israel directive 323 (acquisition of another corporation, purchase of own shares and distribution of capital), which meets certain tests regarding the volume of credit, the relating ratio of finance, and the volume of tangible collateral as determined by the Bank.

B. Credit for different business purposes, which meets certain tests indicating weak financial data, as determined by the Bank.

C. Credit provided for the finance of income producing real estate, which meets certain tests in respect of the volume of credit, the relating ratio of finance, and the volume of tangible collateral as determined by the Bank.

D. Credit for rolling construction projects purposes, which meets certain tests in respect to the volume of credit, the volume of tangible collateral, and the risk to which the project might expose the Bank, as determined by the Bank.

In view of the high risk characteristics of the leveraged finance, the policy of the Bank states stringent guidelines for underwriting and restrictions on the scope of exposure to leveraged finance.

The criteria according to which the Bank considers credit as leveraged finance were determined conservatively.

As of December 31, 2020, 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 576 million, as compared to NIS 587 million at the end of 2019.

## MARKET RISK

### General

1. Market risk (financial risk) is the actual or future existence of a risk to the Group's income and capital and risk of erosion in the Group's fair value as the result of changes in prices, rates and margins in the financial markets in which it operates or is likely to operate, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, volatility in these parameters and changes in other economic indexes.
2. The Bank has a detailed policy for the management of exposure to financial risks. The policy document outlines and details, inter alia, overall financial risk appetite and risk appetite across a single cross-section of risk and principles for activity.

### Supervision and control of market risk exposure management

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.
Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet website of the Bank).

### Reporting of market risk exposures

The Management and the Board of Directors of the Bank receive a variety of reports on exposure to market risks and in various cross-sections and among other things, development in the risk and in the financial environment and adherence to restrictions. These reports are submitted by management, supervisory and control entities.

### Risk appetite

The Group's risk appetite reflects proportional willingness of taking financial risks, corresponding with coutious banking activity, conservative, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. In general, the Bank aspires to minimize the financial risks it is taking, and endeavors to create proper profitability while taking low financial risks.
Accordingly, the Bank's policy includes an extensive variety of risk/loss quantity restrictions, proportional to the Bank's capital, and tight control processes and structured working processes in the various control lines of defense.

### 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, interest exposure management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve.

### The effect of the spreading of the Coronavirus

In the first quarter of the year, decreases in the prices of tradable assets were recorded, due to changes in the interest curves in Israel and abroad, and in the spreads of bonds, which caused an adverse effect on the value of the tradable assets. Starting with the second quarter, recovery in the markets and in the value of these assets occurred.

## Interest exposure

### General

Interest risk is the actual or future existence of a risk to the Group's income as the result of a difference between the redemption dates or interest adjustment dates of assets and liabilities in each of the segments of activity. 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.

### Exposure management

Interest risk exposure is managed by means of adjusting the duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates, subject to the limits determined by the Board of Directors. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest senarios is measured, and its potential erosion on the economic value and the accounting profit for 12 months forward, in each of the segments seperately, and all segments together, is measured. The Bank's principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, and results from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.
The Bank uses derivative financial instruments part of its assets and liabilities management, including for hedging, in order to minimize the interest risk in specific activities in the nostro portfolios.

### Risk appetite

- The interest risk appetite is conservative, as reflects in the restrictions, and the utilization of the exposure limits is conducted according to the Bank's estimates regarding expected interest rates and the structure of the interest curve in different time horizons and subject to the restrictions defined in the financial risks policy.
- The Bank has series of restrictions on changes in the interest curve and specific restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units and restrictions on the maximum erosion in fair value in crisis scenario.

### Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption periods of assets and liabilities. The effect of the early repayment of housing loans is also taken into account in risk management.
Non-interest bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

**Sensitivity analysis to the effect of the exposure in changes in interest based on the fair value of financial instruments**

Following are the details on assets and liabilities which are exposed to changes in interest according to their fair value, including sensitivity analysis as to the effect of potential changes in interest rates on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-financial 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):

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | NIS | Foreign currency | Total | NIS | Foreign currency | Total |
| | | | NIS million | | | NIS million |
| Adjusted fair value, net [1] | **8,092** | **(223)** | **7,869** | 7,580 | 84 | 7,664 |
| Of which: banking portfolio | **8,096** | **(297)** | **7,799** | 7,748 | (122) | 7,626 |

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A 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:

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | NIS [5] | Foreign currency | Total | NIS [5] | Foreign currency | Total |
| | | | NIS million | | | NIS million |
| **Parallel changes** | | | | | | |
| Parallel increase of 1% | **(41)** | **(45)** | **(86)** | (67) | (35) | (102) |
| Of which: banking portfolio | **(39)** | **(38)** | **(77)** | (58) | (20) | (78) |
| Parallel decrease of 1% | **200** | **47** | **247** | 146 | 26 | 172 |
| Of which: banking portfolio | **207** | **42** | **249** | 138 | 14 | 152 |
| **Non-parallel changes** | | | | | | |
| Steeping [2] | **(165)** | **(11)** | **(176)** | (187) | (2) | (189) |
| Flattening [3] | **214** | **(8)** | **206** | 194 | (16) | 178 |
| Interest increase in short term | **170** | **(25)** | **145** | 142 | (30) | 112 |
| Interest decrease in short term | **(41)** | **63** | **22** | (41) | 14 | (27) |

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:

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Interest income | Non-interest income | Total(4) | Interest income | Non-interest income | Total(4) |
| | | | NIS million | | | NIS million |
| **Parallel changes** | | | | | | |
| Parallel increase of 1% | **418** | **1** | **419** | 304 | 6 | 310 |
| Of which: banking portfolio | **417** | **-** | **417** | 304 | - | 304 |
| Parallel decrease of 1% | **(724)** | **(1)** | **(725)** | (583) | (6) | (589) |
| Of which: banking portfolio | **(724)** | **-** | **(724)** | (583) | - | (583) |

(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. Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A to the financial statements.
(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 interest decline scenarios in the linked to the CPI linked, Dollar and Euro segments, a negative interest environment was depicted.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.
(7) The update of the statistical model for the forecast of balances in respect of demand deposits, early repayment of housing loans model and early repayment of deposits from the public, increased the fair value in the amount of NIS 40 million. Corresponding data were not restated.

### Disclosure regarding preparations for the discontinuation of use of the LIBOR

On February 13, 2020, the Supervisor of Banks published a circular letter in the matter of "disclosure regarding preparations for the discontinuation of use of the LIBOR", this on background of the disclosure guidelines of the SEC regarding the discontinued use of the LIBOR, clarifying, inter alia, the required disclosure in the matter. The said disclosure guidelines had been published on background of the risk of lack of certainty regarding the way in which contracts linked to the LIBOR would be interpreted, in a situation in which, as from the year 2022 ( for some of the periods of the Dollar LIBOR until Juy 2023) a LIBOR rate would no longer be published, or it is determined that the LIBOR no longer represents the relevant interest rates.

In accordance with a publication of the British Financial Conduct Authority (FCA) of July 2017, the global financial system is expected to gradually discontinue use of the LIBOR until 2021 for some of the periods of the Dollar LIBOR until Juy 2023). Following this decision, work teams have been formed worldwide for the purpose of determining alternative interest indices to the LIBOR rate for each of the following currencies: US dollar, Pound Sterling, Euro, Swiss Franc and the Japanese Yen. The alternatives being studied by the work teams include, inter alia, the interest rates of the SOFR (Secured Overnight Financing Rate); the SONIA (Sterling Overnight Index Average); the ESTER (Euro Short-Term Rate); the SARON (Swiss Average Rate Overnight); TONA (Tokyo Overnight Average Rate).

The discontinued use of the LIBOR and transition to alternative interest indices are expected to have wide implications upon the Bank, such as: economic, operational and accounting implications.
In this respect, guidelines of the Supervisor of Banks clarify that, on background of the uncertainty risk regarding the interpretation of contracts linked to the LIBOR, banks are required to include in their reports to the public as from December 31, 2019, disclosure regarding their preparations for the discontinued use of the LIBOR.
The Bank has been studying the expected impact of the discontinuation of the publication of the LIBOR rate, including examination of the possible alternatives in each of the currencies mentioned above, the financial implications that might arise from the transition to the use of such currencies, and the required preparations regarding both the business aspect and the risk management aspect of the new exposure.

As of date of this Report, and in accordance with assessments made by the Bank, it does not have material balance sheet exposure regarding contracts that relate to the LIBOR, for periods exceeding the year 2021.
Exposure to the LIBOR rate within the framework of derivative operations established under ISDA arrangements and under other arrangements is not material. In addition, in order to minimize the legal risks involved in the discontinuation of LIBOR interest rate in respect of the activity in derivative instruments, the Bank signed on the new ISDA protocol regurizing the

method of settling accounts in respect of old contracts signed in LIBOR and would not be terminated until the discountinuation of the publication of the LIBOR.

**Principal risks and preparations made by the Bank in respect thereof**

The discontinuation of use of the LIBOR and transition to alternative interest indices, create different risks for the Bank, such as: financial risk, model risk, legal risk, regulation and supervision risk, technological risk and business risk. The Bank has identified these risks, inter alia, by means of mapping all relevant contracts and exposure.

As of date of this Report, the Bank has prepared for the management and reduction of identified risks related to the discontinuation of use of the LIBOR. As part of these preparations, the Bank has formed a designated team, aimed, inter alia, at developing working procedures for the identification of risk, assessment of the scope of the risk, examination of the impact of each risk, offering alternatives for means of risk reduction, the monitoring of risk and related implications, as well as submission of current reports to Management and the Board of Directors. Furthermore, the Bank sent massages to its customers in respect of the changes anticipated by the publication of the LIBOR, and the possible significances of these changes, everything according to the information existing with the Bank at this stage.

The following risks had been mapped at this stage:

- Financial risk - decline in profitability and/or increase in costs stemming, inter alia, from: recognition of loss on financial instruments held by the bank, due to cancellation of contracts; customer objection to their interest charges; decline in the number and turnover of customer transactions; opening of positions exposed to interest and modification of the Bank's asset and liability management process.
- Model risk - structuring a transfer price methodology modified to the transition to alternative interest indices; determining new pricing for products.
- Legal risk - studying the need and way of making changes to existing contracts and the drafting of new contracts agreeing with the discontinuation of use of the LIBOR and the new economic environment.
- Regulation and supervision risk - absorption of policy, procedures and allocation of responsibility.
- Technological risk - updating of the data bases and information systems, including their modification for use of the old and new products.
- Business risk - includes mostly the basis risk created as a result of the fallback mechanisms between the different products (such as: deposits as against derivatives).

**Accounting implications**

The discontinuation of use of the LIBOR and transition to alternative interest indices, are expected to have different accounting implications in a number of areas, including discounting rates - transition to alternative interest indices might lead to changes in discounting rates used as input in different models for the purpose of valuation of different assets and liabilities, such as: financial instruments, leasing, derivatives and impairment of nonfinancial assets.

The Bank continue to follow the international publications in this matter and will operate to minimize the risks deriving from the process of changing the ancor interest rates.

## Basis exposure

### General

Basis exposure is created as a result of unmatching in timing, in the basis of measurement and the investment amount with or without hedging activities.

Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment (the CPI segment and the foreign currency denominated and linked segment) is defined as basis risk exposure.

### Exposure management

- Management of the basis risks and the investment in active capital (defined as shareholders' equity plus minority interest and less non-monetary items, net) in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Division regarding developments in the money and capital markets.
- The composition of the investment of active capital in the different linkage segments is managed on a current basis subject to the restrictions presented below, and on the basis of forecasts regarding the relevant market variables when exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

### Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities and the exposure of active capital.
- Apart from determining restrictions on overall risk appetite to basis risks at the active capital exposure level, Management of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

### Actual basis exposure

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

| | Exposure of Active Capital | | % of active capital | |
|---|---|---|---|---|
| | As of December 31, | | As of December 31, | |
| | **2020** | **2019** | **2020** | **2019** |
| Non-linked local currency | **5,027** | 3,959 | **53** | 44 |
| CPI-linked local currency | **2,223** | 2,780 | **23** | 31 |
| Foreign currency and f-C linked | **(239)** | 38 | **(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 December 31, 2020 (NIS millions).

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

| | Dollar | Euro |
|---|---|---|
| 5% decrease | **(1)** | **2** |
| 10% decrease | **(4)** | **4** |
| 5% increase | **(3)** | **-** |
| 10% increase | **(4)** | **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 December 31, 2020 (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 | **(82)** |
| 3% increase | **78** |

## Option risk

### General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including implied volatility.

### Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and specially to changes in the volatility of the underlying assets, Management has determined additional restrictions for the dealing room's activity in options.
- Restrictions has been determined with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. Restrictions has also been determined on the maximum changes in the value of the options portfolio in terms of sensitivity indexes (Greeks), and the maximum erosion in the fair value at crisis scenario.

### Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

## Management of risks in derivative financial instruments

### General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

### Rist appetite

The Bank has a policy for the management of risks in derivative instruments, including activity volumes of option tracks containing "implied" options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.

Investment in various derivative instrument is carried out after the measurement of each instrument and its adjustments to the financial needs of the Bank and its ability to operate in an optimal manner, as well as its ability to monitor the risk attached to it, both in the market risk and in the credit risk for transactions were the Bank acts on behafe of its customers.

### Foreign currency dealing room

The foreign currency dealing room trades in a wide variety of foreign currency financial instruments. In addition it was appointed by the Treasury as a chief market maker in local currency government bonds. The foreign currency dealing room is one of the most active dealing rooms in the banking system in derivative instruments as well, and acts in the currency market by spot transactions, interest transactions, OTC options and FX/NIS options traded on the Tel Aviv stock exchange. The foreign currency dealing room acts in the main currencies however the main activity is in Dollar/Shekel.

The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

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

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Derivatives not for trading | Derivatives for trading | Total | Derivatives not for trading | Derivatives for trading | Total |
| **Hedging transactions:** | | | | | | |
| Interest rate contracts | **3,527** | **-** | **3,527** | 2,911 | - | 2,911 |
| **Other transactions:** | | | | | | |
| Interest rate contracts | **1,317** | **14,070** | **15,387** | 969 | 17,410 | 18,379 |
| Foreign currency contracts | **15,410** | **58,404** | **73,814** | 12,882 | 62,045 | 74,927 |
| Contracts on shares, share indexes, commodities and other contracts | **-** | **55,330** | **55,330** | - | 44,493 | 44,493 |
| Total derivative financial instruments | **20,254** | **127,804** | **148,058** | 16,762 | 123,948 | 140,710 |

### Supervision and control of management of derivative instrument risk

The Bank's activity in derivative financial instruments on its own behalf is controlled and supervised by the lines of defense and the exposures are reported in the risk report document.

## Share price risk

### Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the mediate-long run in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 125 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the requisition.

### Risk apetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk apetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

## LIQUIDITY RISK

### General

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.

### Effect of the spreading of the Coronavirus

The spreading of the Coronavirus has led in reaction, to the short-term lowering of interest rates by central banks and to the adoption of different monetary expansion measures and the provision of liquidity to the markets.

Starting with the identification stage of the Coronavirus crisis, the Bank has maintained high liquidity balances, both in foregn and local currencies, in comparison with balances maintained in the ordinary course of business. Furthermore, a high liquidity coverage ratio has been maintained, exceeding the regulatory and internal levels in respect of all segments.

The liquidity coverage ratio of the Bank group for the three months ended December 31, 2020, amounted to 150%, in comparison to 128% in the three months period ended on December 31, 2019. The minimum liquidity coverage ratio required by the Supervisor of Banks amounts to 100%.

For additional information regarding the liquidity coverage ratio, see Note 24B to the financial statements.

### Risk management policy

The Bank applies a comprehensive policy for the management of liquidity risk in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, minimal liquidity ratios in ordinary scenarios and in stress scenarios including the survival range on the cash flows, and reference to measurement tools, the supervision and control and the reporting mechanisms that have to be maintained as part of the current liquidity risk management. Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

### Risk appetite

The Bank and the Group endeavors to sustain appropriate inventory of liquid assets, concurrect with the management of uses that will produce income to the Bank.

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is conservative and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts incharge of management of this risk.

#### Liquidity coverage ratio in accordance with Proper Conduct of Banking Business Directive No. 221

The Bank calculates the LCR (Liquidity Coverage Ratio) in accordance with Proper Conduct of Banking Business Directive No. 221, which adopts the Basel Committee recommendations as regards liquidity coverage ratio by the banking sector in Israel.

The liquidity coverage ratio is a Standard intended to improve the short term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private

markets, so as to provide response to liquidity requirements in stress situations, which combines a specific shock to the bank and to the banking sector as a whole, and which continues for thirty calendar days.
The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The liquidity coverage ratio contains two components:
(a) The value of high quality liquid assets (HQLA) under stress tests.
(b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress test.
The ratio is computed as a proportion of the high quality liquid assets to the total net cash outflow during the next thirty calendar days. Starting from January 1, 2017 the minimal regulatory requirement for the LCR, both for the Bank level and the Group level, is 100%. However, in times of financial stress, a banking corporation can deviate below this level, but it has to report the deviation immediately to the Bank of Israel, and in certain cases, with a plan to close this deviation.
The Bank adhere in all the regulatory risk restrictions for 2020.
As part of the policy of management of financial risks, the Board of Directors adopted an internal restriction, which is stringent than the regulatory restriction for LCR, both for the banking entity solo and consolidated.

Set out below is the liquidity coverage ratio consolidated and the Bank:

| | For the three months ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | percent |
| Liquidity coverage ratio consolidated data | **150%** | 128% |
| Liquidity coverage ratio Bank data | **150%** | 127% |
| Minimal liquidity coverage ratio as per the Supervisor of Bank | **100%** | 100% |

## Supervision and control of Liquidity risk exposure management

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherence to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.
Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense.

## Reporting on exposure to liquidity risks

- A daily liquidity report in shekels and in foreign currency is produced.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the financial risks' manager.
- Reporting on positions is collated in the quarterly "risks document," and current brief on the exposure to liquidity risks as necessary.

## Management of liquidity risk on a Group basis

The Bank implement comprehesive policy for the management of the liquidity risk in local currency, in foreign currency and linked to foreign currency, on group level, Bank and banking subsidiary levels, in accordance with Proper Conduct of Banking Business Directives Nos. 342 and 221. The banking subsidiary is responsible to maintain independence policy of short term liquidity risk management (up to 12 months) and long term, while fulfilling the directives of the regulatory authority and in adjustment to its needs and in accordance with the structure of its assets and liabilities and nature of its operations.
In addition, the banking subsidiary adhere to its own liquidity ratio.

There are no material restriction or limitations on transfering funds within the group over the restrictions applying to performing transactions of any kind.

## Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which include: cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 70.0 billion on December 31, 2020, compared with NIS 47.3 billion at the end of 2019. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 57.8 billion, and NIS 12.2 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public, net on December 31, 2020 amounted to 155.7% compared with 136.6% on December 31, 2019.

At the end of December 2020, deposits from the public, bonds and subordinated notes totaled NIS 146.1 billion compared with NIS 123.7 billion at the end of 2019.

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 emphasizing on raising sources for medium and long periods from deversified customers sectors and in different currencies.

The Bank has sources in a contractual duration for a short- medium terms, which the Bank anticipate that they will be stable for a long period of time. The uses are both for short term and medium- long term.

For information regarding details of assets and liabilities according to currency and maturity date- see note 31 to the financial statements.

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

| | As of December 31 | As of December 31 |
|---|---|---|
| | **2020** | **2019** |
| | | NIS million |
| 1 | **3,176** | 2,721 |
| 2 | **1,488** | 2,439 |
| 3 | **1,247** | 2,089 |

## FINANCING RISK

### General

Financing risk is the risk of shortage in financing sources and might be deriving from an unstable structure of sources in the long run to cover the anticipated uses.

The Bank has diversified stable financing sources, mainly from depsits from private and business customers, long term deposits from financial institutions, as well as issuance of bonds and subordinated capital notes.

The financing risk at the Bank is managed as part of the liquidity risk management, by imposing limitations and targeting the concentration of the financing sources, and reducing the dependence on material counter parties.

Part of the monitoring of this risk is carried out by monitoring of indicators in respect of the structure and concentration of the sources on a current basis.

## OPERATIONAL RISK

### General

According to the definition of Proper Conduct of Banking Business Regulations No. 350, operational risk is the risk of loss resulting from the impropriety or failure of internal processes, persons (including labor relation risk) or systems or resulting from external events. The definition includes legal risk, fraud and embezzlement risks, information security and cyber risks and business continuity, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).

The corona crisis has intensified the operations by digital channels and as a result the Bank continues to adopt steps in order to minimize the risks derived from the growth in these operations. Also, in order to enable business continuity of units in the Bank, some of the units were split into working capsules, and part of the activity has been transferred to remote working. Accordingly, adjustments to the working and controling process have been made, which were examinated by all the relevant factors, including, business, risk management, information security and cyber, compliance and legal counceling factors.

### Policy

The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, in accordance with Proper Conduct of Banking Business Regulations 310 and 350, setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank. The policy also prescribes risk identification, assessment, control and monitoring mechanisms, and the reporting systems.

### Exposure management

#### 1. Detection, mapping, minimization and monitoring of risk

Operational risks are unseperable part of all types of business activities of the Bank, the processes of the organizational units and crosswise processes and supporting systems. A basic component in the risk management plan of the Bank is effective and pro-active management of the operational risks, including frauds, embezzelements and unethical behaviour.

The operational risk mapping and identification review is one of the main methods for controlling and supervising these risks. The review includes the mapping and documentation of the business processes, identification of the operational risks and controls in these processes, including embezzelement and unethical behaviour, also with respect to the database concerning failure events and audit findings, assessment of risks and their mitigation by implementation of new controls, reinforcement of controls, etc.

As an outcome of the risk surveys performed, the findings of the internal audit and the drawing of conclusion in respect of failure events, mechanized and other controls are combined in the defferent activities in the Bank, as well as work processes and control were upgraded and improved.

In addition, and as part of the monitoring and control infrastructure key risk indicators (KRI) have been defined at the Bank for the early detection of changes in the risk map.

**2. Failure event collation**

The Bank collates and documents loss events (events that caused or nearly caused a loss/profit, provision for lawsuit) for the purpose of data base for quarterly and annual analysis of trends and risk centers, for presentation to Management and the Board of Directors for estimating the operational risks in business processes and at the organizational units, and for keeping a history of shortcomings, learning lessons and improving processes.

The Bank also conducts a lesson learning process for significant external events reported in the media.

**3. System for measurement, estimation and management of operational risks**

The Bank manages the risks map by means of software, supporting the methodology of management of the operational risks. The centeral data base of the software, includes the information of the organizational structure and the mapping and documentation of the processes in the Bank.

## Business continuity planning

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the directives of Proper Conduct of Banking Business Regulation 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. The Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity, a working framework document detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly.

The Bank was defined by The Israeli Government as a provider of essential services, and operate, as from the end of the first quarter of 2020 according to the guidance of the health department and the Supervisor of Banks directives. In the period that the Bank operated in emergency format, the manpower that came to the bank's premisses was reduced, part of the employees were split into capsules and part were working in a fromat of remote working. During the whole period, the Bank was operating in order to ensure the continuation of providing service to its customers in the different channels of operation, while adhering to the regulations and directives of the Bank of Israel. During the whole period, the emergency plans of the Bank were implemented in order to minimize the probability of contagion, including, the split of units to capsules and the improvement of the ability of remote working. The working format is updated from time to time, in accordance with the morbidity in Isreal and in accordance with the regulation and guidelines as stated above.

## Risk management in an iCloud environment

The Banks applies a policy using iCloud computing within the framework of its information technology management policy, as approved by Management and the Board of Directors. The Bank acts in accordance with Directive 362 in the matter, which determines guidelines and terms required for the use by a banking corporation of the iCloud computing technology, and which emphasizes the need for risk management in respect of each of the uses of iCloud computing technology.

## Information security

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of information security policy in accordance with Proper Conduct of Banking Business Regulation 357- "Management of Information Technology" and appointed information security manager who is incharge of the information security risks management. The Bank performs all the reviews and mapping required to adhere to the directive. The Bank implements the Bank of Israel directives concerning the social media and implements the guidelines of the privecy regulation.

## Implications of information security risks and cybernetic incidents

In accordance with Proper Conduct of Banking Business regulation 361 concerning management of cyber defense, Management and Board of Directors of each entity in the Group defined the strategy of defending cybernetic attacks and the policy of the defense from cybernetic attack.

The manager of the information security of the Group was also appointed as the cyber defense manager of the Group, in accordance with a permission from the Bank of Israel.

Cybernetic attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's information and the operative readiness of its systems. These damages could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cybernetic attacks, in addition to overall information security activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes human aspects, technical devices and processes for reducing the vulnerability of the Bank's infrastructures, on the basis of special attack scenarios defined by the Cyber defence Manager.

Following the corona crisis, the exposure for materialization of a cybernetic event raises, inter alia, by the intensified use of customers in the digital channels and the transition for remote working of employees and suppliers. The Bank implements, on a current basis, steps to minimize the risks, including examination of solution for distant axcess by information security factors, intensifying the monitoring and updating the remote-working procedure etc.

The cyber defense unit identified attack atempts, but the Group did not experience cybernetic attacks with a material effect on the functioning of the Group.

The Bank implements the instructions of Proper Conduct of Banking Business regulations which were issued by Bank of Israel in respect of the activity of the Bank against its service providers: Regulation 363: "Management of cyber risks in chain of supply" and regulation 359A- "Outsourcing". In addition, the Bank complies with the control requirements of Swift company.

## Supervision and control of operational risk management

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

# OTHER RISKS

## LEGAL RISK

### General
Legal risk is included in operational risk as defined in the Proper Conduct of Banking Business Regulations 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

### Risk appetite
The Bank adopts a conservative policy of a low risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank adopts a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

### Policy and exposure management
The Bank operates in accordance with a legal risk management policy, detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank's Legal Department monitors developments in legislation, regulation and in court rulings which could affect the current activity of the Bank, and provides consultation, back-up and legal support to the Bank and its different units. The Bank endeavors to minimize risks on the basis of these developments and their implications.

In addition, the legal department conducts, as needed, updates in the legal documents used by the Bank, in framework agreements to which the Bank is a party and legal opinions, which are the basis for contracts and/or guidelines to different activities.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

Furthermore, procedures for the operation of head office and branches were set, and instruction for their implementation are made, on a current basis, with emphasis on the legal matters involved in the operation of the Bank.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

### Reporting on legal risk exposure
- Exposures to legal risks are collated and reported in the quarterly Risks Document, which is discussed once every quarter in Management, and Board of Director committee for risk management.
- On the occurrence of a material event of a legal nature, such as a lawsuit or the materialization of legal risk, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager.

  The legal risks manager advises on the measures that should be taken in order to minimize the level of exposure to the legal risk, and is assisted by the employees of the legal department and/or external legal counselors, the internal audit, the compliance officer and the officers in charge of the internal enforcement in securities laws and competition laws.

### Group management of legal risk

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. A Group Legal Risk Management Committee convenes regularly to discuss material legal issues and exposures.

## RISK MANAGEMENT IN THE NIS AND FOREIGN-CURRENCY SECURITIES PORTFOLIO-MARKET AND INDEBTEDNESS RISKS

a. The Board of Directors of the Bank have determined in the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks, interest and liquidity. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets that may affect the Bank's exposures.

b. The Bank invests only in the bonds of companies that have been rated investment grade minimal as of the purchase date, as set in the policy of management of financial risks after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.

c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments.

d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank’s reporting format are:
   - Immediate reporting on discovery of a deviation from restrictions and procedures.
   - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
   - A weekly report to the two-days Current Matters Committee chaired by the CEO or the financial risk manager on the opening of margins, new purchases, sales and exceptional events.
   - Every second week investment meeting, chaired by the financial risk manager.
   - At least once a quarter discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
   - A report six times a year to the Board of Directors’ Risk Management Committee.
   - A quarterly report within the framework of the overall risks document.
   - A report every second month to the ALCO Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

   See the section on the composition and development of the Bank Group's assets, liabilities, capital and capital adequacy for details of the securities portfolio.

## COMPLIANCE RISK

### General

- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- Proper Conduct of Banking Business Directive No. 308 of the Supervisor of Banks requires banks to act in order to maintain all statutes and rules of conduct applying to the different banking operations of a bank. An update to the Directive published in December 2019, added the duty of studying also significant changes occurring outside of Israel regarding compliance rules enforcement policy applied outside of Israel and which apply to a banking corporation, including activity of customers. Identification and assessment processes found at the basis of the update, are to include also conclusions drawn from significant compliance events, and shall be established in the procedures of the banking corporation, or in another documented manner that would ensure their absorption in the process.

  The Bank acts for an initiated and organized gathering of foreign regulation updates relating to the main countries relevant to the cross-border operation of the Bank.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of a bank.
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject. The Bank appointed the Head of the Risk Management Division and CRO of the Bank as the supervisor on the internal enforcement program of the securities law. The Bank conducts a follow-up on the application of the internal enforcement program for the securities law, among others, by executing controls and audits in the securities laws area.
- The Bank has adopted an internal enforcement program regarding economic competition legislation. The Bank has established procedures and different processes for the continuing implementation of the program. The Bank has appointed the Chief Compliance Officer of the Bank as the function in charge of internal enforcement at the Bank of economic competition legislation. The bank performs monitoring of the execution of the enforcement program with respect to economic competition legislation, inter alia, by means of performing controls and also by taking action to absorb information in this field.

### Policy

The Board of Directors prescribed and approved a Group compliance policy. The Bank has revised the compliance policy in accordance with the new Directive, whithin the framework of which, it determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

## Risk appetite

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization.

## Exposure management

- In order to abide by the Directive, the Bank has established a Compliance Department (hereinafter - "compliance function" or the "the function"), which is subject to the Chief Compliance Officer and serves as an independent function responsible for compliance risk management at the Bank. Moreover, the Chief Compliance Officer was also appointed as Regulation Officer ("RO") in charge of the implementation of legislation rules and instructions regarding FATCA, the aim of which is to enforce reporting mechanisms with respect to bank accounts of American citizens held outside the US, as RO in charge of verifying the implementation of the Qualified Intermediary ("QI") rules, which apply the reporting requirements and the withholding of tax from certain payments not only to accounts of American foreign residents but also to other accounts recording income from US sources, as well as officer in charge of verifying the implementation of the common reporting standards (CRS) rules, which similarly to the FATCA rules, are aimed at regularizing the manner of the automatic exchange of information between countries signing this agreement, with respect to financial accounts of foreign residents.
- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps to all echelons of authority at the Bank.
- Working alongside the Chief Compliance Office are:
  - Compliance supervisors at each of the Bank's branches and the head-office.
  - A forum for monitoring the application of statutory directives, that monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.

## Exposure reporting

- Quarterly report within the quarterly risk document, which includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to violations and preventing their recurrence, and the Bank's preparations for applying a new compliance directive, as well as an annual detailed report summarizing his activity in the previous year.
- In addition, immediate reports are defined in the compliance policy prescribed by the Board of Directors, to Management and Board of Directors.

## Management of compliance risk on a group basis

The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiary, providing guidance and assistance to the subsidiary company in developing systems, the writing of procedures, training of staff and integration of the instructions. The banking subsidiary has its own compliance officer.

### Conduct risk management

Conduct risk is cross-organization risk, which extracts its normative framework from a long list of laws and regulation guidelines and which is based on fundamental values such as fairness, transparency, in the way the Bank conducts with different stakeholders.

The Group implemented the values of fairness and transparency in its activity with its customers and to strengthen these values in its daily operations. In general, the group is requested to ensure that the proposal that are given to customers are costumed to their needs and the services provided to the customer are without discrimination. Failing to meet the conduct risk expose the group to different risks, among others, compliance risks, legal risk, reputation risk etc. The Bank implemented a policy regarding proper business conduct (conduct risk) as part of the compliance policy.

## MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

### General

- Money laundering and terrorism financing prohibition risk (hereinafter: "money laundering/AML") is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the realization of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Law, the Financing of Terrorism Prohibition Law, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Regulation 411 and various circulars.

### Policy

The Board of Directors of the Bank approves once a year the Group's money-laundering and terrorism financing prohibition policy document.

### Risk apetite

- The Bank operates "zero tolerence" policy concerning money laundering risks including cross border tax offences, which in its framework all the Bank's managers and employees, without any exception, including all the subsidiaries in the Group, must comply to the Law's directives and regulations applicable to the Bank and to all the Bank's procedures derived from these directives.
- The Bank group applies stringent policy to assure precise application of the law and suitable knowledge of the customers with which the Bank conduct its business, including understanding its business conducted with the Bank or by the Bank, imparative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.
- The policy in the area of money laundering prevention includes clear definision of prohibitions in relation to activity with entities and countries against which there are restrictions.

### Exposure management

A unit for prevention of money laundering and finance of terrorizm operates within the Bank, and is responsible for the application of the law directives in this subject and their implementation.

The unit is part of the compliance unit and is subordinated to the chief compliance officer, which also serves as the officer in charge of Anti Money Laundering. The compliance department is subordinated to the Chief Risk Officer.

The roles of the person in charge of AML and finance of terror include, inter alia:

- Policy and procedures compilation and updates in accordance with changes in legislation and the provisions of the law, development and conduct of controls to ensure that the Bank is implementing the law and reports the necessary reports, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary corporations in the Group and conducting and/or reviewing the existence of instructional sessions to money laundering prohibition officers and all employees, which increase the awareness to the subject.
- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures. These supervisors are selected from among the Bank's authorized signatories, and in the area of money-laundering prohibition are professionally subordinate to the Money Laundering Prohibition Officer.
- The Bank inspects data quality by means of control reports that are circulated to the branches together with appropriate guidelines. The Bank also invests considerable resources in developing and upgrading computerized control systems,

and allocates personnel to the unit in order to increase the efficiency of the controls for the detection of unusual transactions.

- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- An advisory committee was established for the purpose of assisting the Money Laundering Prohibition Officer in his function, the main elements of which include: discussion of unusual transactions when doubts exist as to whether their details should to be sent to the Money Laundering Prohibition Authority.

In the framework of strengthening the management and supervision of AML and finance of terror risks on the background of the corona crisis, the Bank examines the layout of tools and methods used in this area and the possibility o adopt "smart technologies" compatible to the standard applied in leading countries, including their adherence to the definition of "models" and accordingly will manage the model risk deriving from their use.

### Exposure reporting

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to the Board of Directors of the Bank.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to Management, the Board of Directors and to the Bank of Israel.

### Group management of money laundering and terrorism financing risk

The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Law, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries in Israel and abroad, as required in Proper Conduct of Banking Business Regulation 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.

### Cross-border risk management

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, the Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

The Bank has determined a designated policy regarding this issue, work procedures have been instituted, and decision has been taken regarding a series of operational steps for the management and reduction of risk, accounts identified as being of a high risk with respect to cross-border risks were identified and marked, and customers showing indications regarding foreign tax residency as well as all new customers are required to sign declarations regarding their tax residency and waiver of confidentiality regarding all their accounts.

Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial accounts), 2019, which were published on February 6, 2019, adopt the international standard regarding the exchange of information ("the CRS standard") which was developed by the Organization of Economic Cooperation (OECD) , in order to automaticly exchange information on annual basis, in order to provide mutual assistance in tax enforcement between countries. The Bank and the Group prepared to implement the said legislation.

## REPUTATION RISK

### General

Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.

### Risk appetite

The group has low tolerance to reputation risk, that might have an impact on its stability, including threats deriving from the perception of the Bank. Further more, the Bank sees a positive perception as a major asset, therefore it will act to prevent the materialization of the reputation risk that might reach a crisis scenario and will try to minimize the materialization of reputation risks, as much as possible.

### Policy and exposure management

The Bank has a policy for the management of the risk that includes: identifying and monitoring after the risk factors and compilation of prevention activity, early identification of potential reputation events, continuous monitoring of the risk and its management.

### Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the reputation risk including immediate reports. The reporting layout defines, inter alia, who is responsible to report, its frequency and its recipients.

The Bank's spokesperson is envolved in publication of notices and material reports to the stock exchange, with emphasis on notifications with a potential threat or an impact on the Bank's reputation, such as profit warning, material appointments, material transactions, etc.

In the quarterly risk document, major matters which concern the reputation risk, are being reported.

## STRATEGY RISK

### General

Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation.

### Policy and exposure management

The goals of the strategy risk management policy are:

- To assure the correlation between the Bank's strategic objectives to: annual work plans; the resources that were allocated to these objectives (among others, capital allocation as part of the capital planning of the Bank); implementation of strategic decisions.
- The ability to monitor the strategy risk, which allow early identification of the gaps in materialization of strategy planning: erroneous decisions/ plans; inappropriate implementation of strategic decisions; sector, economic, technology and regulatory changes.

### Risk appetite

The group has low tolerance to strategic risk, due to the critical impact it might have on the Bank's stability and business acheivements. The Group embrace business strategy characterized by high level of cousious and conservativity.
The Group implements control procedures in order to minimize the exposure to exceptional risks.

### Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the strategy risk along the different lines of defense.
In the framework of the quarterly risk document, major matters in respect of the strategy risk are being reported.

### Group management of strategy risk

The banking subsidiary adopts the Bank's policy, with emphasis to its unique characteristics, in the process of the strategy planning.

## Regulatory risk

This risk stems from the trend of increasing regulatory requirements in recent years in Israel and over the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity and loss of income. The changes also require preparation, implementation and integration, which may result in heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, the compliance risk and the strategy risk. The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank and at the Group for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and reducing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support on basis of such developments.

From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes. For details regarding material regulatory initiatives having an impact on the operations of the Bank in the reported period, see the Chapter "Legislation regarding Limitations, Standards and Special Constraints affecting the Bank Group" in the "Corporate Governance - Additional Details" part.

## DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the quarterly risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, alone, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

| | Risk | Effect | Risk level |
|---|---|---|---|
| 1. | **Market risks** | Market risk is the actual or future existence of a risk to the Group's income and capital as the result of changes in prices, rates and margins in the financial markets in which it operates, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, commodities prices, volatility in these parameters and changes in other economic indexes. | Low-Medium |
| 1.1 | **Interest risk** | Interest risk is the risk to earnings or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates. Interest rate risk to which the Bank is exposed to include: the risk of repricing, yield curve risk, base (spread) risk and option risk.<br>The interest risk to the entire portfolio, is one of the dominant risks the Bank is exposed to in respect to the effect on the present value of assets and liabilities and profit. | Low-Medium |
| 1.2 | **Inflation risk** | Inflation risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in the consumer price index. | Low |
| 1.3 | **Exchange rate risk** | Exchange rate risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in exchange rates. | Low |
| 1.4 | **Share/Option risk** | Share price risk is a risk to a loss as a result of changes in the shares' price or shares' index. Option risk is the actual or future risk to the Group's income and capital that could materialize as the result of a loss deriving from changes in the parameters affecting the value of options, including standard deviation. | Low |
| 2. | **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, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources. | Low |
| **3.** | **Credit risk** | Credit risk is the risk of borrowers or counterparty will not fulfil their obligations to the Bank.<br>The risk estimate was temporarily raised from "low-medium" to "medium" due to the continuing corona crisis. | Medium |
| 3.1 | **Quality of borrowers and collateral** | The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit.<br>The risk estimate has been temporarily raised to the "Medium" level in view of the continuing Coronavirus crisis, concerns regarding recession and slowdown and the steep rise in unemployment, which may lead to difficulties in the repayment ability and cash flows of customers in the different operating segments, in particular in those economic sectors that were significantly hit by the crisis. All this may adversely affect the quality of borrowers, and accordingly, the credit loss expenses. | Medium |

| | Risk | Effect | Risk level |
|---|---|---|---|
| 3.2 | **Sector concentration** | Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability. | Low |
| 3.3 | **Borrower and borrower group concentration** | Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others. | Low |
| 4. | **Operational risk** | Operational risk is the actual or future risk to the value of the Group's assets, income and capital, due to the impropriety or failure of internal processes, persons and systems, including implemental systems and technological infrastructure, or due to external events, including cyber risk. The definition includes fraud and embezzlement risks, information security risks, cyber and business continuity and legal risks, but does not include strategic risk or reputation risk. | Medium |
| 4.1 | **Cyber and data protection risk** | This risk (being part of operating risk) is separately assessed in view of increasing events around the world and in the financial system in particular, and in view of the expanding digital activity. The risk is defined as a potential for the damage stemming from a cyber event, considering the level of likelihood and severity of its implications. | Medium |
| 4.2 | **Information technology risk** | This risk (being part of operating risk) is separately assessed because the technological environment is complex and variable and dependence on it is increasing. In recent years the risk has intensified in view of the need to increase business and technological flexibility as well as increasing the use of new technologies. | Medium |
| 5. | **Legal risk** | Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Regulation 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements". | Low |
| 6. | **Reputation risk** | Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.<br>Reputation risk is materially impacted by the materialization of adjacent risks such as operational risk, credit risk, compliance risk, and money laundering and terrorism financing risk, the publication of which could lead to the materialization of reputation risk (for example, theft or embezzlement events, money laundering events and large monetary loss). | Low-medium |
| 7. | **Legislative and regulatory risk** | Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel. | Medium |

| | Risk | Effect | Risk level |
|---|---|---|---|
| 8. | **Compliance, money laundering and terrorism financing prohibition risks** | Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, in accordance with the Efficiency of Enforcement Procedures in the Securities Authority Act, the risk of failure to comply with the provisions of the Internal Enforcement Plan in competition legislation and the risks arising from activity vis-à-vis foreign residents. This risk also includes conduct risk, which is a cross organization risk that draws its normative outline from a long list of legislation and regulation directives and based on basic values such as fairness and transparency in the manner the Bank operates with different interest holders.<br>Stricter regulations and enforcement by the tax authorities in different countries, designed to locate offshore accounts of residents could impact clients' behaviour patterns and expose the Bank to compliance risk, reputation risk and cross-border compliance risks.<br>Money laundering and terrorism financing prohibition risk (hereinafter: "money laundering/AML ") is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.<br>The degree of impact of compliance, money laundering and terror funding risks affects all areas of operation of the Bank, including administrative enforcement and international regulation in tax matters, including FATCA and CRS. | Medium |
| 9. | **Strategy risk** | Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. The strategy risk includes also competition risk, stemming from exposure of the Bank Group to competition in Israel in all segments of the Group's operations. In the course of its current operations, the Bank Group faces competitive factors, which include banking corporations and other financial bodies that provide alternative financial products to those provided by it. The competition risk reflects the risk of erosion in profitability and in equity, on background of the competitive pressure to lower the level of commissions and margins. In the fourth quarter of 2019, it has been decided to raise the risk level from "low-medium" to "medium", in view of the rise in risk of the competitive environment, which is gathering. | Medium |

The Bank takes specific measures to minimuze the risks described above. In addition, a detailed policy was determined for the management of the exposures and risks, that include inter alia, definition of specific risk apetite, limitations on the exposure, different control mechanizms , reporting outlines, etc. Furthermore, procedures implemented by the Bank , as well as supporting computer systems exsist.

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

## GENERAL

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that 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.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

### a. Provision for credit losses

The process of evaluating the loss inherent in the credit portfolio, is based on significant assessments involving uncertainty and on subjective assumptions. Accordingly, changes in assessments or in assumptions may have a material effect on the provision for credit losses presented in the financial statements of the Bank.

The provision to cover credit losses regarding the credit portfolio is estimated by one of two options: specific provision or collective provision.

The individual (case-specific) provision, which is relevant for troubled debts under the classification of "impaired," is made on the basis of the Management's assessments regarding the losses inherent in the balance-sheet and off-balance-sheet credit portfolio. This provision is estimated by means of the difference between the recorded balance of the debt and the present value of the receipts expected on repayment of the debt, or the fair value of the collateral.

Estimation of the receipts expected on repayment of the debt from the diverse relevant sources of repayment, including the borrower's business activity, the value of the collateral provided by the borrower, private sources for repayment and the realization value of the guarantees provided by the borrower or by third parties, requires the use of discretion and estimates which the Management of the Bank regard as reasonable when assessed, although there is naturally no certainty that the amounts actually received will be the same as the estimates that were determined.

The collective provision is computed in order to reflect provisions for impairment in respect of unidentified specific credit losses inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts specifically examined and found unimpaired.

The collective provision is computed in accordance with directives of the Supervisor of Banks, by multiplying the determined rate of the provision by the balance of debts, including off-balance sheet financial instruments, which are multiplied by conversion coefficients into relevant credit.

The rates for the collective provision are determined at the level of the economic sector, differentiating between the provision coefficient relating to performing credit and the provision coefficient relating to troubled credit, classified as credit "under special supervision" or as "substandard" credit.

The rates of the collective provision include the totals of two components:

The first component is computed on the basis of the average rates of the net historical accounting write-offs, over the period beginning on January 1, 2011 and ending on the date of reporting, or an average providing excess weight to the rate of the net accounting write-offs in the last year, the higher of the two.

The second component is a "qualitative adjustment", the purpose of which is to adjust the rates of the collective provision, in a conservative and careful manner, to environmental factors, which have an effect on the risk inherent in the credit portfolio of the Bank. In order to determine the "qualitative adjustment", the Bank bases itself on designated models developed by it. These models assess the risk at the economic sector level, based on environmental factors, part of which is relevant to the specific credit portfolio of the Bank and to the quality of its management, and part is relevant to the condition of the economy in general. The environmental factors contained in the models include, inter alia, reference to changes in the volume of debts, to the quality of the underwriting process and its management, to the quality of controls, to the concentration of credit, to regional, countrywide and sector trends and economic conditions, as well as to the volume and trend of balances in default and of troubled debts and to the volume and trend of accounting write-offs and debt collection.

Each environmental factor contains indicators relevant to the quantifying of the risk belonging to it, and based on a consistent system which determines the weight alloted to each indicator, whether the indicator is expected to increase or reduce the required adjustment, and whether it is relevant to the total credit portfolio or to a certain group of debts. Based on the above, the level of risk inherent in the credit portfolio is assessed as well as its effect on the rate of the collective provision.

In addition to the quantitative measurement according to the models, as stated, the Bank examines in each quarter, in a subjective manner, the need for a further increase in the collective provision coefficients, taking into consideration developments in the business environment and additional indicators relevant to the level of risk inherent in the credit portfolio, and to the extent required increases the collective provision coefficients.

In the course of the year 2020, in view of the uncertainty that had been created by the Corona event, the Bank increased by significant rates the qualitative adjustment produced by the quantitative models. Within the framework of the considerations regarding the increase in the collective provision to its level as of December 31, 2020, the Bank reflected the deterioration in economic data, including, inter alia, deterioration in the macro-economic data, such as the existing and anticipated level of unemployment and the impairment in the gross domestic product. Furthermore, the bank estimated that the level of impairment would not be the same in all economic sectors, and that certain sectors would be more heavily affected than other sectors. Economic sectors assessed as more vulnerable to the Corona event, than other sectors, and in respect of which, a higher increase of the quantitative adjustment had been made in relation to other sectors, are, inter alia, business services (which include also travel agencies) hotels, food and catering services and trade. Moreover, the Bank has increased the adjustment with respect to credit to private individuals and to residential credit, which might also be affected by the crisis, in view of the steep growth in the rate of unemployment and the economic and employment uncertainty. In addition to the increases made in respect of segments that had been estimated as having intensified risk, as stated, the Bank has made additional increases of the collective provision coefficients, based on defined tests, such as the increase regarding segments identified as having a relatively high rate of credit to small businesses, the increase as a function of the ratio of credit having low rating to total credit to the segment, and in certain cases even a review had been made of the mix of borrowers in specific segments for the purpose of assessing the need for an additional increase in the relevant collective provision coefficient.

Within the framework of the process for the determination of the provision for credit losses as of December 31, 2020, reference had been made, inter alia, to macro-economic indicators. From this aspect, the Bank based its assumptions on the forecast of the Research Division of Bank of Israel, published on January 4, 2021, which included two scenarios: a swift immunization scenario and a slow immunization scenario. For reasons of care, and in view of the continuing high morbidity data and the uncertainty concerning the appearance of new mutations and their implications, the Bank has elected to adopt the slow immunization scenario. According to the slow immunization scenario, it has been estimated, inter alia, that a gradual growth recovery is anticipated in the course of 2021, which would total a positive annual rate of 3.5%, and that the wide average rate of unemployment during 2021 would amount to 12.5%.

It should be remembered that the macro values, as stated, form a part of the wide set of parameters, assessments and subjective estimates.

It is emphasized that high and prolonged uncertainty exists in respect of the implications of the Corona crisis, and even at this time considerable difficulty still exists in assessing its implications in full, which derive from many material variables. Thus, for instance, the extent of success of the immunization in Israel and around the world, the diverse mutations appearing, the effectiveness of the immunization regarding these mutations, and more. Besides the doubts existing as to the length of time required to overcome the virus, the Corona crisis has caused considerable economic impairment both to the Israeli economy and to the global economy, by which the Israeli economy is affected, and at this stage difficulty exists in assessing the scope and force of the damage to the economy, which are expected to be clarified in the future. An additional significant factor affecting the force of the economic damage is the manner of managing the risk, the financial measures which the Israeli and other governments around the world would adopt, and the decisions of central banks and Regulators.

In view of the high uncertainty prevailing in the economy, and for the purpose of testing the sensitivity of the provision for credit losses to assumptions and assessments that are different to those mentioned in the slow immunization scenario published by Bank of Israel, as stated, and which had been used in determining the provision for credit losses at December 31, 2020, the bank has examined additional and more severe scenarios. It is emphasized that due to the uncertainty and to the different assumptions, no uniformity exists in the different scenarios of all the banks, which are being affected by the different work systems existing at each bank, by the assumptions made by each bank, and by the different estimates and assessments of each bank as to the effect of such assumptions. Therefore, differentiation may exist between estimates of the different banks, which might be significant. Within the framework of the more severe scenarios which had been examined for the purpose of analysing the said sensitivity, as stated, the Bank had assumed higher levels of unemployment and lower growth rates of GDP than those used in the calculation of the collective provision as of December 31, 2020. The more severe scenarios, examined by the Bank within the framework of the sensitivity analysis, scenarios that are highly based on subjective assessments, reflect that the credit loss provision recorded by the Bank at December 31, 2020, might have grown by up to an amount of NIS 50 million.

It is emphasized that the credit loss expense depends on a wide range of affecting factors in respect of which uncertainty exists, as stated, where on the one hand, a considerable and more extreme deterioration in economic conditions may result in a higher provision for losses. On the other hand, existence of moderating factors, such as the curbing of the spread of the virus, the manner of managing the risk, the scope of intervention and support by the Government, as well as internal factors at the Bank, such as the quality of the credit underwriting process, the quality of the collateral and of control mechanisms, may result in a reduction in the level of expense.

Assessment of the provision for credit losses requires Management to use assessments and estimates, which are generally based upon economic forecasts, estimates regarding the markets and assessment of their effect of credit risk and on the future realization of credit losses. Use of assessments and estimates requires the use of discretion, which Management believes to be reasonable at date of signing the financial statements. Notwithstanding that, and in the nature of things, there is no certainty that the credit losses that might arise in the future with respect to the existing credit portfolio, would be identical to the assessments and estimates made.

Estimates made by the Bank are considered forward-looking information, as defined by the Securities Act, 1968, which is based, inter alia, on information, publications by third parties and assessments existing in the hands of the Bank at this date. Such assessments are uncertain and might be realized in a materially different form than that described above, inter alia, depending on the scope of the spread of the virus, the reaction of governments and central banks, the length of period of the event, and on additional vast information, as stated above.

## b. Lawsuits and contingent liabilities

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.
   The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.
2. The processing of claims and complaints against the Bank.
   Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.
Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly.
As to the disclosure format of legal claims see Note 1.d.(16) to the financial statements.

## c. Employee rights

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes - Severance compensation, pension, retiree benefits and other.
- Other benefits (for some companies in the Group) - seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

| | December 31, 2020 | |
|---|---|---|
| | Increase of 1% | Decrease of 1% |
| | | NIS million |
| **Effect of change in Salary on:** | | |
| Actuarial liabilities for pension and severance payments | **86** | **(69)** |
| Other post-employment and retirement benefits | **2** | **(1)** |
| Benefit in respect of nonutilized sick leave | **4** | **(4)** |
| **Effect of change in discount rate on:** | | |
| Actuarial liabilities for pension and severance payments | **(70)** | **87** |
| Other post-employment and retirement benefits | **(38)** | **50** |
| Benefit in respect of nonutilized sick leave | **(4)** | **5** |
| Staff long service awards | **(1)** | **1** |
| **Effect of change in rate of employees leaving on:** | | |
| Actuarial liabilities for pension and severance payments | **78** | **(110)** |
| Other post-employment and retirement benefits | **(2)** | **2** |
| Benefit in respect of nonutilized sick leave | **(7)** | **9** |
| Staff long service awards | **(1)** | **1** |

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes - severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.

The effect of the change in the principal parameters on benefits - seniority awards and benefits in respect of unutilized sick leave, are recognized in profit and loss.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

### d. Assessment of the fair value of derivative financial instruments

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.

Since 2012, the Bank has applied FAS 157 (SDV 820) principles for the measurement of the fair value of derivative financial instruments.

FAS 157 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.

The use of these data types create the following scale of fair value:

- Level 1 data - prices quoted from an active market.
- Level 2 data - prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data - prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under FAS 157 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32(b).

## e. Fair value of securities

The Bank’s activity in non for trading shares which have available fair value, bonds in the portfolio available for sale and in thesecurities portfolio for trading is measured in the balance sheet on the basis of their fair value.

See Note 1.d.(8) and Note 1.d.(9) to the financial statements regarding the determination of fair value of securities and other than temporary impairment.

### Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the Financial division of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

### The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank’s total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer’s bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

**Sensitivity analysis**

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 10.2 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Nores 12 and 32(b).

## f. Capitalization of software development costs

See Note 1.d.(14) to the financial statements regarding intangible assets and impairment of software developments costs.

## 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 maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting.

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 report of Management and the Board of Directors in respect of internal control over financial reporting as well as 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 December 31, 2020 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 fourth quarter of 2020, 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.

Tel Aviv, 16 March, 2021

**Ron Levkovich**
Chairman of the Board

**Smadar Barber-Zadik**
CEO

## CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2020 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included 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, 16 March, 2021

**Smadar Barber-Tsadik**
Chief Executive Officer

## CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the year 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, 16 March, 2021

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

## REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2020, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2020, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2020 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report .The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2020.

**Ron Levkovich**
Chairman of the Board

**Smadar Barber-Tsadik**
Chief Executive Officer

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

Tel-Aviv, 16 March, 2021

# AUDITED ANNUAL FINANCIAL STATMENTS

Somekh Chaikin
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Tel Aviv 6100601, Israel
+972 3 684 8000

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

We have audited the accompanying balance sheets of The First International Bank of Israel Ltd. (hereinafter - "the Bank") as of December 31, 2020 and 2019, and the consolidated balance sheets of the Bank and its subsidiaries as at such dates, and the related statements of income, the statements of comprehensive income, changes in equity, and cash flows - the Bank and consolidated - for each of the three years the last of which ended December 31, 2020.

These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973 and certain auditing standards applied in the audit of banking corporations guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated at December 31, 2020 and 2019 and the results of their operations, the changes in the equity and the cash flows - for the Bank and consolidated - for each of the three years which ended December 31, 2020 in conformity with Generally Accepted Accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the directives of the Supervisor of Banks.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

16 March, 2021

## STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

| | | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|---|
| | Note | 2020 | 2019 | 2018 | 2020 | 2019 | 2018(1) |
| Interest Income | 2 | **2,878** | 3,085 | 3,001 | **2,647** | 2,847 | 2,312 |
| Interest Expenses | 2 | **241** | 483 | 515 | **253** | 491 | 511 |
| Interest Income, net | 2 | **2,637** | 2,602 | 2,486 | **2,394** | 2,356 | 1,801 |
| Expenses from credit losses | 13,29 | **464** | 138 | 166 | **443** | 127 | 117 |
| Net Interest Income after expenses from credit losses | | **2,173** | 2,464 | 2,320 | **1,951** | 2,229 | 1,684 |
| **Non-Interest Income** | | | | | | | |
| Non-Interest Financing income | 3 | **148** | 225 | 231 | **148** | 233 | 203 |
| Fees | 4A,4B | **1,371** | 1,286 | 1,325 | **1,234** | 1,144 | 995 |
| Other income | 5 | **4** | 9 | 81 | **45** | 54 | 151 |
| Total non-Interest income | | **1,523** | 1,520 | 1,637 | **1,427** | 1,431 | 1,349 |
| **Operating and other expenses** | | | | | | | |
| Salaries and related expenses | 6 | **1,532** | 1,601 | 1,696 | **1,429** | 1,487 | 1,303 |
| Maintenance and depreciation of premises and equipment | | **344** | 353 | 376 | **316** | 326 | 282 |
| Amortizations and impairment of intangible assets | 17 | **96** | 92 | 91 | **94** | 89 | 86 |
| Other expenses | 7 | **597** | 608 | 656 | **570** | 583 | 508 |
| Total operating and other expenses | | **2,569** | 2,654 | 2,819 | **2,409** | 2,485 | 2,179 |
| Profit before taxes | | **1,127** | 1,330 | 1,138 | **969** | 1,175 | 854 |
| Provision for taxes on profit | 8 | **368** | 478 | 408 | **315** | 418 | 319 |
| Profit after taxes | | **759** | 852 | 730 | **654** | 757 | 535 |
| The bank's share in profit of equity-basis investee, after taxes | 15 | **29** | 51 | 37 | **96** | 108 | 198 |
| **Net profit:** | | | | | | | |
| Before attribution to non-controlling interests | | **788** | 903 | 767 | **750** | 865 | 733 |
| Attributed to non-controlling interests | | **(38)** | (38) | (34) | **-** | - | - |
| Attributed to shareholders of the Bank | | **750** | 865 | 733 | **750** | 865 | 733 |

| Consolidated and The Bank | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **Primary profit per share attributed to the shareholders of the Bank** | 9 | | | NIS |
| Net profit per share of NIS 0.05 par value | | **7.48** | 8.62 | 7.31 |

(1) See note 15.E. regarding the merging of Otsar Hahayal with and into the Bank.

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

**Ron Levkovich**
Chairman of the Board

**Smadar Barber-Tsadik**
Chief Executive Officer

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

Tel-Aviv, 16 March, 2021

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31[(1)]

(NIS million)

| | | | Consolidated |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Net profit before attribution to non-controlling interests | **788** | 903 | 767 |
| Net profit attributed to non-controlling interests | **(38)** | (38) | (34) |
| Net profit attributed to the shareholders of the Bank | **750** | 865 | 733 |
| Other comprehensive income (loss) before taxes: | | | |
| Adjustments of available for sale bonds (2018 - securities) to fair value, net | **(4)** | 101 | (102) |
| Adjustments of liabilities in respect of employee benefits[(2)] | **(74)** | (74) | 37 |
| Other comprehensive income (loss) before taxes | **(78)** | 27 | (65) |
| Related tax effect | **26** | (9) | 22 |
| Other comprehensive income (loss) before attribution to non-controlling interests, after taxes | **(52)** | 18 | (43) |
| Less other comprehensive loss attributed to non-controlling interests | **-** | (2) | (4) |
| Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes | **(52)** | 20 | (39) |
| Comprehensive income before attribution to non-controlling interests | **736** | 921 | 724 |
| Comprehensive income attributed to non-controlling interests | **(38)** | (36) | (30) |
| Comprehensive income attributed to the shareholders of the Bank | **698** | 885 | 694 |

(1) See Note 10.

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

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

# BALANCE SHEET AS AT DECEMBER 31

(NIS million)

| | | Consolidated | | The Bank | |
|---|---|---|---|---|---|
| | Note | 2020 | 2019 | 2020 | 2019 |
| **Assets** | | | | | |
| Cash and deposits with banks | 11 | **57,802** | 37,530 | **56,757** | 36,528 |
| Securities(4) | 12, 26 | **13,105** | 10,995 | **12,480** | 10,736 |
| Securities which were borrowed | | **11** | 9 | **11** | 9 |
| Credit to the public | 13, 29 | **92,247** | 88,829 | **87,009** | 83,713 |
| Provision for Credit losses | | **(1,277)** | (930) | **(1,204)** | (871) |
| Credit to the public, net | | **90,970** | 87,899 | **85,805** | 82,842 |
| Credit to the government | 14 | **656** | 1,039 | **35** | 415 |
| Investment in equity-basis investees | 15 | **636** | 605 | **1,198** | 1,278 |
| Premises and equipment | 16 | **965** | 996 | **936** | 964 |
| Intangible assets | 17 | **272** | 248 | **264** | 238 |
| Assets in respect of derivative instruments | 27A, 27B | **1,897** | 1,091 | **1,904** | 1,096 |
| Other assets(2) | 18 | **1,464** | 698 | **1,389** | 667 |
| Total assets | | **167,778** | 141,110 | **160,779** | 134,773 |
| **Liabilities and Shareholders' Equity** | | | | | |
| Deposits from the public | 19 | **141,677** | 120,052 | **135,527** | 114,836 |
| Deposits from banks | 20 | **2,992** | 1,137 | **5,511** | 2,640 |
| Deposits from the Government | | **459** | 353 | **459** | 353 |
| Bonds and subordinated capital notes | 21 | **4,394** | 3,674 | **2,086** | 2,055 |
| Liabilities in respect of derivative instruments | 27A, 27B | **2,314** | 1,247 | **2,314** | 1,247 |
| Other liabilities(1)(3) | 22 | **6,407** | 5,723 | **5,741** | 5,074 |
| Total liabilities | | **158,243** | 132,186 | **151,638** | 126,205 |
| Capital attributed to the shareholders of the Bank | | **9,141** | 8,568 | **9,141** | 8,568 |
| Non-controlling interests | | **394** | 356 | **-** | - |
| Total equity | | **9,535** | 8,924 | **9,141** | 8,568 |
| Total liabilities and shareholders' equity | | **167,778** | 141,110 | **160,779** | 134,773 |

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 86 million and NIS 57 million (consolidated) and NIS 83 million and NIS 55 million (the Bank) as of December 31, 2020 and 2019, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 247 million consolidated and the Bank (31.12.19 - NIS 42 million consolidated and the Bank).
(3) Of which: other liabilities measured at fair value in the amount of NIS 258 million consolidated and the Bank (31.12.19 - NIS 47 million consolidated and the Bank).
(4) Regarding amounts measured at fair value, see note 32B.

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

## STATEMENT OF CHANGES IN EQUITY

(NIS million)

| | 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 January 1, 2018 | 927 | (120) | 6,949 | 7,756 | 290 | 8,046 |
| **Changes during 2018** | | | | | | |
| 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 |
| 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 |
| **Changes during 2019** | | | | | | |
| Net profit for the year | - | - | 865 | 865 | 38 | 903 |
| Dividend | - | - | (410) | (410) | - | (410) |
| Other comprehensive income (loss), after tax effect | - | 20 | - | 20 | (2) | 18 |
| Balance as at December 31, 2019 | 927 | (131) | 7,772 | 8,568 | 356 | 8,924 |
| **Changes during 2020** | | | | | | |
| Net profit for the year | **-** | **-** | **750** | **750** | **38** | **788** |
| Dividend | **-** | **-** | **(125)** | **(125)** | **-** | **(125)** |
| Other comprehensive loss, after tax effect | **-** | **(52)** | **-** | **(52)** | **-** | **(52)** |
| Balance as at December 31, 2020 | **927** | **(183)** | **8,397** | **9,141** | **394** | **9,535** |

(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 - see note 24A.B.

(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.C.(1).

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31
(NIS million)

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| **Cash flows from operating activities:** | | | | | | |
| Net profit for the year | **788** | 903 | 767 | **750** | 865 | 733 |
| **Adjustments to reconcile cash provided by operating activities:** | | | | | | |
| The Bank's share in profit of equity-basis investee | **(29)** | (51) | (37) | **(96)** | (108) | (198) |
| Revaluation of subordinate debt notes issued by subsidiaries | **-** | - | - | **-** | - | (3) |
| Depreciation of premises and equipment | **71** | 69 | 75 | **66** | 65 | 63 |
| Amortization of intangible assets | **96** | 92 | 91 | **94** | 89 | 86 |
| Gain on sale of premises and equipment | **-** | (3) | (69) | **-** | (3) | (4) |
| Expenses from credit losses | **464** | 138 | 166 | **443** | 127 | 117 |
| Gain from sale of available for sale bonds and not for trading shares* and provision for impairment of available for sale bonds and not for trading shares | **(20)** | (28) | (77) | **(20)** | (24) | (76) |
| Realized and non-realized loss (gains) from adjustment to fair value of trading securities | **(1)** | 14 | (1) | **(1)** | 14 | - |
| Realized and non-realized loss (gains) from adjustment to fair value of not for trading shares | **11** | (59) | - | **11** | (59) | - |
| Deferred taxes, net | **(144)** | (25) | (24) | **(144)** | (25) | (23) |
| Defined benefit of pension and severance pay plans | **68** | 91 | 157 | **62** | 85 | 43 |
| Adjustments of exchange rate differences | **(794)** | (561) | 439 | **(794)** | (572) | 418 |
| Dividend received from equity-basis investee | **-** | 56 | - | **-** | 78 | 37 |
| **Net change in current assets:** | | | | | | |
| Trading securities | **(100)** | 418 | (6) | **(100)** | 418 | (6) |
| Other assets | **(207)** | 446 | 109 | **(205)** | 416 | 114 |
| Assets in respect of derivative instruments | **(908)** | 198 | (74) | **(910)** | 219 | (70) |
| **Net change in current liabilities:** | | | | | | |
| Other liabilities | **316** | (861) | 1,243 | **352** | (905) | 1,247 |
| Liabilities in respect of derivative instruments | **1,067** | (47) | (24) | **1,067** | (71) | (24) |
| Accumulation differences included in investing and financing activities | **(53)** | (18) | 122 | **(37)** | (55) | 88 |
| Net cash from operating activity | **625** | 772 | 2,857 | **538** | 554 | 2,542 |
| **Cash flows for investing activity** | | | | | | |
| Change in Deposits with banks | **(219)** | (78) | 146 | **(124)** | 43 | 62 |
| Change in Securities borrowed | **(2)** | 854 | (50) | **(2)** | 854 | (50) |
| Change in Credit to the public | **(3,902)** | (5,001) | (3,897) | **(3,773)** | (4,572) | (3,239) |
| Change in Credit to the government | **378** | (339) | (25) | **374** | (338) | (7) |
| Purchase of available for sale bonds and not for trading shares* | **(8,210)** | (6,380) | (7,530) | **(7,746)** | (6,232) | (6,401) |
| Proceeds from redemption of bonds held to maturity | **236** | 193 | 305 | **236** | 193 | 270 |
| Proceeds from sale of available for sale bonds and not for trading shares* | **3,220** | 2,678 | 1,009 | **3,131** | 2,165 | 497 |
| Redemption of available for sale bonds | **2,620** | 4,526 | 4,232 | **2,615** | 4,517 | 4,068 |
| Acquisition of premises and equipment | **(40)** | (49) | (47) | **(38)** | (49) | (42) |
| Proceeds from sale of premises, equipment and other assets | **-** | 9 | 113 | **-** | 9 | 16 |
| Investment in intangible assets | **(120)** | (101) | (95) | **(120)** | (101) | (90) |
| Investments in deferred debt notes issued by a subsidiary company. | **-** | - | - | **-** | - | (60) |
| Merger of a subsidiary company | **-** | - | - | **-** | (180) | - |
| Proceeds from liquidation of a subsidiary | **-** | - | - | **178** | - | - |
| **Cash flows for investing activity** | **(6,039)** | (3,688) | (5,839) | **(5,269)** | (3,691) | (4,976) |

* Until December 31, 2018 - available for sale securities.

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)

(NIS million)

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| **Cash flows from (for) financing activity** | | | | | | |
| Change in Deposits from the public | **23,641** | 10,251 | (3,923) | **22,689** | 10,191 | (5,978) |
| Change in Deposits from banks | **1,914** | 39 | (39) | **2,930** | 26 | 6,628 |
| Change in Deposits from the government | **(540)** | 696 | 53 | **(540)** | 696 | (7) |
| Additional acquisition of shares in consolidated company | **-** | - | (340) | **-** | - | (340) |
| Proceeds from the issue of bonds and subordinate debt notes | **1,458** | 711 | 252 | **300** | - | 252 |
| Redemption of bonds and subordinate debt notes | **(701)** | (2,053) | (559) | **(254)** | (1,556) | (464) |
| Dividend paid to shareholders | **(125)** | (410) | (355) | **(125)** | (410) | (355) |
| Net cash from (for) financing activity | **25,647** | 9,234 | (4,911) | **25,000** | 8,947 | (264) |
| Increase (decrease) in cash | **20,233** | 6,318 | (7,893) | **20,269** | 5,810 | (2,698) |
| Cash balances at beginning of year | **37,275** | 31,126 | 38,863 | **35,964** | 30,299 | 32,882 |
| Effect of changes in exchange rates on cash balances | **(180)** | (169) | 156 | **(162)** | (145) | 115 |
| Cash balances at end of year | **57,328** | 37,275 | 31,126 | **56,071** | 35,964 | 30,299 |
| **Interest and taxes paid and/or received:** | | | | | | |
| Interest received | **3,203** | 3,185 | 3,137 | **2,942** | 2,974 | 2,293 |
| Interest paid | **(540)** | (781) | (657) | **(470)** | (662) | (464) |
| Dividends received | **20** | 15 | 19 | **20** | 15 | 19 |
| Income tax paid | **(542)** | (547) | (487) | **(467)** | (480) | (338) |
| Income tax received | **61** | 56 | 70 | **60** | 50 | 63 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

### A. General

(1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2020 include those of the Bank, of its consolidated companies and of an equity basis investee (hereinafter - "the Group").

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd. Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Cassy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are party to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on March 16, 2021.

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

(2) **Definitions**

In these financial statements:

**International financial reporting standards ("IFRS")** - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

**Accepted accounting principles by US banks** - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

**Consolidated subsidiaries** - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

**Equity basis investees** - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

**Investee companies** - Consolidated companies or equity-based investees.

**Foreign extension** – Subsidiary of the Bank outside Israel.

**Functional currency** - The currency prevailing in the principal economic environment in which the Bank operates; generally, the currency of the environment in which the Bank generates and expends most of its cash.

**Stated currency** - The currency in which the financial statements are stated.

**Related parties** - In terms of Section 80 of the public reporting instructions.

**Interested parties** - In terms of Section 80 of the public reporting instructions.

**CPI or Index** - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

**Adjusted amount** - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

**Financial reporting in adjusted terms** - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

**Reported amount** - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.

**Cost** - Cost in reported amount.

## B. Basis of preparation of the financial statements

### (1) Reporting principles

The financial statements of the Bank are prepared in accordance with Israeli accepted accounting principles (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 US generally accepted accounting principles. 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 certain situations, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

### (2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated. For information regarding the functional currency of a banking extension operating abroad, see Note 1.D.(1).

### (3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:

- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

### (4) Use of estimates

Preparation of financial statements requires Management to use judgment, make 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 significant uncertainty. When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

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.

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

Starting with the periods beginning on January 1, 2020, 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 leasing;
2. Regulatory emphasis regarding the accounting treatment of debts and reporting to the public in view of the Coronavirus crisis.

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

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

The Supervisor of Banks published 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 in the matter of leases, which adopts the accounting principles accepted by US banks in the matter of leases and, inter alia, the presentation, measurement and disclosure principles stated in Item 842 of the Codification regarding "leases".The main changes in the accounting treatment applied in financial statements of banking corporations, following implementation of Item 842 of the Codification, as stated in the letter, are inter alia: banking corporations that lease assets for periods exceeding twelve months shall recognize them in the balance sheet even if the lease is classified as an operating lease; operating lease transactions shall be recorded in the balance sheet as right of use assets, reflecting the right of the corporation to use the leased asset, and on the other hand, a liability shall be recorded in respect of the operating lease; also transactions where the banking corporation sells an asset and leases it back, may under certain circumstances be considered as an accounting sale transaction, subject to certain conditions as detailed in Item 842 of the Codification.

The new rules were adopted by the Bank as from January 1, 2020, by way of adjusted retroactive application, recording in retained earnings the cumulative effect at date of initial application and with no restatement of the comparative data.

As permitted by the transitional instructions of the Standard, the Bank has elected to apply the following transitional reliefs:

- Maintain the evaluations regarding identification of existence of a lease and its classification as operating or financial lease in everyhting relating to all agreements existing at date of initial application, as well as maintain the evaluation of qualification for the capitalization of primary direct expenses, which had been determined prior to the initial date of application, in accordance with the instructions of the previous Standard.
- Use the possibility of "hindsight" for the purpose of determining the lease period, where the lease agreement includes options for extention or termination, and for the evaluation of impairment of right of use assets.

In accordance with the new instructions, with respect to agreements where the Bank is the lessee, at date of initial application, the Bank recognized a liability in an amount equal to the present value of the future lease payments during the lease period (these payments do not include variable lease payments that are not depended on the Index or on the interest rate), and concurrently recognized a right of use asset in the amount of the commitment for the lease payments, adjusted for payments made in advance or accumulated and net of lease incentives, and with the addition of direct costs incurred in respect of the lease.

Furthermore, as permitted by the instructions of the Standard, the Bank has elected the application of the following reliefs:

- Use the practical relief of not separating components that do not comprise a lease, such as services or maintenance, lease components, but treat them as a single lease component.
- Use the practical relief according to which, short-term leases of up to one year are treated in a way where the lease payments are recorded in profit and loss by the "straight line" method over the period of the lease, with no recognition of a right of use asset and/or a liability in respect of a lease in the financial condition report.

Application of the new rules resulted in an increase of NIS 425 million in the balance of right of use assets and in a parralel increase of NIS 425 million in the balance of liabilities in respect of leases, as of January 1, 2020. Not withstanding the above, application of the new instructions had no material effect upon the statement of profit and loss.

In accordance with the reporting format, as stated in the public reporting instructions, the Bank has recognized in the item "other assets" the right of use assets in respect of operating leases, and in the Item "other liabilities" the liability in respect operating leases.

Furthermore, application of the new instructions has led to a decrease in the Tier I equity capital and in the comprehensive capital of 0.06% and 0.08%, respectively, as at January 1, 2020, due to the averaging of risk assets in respect of right of use assets stemming from operating leases recognized in the balance sheet at the rate of 100%. In addition, the application of the new instructions has led to a decline in the leverage ratio of the Bank at the rate of 0.02% as at Jnuary 1, 2020.

**(2) Regulatory focal points regarding the accounting treatment of debts and reporting to the public in view of the Coronavirus crisis**

Bank of Israel published a letter on April 21, 2020, in the matter of "the Coronavirus event – regulatory focal points regarding the treatment of debts and reporting to the public".

Furthermore, in continuation of the additional outline regarding the deferral of mortgage payments and consumer loans, adopted by the Supervisor of Banks on November 30, 2020, as well as in continuation of the additional outline adopted by the banking system for the support of small and minute businesses in repayment of loans, dated December 10, 2020, The Supervisor of Banks issued on December 3, 2020, and on December 10, 2020, letters in the matter of "the Coronavirus crisis – focal points regarding the additional outline for deferral of repayments" and in the matter of "the Coronavirus crisis – focal points regarding the additional outline for deferral of repayments by small business".

Within the framework of the letters of the Supervisor regarding focal points in the matter of the additional outlines for the deferral of repayment, several guidelines regarding the accounting treatment had been included, among which are:

**Changes in loan terms**

- Where a banking corporation acts in order to stabilize borrowers who are not in default regarding their existing loans, whether the action is taken in respect of an individual borrower or within a framework involving performing borrowers who encounter short-term financial or operational difficulties due to a Coronavirus event, then, as a general rule, such action will not be considered as restructure of a troubled debt. In view of this, debt, the terms of which had been changed, such as: deferral of repayment dates, waiver of interest in arrears and extention of repayment periods, have not been classified as restructure of a troubled debt, when the following conditions exist:
  - The change has been made due to a Coronavirus event;
  - The borrower was not in default at date on which the change in terms program had been implemented;
  - The change will apply to a short period (up to six months).

  It is clarified in this respect, that borrowers are considered not in default if they are in arears of less than thirty days in relation to the contractual terms applying on date of implementation of the changes program. Likewise, where the change in terms of the debt has led to a delay in repayment that is not for a short-period, the debt was not classified as restructure of a troubled debt, if it had been renewed at an interest rate identical to the interest rate applying to a new debt of a similar risk.

- With respect to residential loans treated by the length of default period method, where the short-term deferral, as stated, has been granted to a debt which was not a troubled debt prior to the deferral date, then, as a general rule, the deferral does not require classification of the debt as a restructured debt.

Moreover, within the framework of the letters of the Supervisor of Banks of December 2020, it is stated that a banking corporation is not required to classify as restructure of a troubled debt, residential loans, loans to private individuals and loans to small businesses, which were not in default for thirty days or more, at date of deferral of repayments, in respect of which deferral of repayment until March 31, 2021, has been granted within the framework of the additional outlines for deferral of repayments, even if the cumulative deferral period exceeds six months.

**Determination of the default situation**

In the matter of debt that had not been previously in default and which had been granted deferral due to a Coronavirus event, the Bank is not required to classify such debts as debts in default due to the deferral. Likewise, when a deferral of repayment has been granted due to a Coronavirus event in respect of debts that had been in default prior to the deferral, the default situation is being adjusted to the situation that had been in effect prior to the deferral, so that in fact, the situation remains unchaned during the repayment deferral period.

**Classification of troubled debts, including impaired debts that do not accrue interest income and accounting write-offs**

In accordance with Bank of Israel letter, as stated above, during the period of the short-term arrangements, the said loans have not been reported as non-accruing, except for loans for which new information had been gained indicating a decline in repayment prospects, and in respect of which, the Bank has acted in accordance with the public reporting instructions in the matter of classification of troubled debts and accounting write-offs.

**Disclosure in reports to the public**

The letter of the Supervisor of Banks dated December 3, 2020, in the matter of "the Coronavirus crisis – focal points on the additional outline for deferral of repayments" states that a banking corporation that has elected not to classify as restructure of a troubled debt loans that had not been in default for thirty days or more at date of deferral of repayments, and in respect of which repayment had been deferred until March 31, 2021, within the framework of the additional outline for the deferral of repayments, shall include in its quarterly and annual reports to the public in 2021, a pro-forma disclosure, showing the main effects of the implementation of this choise upon the financial statements.

## D. Accounting policy applied in the preparation of the financial statements

### (1) Foreign Currency and Linkage

**Transactions in foreign currency**

On date of initial recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss produced by the transaction are translated into the functional currency of the Bank in accordance with the exchange rate prevailing on date of the transaction.

At any reporting date, monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date.

Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined.

Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.

Gains or losses on translation of transactions in foreign currency stemming from fluctuation in currency between the date of transactions and date of settlement/balance sheet date, including exchange differences on available-for-sale debt instruments, which in accordance with the public reporting instructions continue to be recognized in the statement of profit and loss until January 1, 2022 (as stated in the transitional instructions), are recognized in the statement of profit and loss as gains or losses on translation differences (non-interest financing income), excluding:

- The effective part of the gains or losses in respect of a hedge instrument hedging a net foreign operation investment or hedging cash flows;
- Exchange differences in respect of items comprising a part of a net investment;

**Foreign operations**

The functional currency of an entity is the currency of the principal economic environment in which the entity operates. Generally speaking, it is the currency of the environment in which the entity produces cash.

Assets and liabilities relating to foreign operations, including goodwill and adjustments to fair value created upon acquisition, are translated to NIS at the exchange rate prevailing at the reporting date. Any income, expenses, profit or loss of foreign operations are translated into NIS at the exchange rates prevailing upon the dates of the transactions.

Exchange differences arising on translation are recognized in other comprehensive income and are presented in capital under "Cumulative adjustments on translation of financial statements".

Upon realization of a foreign operation, the cumulative amount of exchange differences relating to such operation that had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the gain or loss on realization of the foreign operation has been recognized.

**CPI-linked assets and liabilities not measured according to fair value**

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

**Following are details of representative exchange rates and of the consumer price index including the rates of change therein:**

| | December 31 | | | Rate of change during | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| | | | | % | % | % |
| Rate of exchange of the U.S. dollar (in NIS) | **3.215** | 3.456 | 3.748 | **(7.0)** | (7.8) | 8.1 |
| Rate of exchange of the Euro (in NIS) | **3.944** | 3.878 | 4.292 | **1.7** | (9.6) | 3.3 |
| Rate of exchange of the SFR (in NIS) | **3.650** | 3.575 | 3.807 | **2.1** | (6.1) | 7.1 |
| Consumer Price Index - | | | | | | |
| November (in points) | **100.2** | 100.8 | 100.5 | **(0.6)** | 0.3 | 1.2 |
| December (in points) | **100.1** | 100.8 | 100.2 | **(0.7)** | 0.6 | 0.8 |

**(2) Basis of consolidation**

**Consolidated subsidiaries**

Consolidated subsidiaries are entities controlled by the Group. The financial statements of consolidated subsidiaries are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist. The accounting policy of consolidated subsidiaries has been changed, where required, in order to modify it to the accounting policy adopted by the Group.

**Non-controlling interest**

Non-controlling interest comprises the capital of a consolidated subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Measurement of non-controlling interests at date of a business combination - non-controlling interests are measured at fair value at date of the business combination.

Allocation of the comprehensive income among the shareholders - Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. The total profit, loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, even if this results in a negative balance of the non-controlling interests.

**Loss of control in a consolidated subsidiary**

Upon loss of control, the Bank deletes the assets and liabilities of the subsidiary as well as any non-controlling interest and other capital components attributed to the subsidiary, including amounts recognized in the past in other cumulative comprehensive income, including in respect of a foreign subsidiary. If the Bank remains with any investment in the former subsidiary, then the balance of the investment is measured at fair value at date of loss of control.

The difference between the amount of consideration received and the fair value of the remaining balance in the former subsidiary and the amount of the deleted balances is recognized in profit and loss. As from that date, the remaining investment is treated by the equity value method or as a financial asset, in accordance with the extent of influence over the relevant company remaining with the banking corporation. The amounts relating to the former consolidated subsidiary that previously had been recognized in equity by way of other comprehensive income are reclassified to profit and loss.

**Transactions eliminated upon consolidation**

Intercompany balances as well as income and expenses not yet realized, derived from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

**(3) Investments in equity based investees**

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs.

The investment in an equity basis investee is tested for impairment as a whole, when events or changes in circumstances indicate that the book value of the investment is not recoverable. Impairment is recognized when it is considered to be of a nature other than temporary.

The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, from the date on which the significant influence first existed and until the date on which it ceased to exist.

**(4) Basis of Recognition of Income and Expenses**

- Interest income and expenses are recognized on an accrual basis, except for:
  interest accrued on troubled debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.

- Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto.
- Certain commission income, such as commission in respect of guarantees, and certain commissions regarding the finance of building projects, is recognized proportionally over the period of the transaction.
- Credit formation commissions and direct credit formation expenses are recognized over the period of the loan as adjustment of return on the loan, except in cases of restructure of a troubled loan. Where the commitment to grant the loan expires without materializing, commissions are recognized at date of expiry.
- Credit allocation commission is treated in accordance with the probability of materialization of the commitment to grant credit. Where the probability is remote, the commission is recognized by the straight-line method over the period of commitment. Otherwise, the Bank defers the recognition of income from such commission until the commitment materializes or until it expires, whichever is earlier. Upon realization of the commitment, the commission is recognized by way of adjustment of the return over the period of the loan, as stated above. Where the commitment expires without being materialized, the commission is recognized at date of expiry.
- Change in terms of a debt - in the event of refinancing or the restructure of performing debts, the Bank examines whether the terms of the loan had been changed materially. Accordingly, the Bank examines whether the present value of future cash flows in accordance with the new terms of the loan has changed by at least 10% from the present value of the remaining cash flows according to the present terms (with the addition of a premature redemption commission). In such cases, all yet unamortized commissions and premature redemption commissions charged to the borrower in respect of the change in credit terms are recognized in profit and loss. Otherwise, these commissions are included as part of the net investment in the new loan and recognized as adjustment of return, as stated above.
- Premature redemption commission - Premature redemption commissions are immediately recognized as part of interest income, except for commissions, as stated, which are included as part of the net investment in the new loan and recognized as adjustment of return.
- Securities - see Item (6) below.
- Derivative financial instruments - see Item (7) below.
- Other income and expenses - recognized on an accrual basis.

**(5) Impaired debts, credit risk and provision for credit losses**

In accordance with the Directive of the Supervisor of Banks in the matter of the "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the Bank implements as from January 1, 2011, the US accounting standards in this matter (ASC 310) and the statements of position of the US bank supervisory bodies and the US Securities and Exchange Commission, as adopted in the public reporting directives and in positions and guidelines of the Supervisor of Banks. In addition, as from that date, the Bank implements the guidelines of the Supervisor of Banks in the matter of the treatment of impaired debts. Moreover, starting on January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of the update of disclosure of credit quality of debts and the provision for credit losses.

Furthermore, from time to time, the Supervisor of Banks revises the public reporting instructions and the guiding FAQ file regarding the manner of application of the instructions in the matter of impaired debts and the provision for credit losses, this with the view of integrating therein the rules applying to US banks, including guidelines of the Regulatory authorities in the United States. As from 2016, the guidelines relating to the treatment of the restructure of a troubled debt, the guidelines relating to the manner of classification of debts based on the primary repayment source and certain guidelines regarding the manner of examination of the debts have, inter alia, been revised.

**Credit to the public and other debt balances**

The guideline is implemented with respect to all debt balances, such as: deposits with banks, bonds, securities on loan or acquired within the framework of "buy-back" agreements, credit to the public, credit to government, etc. Credit to the public and other debt balances, in respect of which the public reporting directives do not contain specific principles regarding the measurement of the provision for credit losses (such as: credit to government, deposits with banks, etc.) are reported in the books of the Bank at the stated balance of the debt. The stated balance of the debt is defined as the outstanding balance of the debt, net of accounting write-offs, but before provision for credit loss in respect of such debt. The stated balance of the debt does not include non-recognized accrued interest, or interest which had been recognized in the past but cancelled later. As regards other debt balances, in respect of which specific principles exist regarding measurement and the recognition of provisions for impairment (such as: bonds) the Bank continues to apply the same measurement principles, see Item (9) below.

**Identification and classification of impaired debts**

The Bank has determined procedures for the identification of troubled credit and for the classification of debts as impaired. According to these procedures, the Bank classifies all its troubled debts as well as the off-balance sheet credit items under the following classifications: "special supervision", "inferior" or "impaired".

A debt is classified as impaired when, based on information and current events, it is anticipated that the Bank would not be able to collect all the amounts due to it under the contractual terms of the loan agreement. The decision regarding the classification of the debt is based, among other things, on the default situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence and condition of collateral, the financial position of guarantors, where these exist, and their obligation to support the debt, as well as the ability of the borrower to obtain third party finance.

In any event, a debt is classified as an impaired debt if the principal amount or the interest thereon is in arrear for ninety days or more. For this purpose, the Bank monitors the period of arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are considered in arrear when payments on account of principal or interest have not been made on their due dates. In addition, revolving debit accounts or current accounts are reported as debts in arrear for thirty days or more, when these accounts deviate continuously from the approved credit facility for over thirty days or more, or where within the framework of the credit facility, no amounts have been credited to such account covering the amount of the debt within a period of 180 days. Starting with the date of classification of a debt as impaired, it is treated as a debt not accruing interest income ("nonperforming debt").

Moreover, any debt the terms of which have been changed as part of a restructuring of a troubled debt, shall be classified as an impaired debt, unless prior to the restructuring and thereafter, a minimum provision has been recorded in respect of which in accordance with the extent of arears, in accordance with the Appendix to Proper Management of Banking Business Directive 314 in the matter of "proper assessment of credit losses and proper measurement of debts".

**Definition of a primary repayment source upon classification of a troubled debt**

As from July 1, 2017, the Bank applies the update of the FAQ file of the Supervisor of Banks in the matter of "application of the public reporting instructions regarding impaired debts, credit risk and provision for credit losses".

The update principally refers to the classification of a debt, the definition of an impaired debt and the measurement of a specific provision for credit loss. Determination of the proper classification of a debt until it becomes totally non-performing or until such an event becomes highly probable, is based upon the repayment ability of the debtor, namely, the expected financial stability of the primary repayment source, notwithstanding the support of secondary and thirdly repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Among other things, the FAQ file included a question relating to the definition of the primary repayment source.

Primary repayment source - a sustainable source of cash over a period, which must be under the control of the debtor and must be explicitly or in substance set apart for the repayment of the debt. The FAQ file clarifies that as a general

rule, in order for the source to be considered as a primary repayment source, the Bank must demonstrate that high probability exists that the debtor is expected to produce, within a reasonable period of time, an appropriate cash flow from continuing business operations, which would serve in full all required repayments and on their due dates as stated in the loan agreement.
The policy regarding the identification and classification of troubled debts includes the testing of the existence of a primary repayment source as an additional tool for the identification of troubled debts.

**Reinstatement of an impaired debt as non-impaired**
An impaired debt reverts to the classification of a non-impaired debt if one of the following two situations exists:
- No principal or interest components of the debt, which are due for payment, remain unpaid, and the Bank expects the payment in full of the remaining principal sum and interest in accordance with the terms of the loan agreement (including amounts written off accounting wise or provided for).
- When the debt becomes well collateralized and collection proceeding are in effect.

The said rules for the reversal of an impaired debt classification shall not apply to debts classified as impaired following the restructuring of a troubled debt.

**Reinstatement of an impaired debt as impaired and accruing**
A debt, which has formally been restructured, so that following the restructuring thereof reasonable assurance exists that the debt would be repaid and would perform in accordance with its new terms, is reinstated as a debt that accrues interest income, on condition that the restructuring and any accounting write off made in respect of the debt are supported by an updated and well documented credit evaluation of the financial position of the borrower and of the repayment forecast according to the new terms. The evaluation is based on the consistent historical repayments of the borrower in cash and cash equivalents during a reasonable period of at least six months, and only after the receipt of payments that significantly reduced the stated balance of the debt, as determined after the restructuring.

**Debt arrangement policy and the treatment of a restructured troubled debt**
With a view of improving the management of credit and its collection, as well as with a view of preventing failure situations and the seizure of pledged assets, the Bank has adopted and is implementing a policy for arriving at arrangements in respect of troubled debts and for making changes in the terms of debts not identified as troubled. Methods for the changing of terms of debts may include, among other, the deferment of repayment dates, reducing the rate of interest payable or the amount of the periodic repayments, changing the terms of the debt in order to match them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debts to other borrowers belonging to a borrower group under joint control, review of the financial covenants applying to the borrower, and more.
The Bank's policy is based upon criteria that enable the Management of the Bank to apply judgment as to whether the repayment of the debt is expected, and which is applied only if the borrower shows proven ability and intention to repay the debt and is expected to comply with the terms of the new arrangement.
A debt that has formally been restructured as a troubled debt, is defined as a debt in respect of which, due to economic or legal grounds related to the financial difficulties of the borrower, the Bank granted a waiver by way of a change in the terms of the debt with a view of alleviating the burden of cash payments by the borrower in the near future (a reduction or deferral of cash payments demanded from the borrower) or by way of accepting other assets in settlement of the debt (in whole or in part).
In order to establish whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances in the framework of which it had been made, this with a view of determining whether: (1) the borrower has financial difficulties and (2) as part of the arrangement the Bank has granted a waiver to the borrower.

In order to establish that the borrower has financial difficulties, the Bank looks for signs indicating financial difficulties of the borrower at date of the arrangement, or a reasonable probability that the borrower will encounter financial difficulties if not for the arrangement. Among other things, the Bank examines the existence of one or more of the following circumstances:

- The borrower is at present in default regarding the repayment of any of his debts. Moreover, the banking corporation has to assess whether it is expected that the borrower will be in default in the foreseeable future regarding the repayment of any of his debts, unless a change is made. Namely, the banking corporation may reach the conclusion that the debtor is in financial difficulties even though he is not in default at the present time.
- The borrower informed that he is in a bankrupt or is under another type of receivership, or that he is under bankruptcy proceedings or under other receivership proceedings.
- Material doubt exists as to the ability of the borrower to continue as a going concern.
- Securities issued by the borrower had been delisted, are under delisting proceedings, or are under threat of being delisted from trade on the Stock exchange.
- According to assessments and forecasts that include only the present financial capabilities of the borrower, the banking corporation expects that the cash flows specific to the entity of the borrower in the foreseeable future, would not be sufficient to serve any debt of the borrower's debts (principal and interest) in accordance with the contractual terms of the existing agreement.
- Were it not for the existing change, the borrower would not be able to obtain finance from sources other than the existing lenders at an effective rate of interest equal to the market interest rate applying to a similar debt of a non-troubled borrower.

The Bank concludes that within the framework of the arrangement the borrower had been granted a waiver, even if the arrangement specified a rise in the contractual interest rate, if one or more of the following situations exist:

- As a result of the restructuring, the Bank does not anticipate to collect all amounts of the debt (including accrued interest according to the contractual terms);
- The updated fair value of the collateral in the case of a secured debt does not cover the contractual balance of the debt and indicates the inability to collect the full amount of the debt;
- The borrower does not have the possibility of raising funds at accepted market rates in respect of a debt having terms and characteristics such as those of the debt subject to the arrangement.
- Where a banking corporation does not perform an additional underwriting procedure, as stated, upon the renewal of an inferior debt, or where there is no change in the pricing of the debt or that the pricing had not been modified so as to match the risk prior to the renewal, or where the borrower does not provide additional means in order to compensate the increase in the risk stemming from his financial difficulties, it is strongly considered that the renewal constitutes a restructure of troubled debt.

The Bank does not classify a debt as a restructured troubled debt, if within the framework of the arrangement, the borrower had been granted a payment deferral that is not material in relation to the frequency of the payments, in the contractual repayment period and during the anticipated average maturity of the original debt. In this respect, where several arrangements had been made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of prior arrangements in order to establish whether the payments deferral is not material.

**Treatment of restructured debts and following restructuring**

Restructured debts, the terms of which had been changed in the restructuring of an impaired debt, including debts, which prior to their restructuring were assessed on a collective basis, are classified as impaired debts, which will be assessed on a specific basis for the purpose of the provision for credit losses. As a general rule, a restructured troubled debt shall continue to be measured and classified as an impaired debt until fully repaid. Nevertheless, under certain circumstances, when a debt had been restructured as a troubled debt and at a later date, the banking corporation and the borrower entered into an additional agreement for the restructure of the debt, the banking corporation is no longer required to treat the debt as a restructured troubled debt, if the following two conditions exist:

(a) The borrower no longer has financial difficulties at date of the following restructure;

(b) In accordance with the terms of the following restructure, the banking corporation had not granted the borrower a waiver (including a waiver regarding the principal amount on a cumulative basis since the original date of the loan).

A debt as above, which had undergone a following restructure and the classification thereof as an impaired debt has been removed, is assessed on a collective basis for the purpose of quantifying of the provision for credit losses and the stated balance of the debt will not change upon the following restructure (except if cash has been received or paid).

If in following periods the said debt is specifically examined and found impaired or if it is restructured as a troubled debt, then the Bank reclassifies it as an impaired debt and treats it as a restructure of a troubled debt.

**Provision for credit losses**

The Bank has determined procedures for the classification of credit and for the measuring of the provision for credit losses in order to maintain a provision at a proper level to cover anticipated credit losses in relation to the Bank's credit portfolio. In addition, the Bank has determined procedures required for the maintenance of a provision at a proper level to cover anticipated credit losses related to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, non-utilized credit facilities and guarantees).

The provision covering anticipated credit losses in relation to the credit portfolio is assessed according to one of the two ways: "specific provision" and "collective provision".

The said assessment of the debts for the purpose of determining the provision and the treatment of the debts is applied consistently to all debts, in accordance with their quantitative minimum and the credit management policy of the Bank, and no changes are made in the assessment classification of the debt as "specific" or "on a collective basis" during the life of the debt, unless a restructure of a troubled debt has been in respect of the debt, as stated above.

**Specific provision for credit losses**

For the purpose of the specific examination, the Bank elected to identify debts, the total contractual balances of which exceed NIS 1 million. A specific provision for credit losses shall be recognized in respect of any debt examined on a specific basis and classified as impaired. Moreover, any debt the terms of which have been changed as a result of a restructuring of a troubled debt, shall be classified as an impaired debt, unless if prior to the restructuring and thereafter, a minimum provision for credit losses had been created in respect of which by the extent of arrears period method, in accordance with the Annex to Proper Conduct of Banking Business Directive No. 314 regarding proper assessment of credit risk and the proper measurement of debts.

The specific provision for loan losses is assessed based upon the estimated future cash flows discounted by the original effective interest rate of the debt. Where the loan is collateralized or where the Bank expects a foreclosure of an asset, the specific provision is assessed based on the fair value of the collateral pledged as security for that loan, taking into consideration conservative and consistent coefficients, which among other things reflect the volatility in the fair value of the collateral, the period until actual realization of the collateral and the costs involved in its sale.

In this respect, the Bank defines a collateral conditioned debt as a debt the repayment of which is expected to depend exclusively upon the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the proceeds of an asset owned by the borrower even if it is not specifically pledged in favor of the Bank, all this when the borrower has no other available and reliable material sources for the repayment of the debt.

### Provision for credit losses on a collective basis

### Housing loans

The minimum provision in respect of housing loans is computed based on a formula determined by the Supervisor of Banks, taking into consideration the length of the default period, so that the rate of the provision increases in accordance with the length of the period of default. On the date of the initial implementation of the new directive, an amendment of the Appendix to Proper Conduct of Banking business Directive No. 314 "Proper assessment of credit risk and proper measurement of debts" entered into effect. This amendment extends the application of computing the provision based on the extent of the default period to all housing loans, with the exclusion of loans that are not repayable in periodic installments and loans which finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the mater of "Limitations on the granting of housing loans".

The Bank has formed a policy designed to ensure that it complies with the new requirements and that the balance of the collective provision for credit losses arising on housing loans shall not fall below a rate of 0.35% of the total outstanding balance of these loans at the reporting date.

### Other credit

The collective provision for credit losses - this provision is assessed in order to reflect provisions for impairment in respect of credit losses not specifically identified, inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found to be not impaired. The provision for credit losses in respect of debts assessed on a group basis is computed in accordance with the rules determined in FAS 5 (ASC 450), "accounting for contingencies" and in accordance with instructions of the Supervisor of Banks, based on historical loss rates in various economic sectors, divided between troubled and non-troubled credit within a range of years during the period beginning on January 1, 2011 and ending at the date of the report.

In addition to the computation of the range of the historical loss rates in the various economic sectors, as stated above, for the purpose of determining of the proper rate of provision, the Bank takes into consideration relevant environmental factors, including trends in the volume of credit in each sector and sector conditions, macro-economic data, a general assessment of the quality of credit granted to the sector, changes in volume and trend of balances in arrears and impaired balances, as well as the effect of changes in the concentration of credit.

On February 20, 2017, the Supervisor of Banks issued a letter regarding provisions for credit losses. The letter states that banking corporations are required to continue and include the year 2011 in the "range of years" item presented in their reports to the public, such item being a component in determining the collective provision for credit losses (as defined in Section 29.B(3.2), page 632-18 of the public reporting instructions).

In accordance with instructions of the Supervisor of Banks, the Bank has formed a method for the measurement of the collective provision, which takes into consideration both past loss rates as well as adjustments in respect of the relevant environmental factors. As regards credit to private individuals, the rate of adjustment in respect of environmental factors shall not be lower than 0.75% of the non-troubled balance of credit at each reporting date. Excluded from the above is non-interest-bearing credit stemming from transactions by bank credit card holders. It was further determined in the directives of the Supervision that banks which their annual loss rate is lower than 0.3%, in each of the five years ended at the report date may consider using the rate of adjustment in respect of environmental factors which will not be lower than 0.5%. In respect of credit to private individuals who are customers of a former consolidated company, which had been merged with and into the Bank, the Bank is acting in accordance with the approval received from the Bank of Israel in the framework allowed for banks with the loss rate as above.

The Supervisor of Banks issued a letter on July 10, 2017, amending Proper Conduct of Banking Business Directives No. 314 and 315, applied as from January 1, 2018, which, inter alia, are intended to remove the mechanism for the additional provision in respect of restriction on concentration of credit, the absence of up-to-date financial information and other characteristics contained in other directives. Upon the cancellation of the additional provision, the Bank is required to take into account risk characteristics pertaining to the absence of up-to-date financial statements, when forming the method of determining the provision for credit losses.

**Off-balance sheet credit**

The required provision in respect of off-balance sheet credit instruments is assessed in accordance with the rules determined in Item 450 of the Codification. The provision assessed on a collective basis in respect of off-balance sheet credit instruments is based on the rates of the provision determined for the balance sheet credit (as explained above) taking into account the anticipated rate of realization into credit of the off-balance sheet credit risk. The rate of realization into credit is computed by the Bank based on conversion into credit coefficients as detailed in Proper Conduct of Banking Business Directive No. 203, measurement and capital adequacy - credit risk - the standard approach.

In addition, the Bank examines the overall propriety of the provision for credit losses. The said evaluation is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and the methods of valuation applied by the Bank for assessment of the provision.

**Modifications regarding the Coronavirus crisis**

In view of the outbreak of the Coronavirus and in view of the considerable uncertainty involved in performing an assessment of credit losses in each of the credit portfolios adversely affected by the crisis, the Bank has made an additional adjustment to the provision coefficient, with a view of reflecting the negative impact of the crisis on the repayment ability of borrowers.

The additional adjustment was made with distinguishing between the economic sectors. Economic sectors assessed as more vulnerable to the Corona event, than other sectors, and in respect of which, a higher increase of the quantitative adjustment had been made in relation to other sectors, are, inter alia, business services (which include also travel agencies) hotels, food and catering services and trade. Moreover, the Bank has increased the adjustment with respect to credit to private individuals and to residential credit, which might also be affected by the crisis, in view of the steep growth in the rate of unemployment and the economic and employment uncertainty. In addition to the increases made in respect of segments that had been estimated as having intensified risk, as stated, the Bank has made additional increases of the collective provision coefficients, based on defined tests, such as the increase regarding segments identified as having a relatively high rate of credit to small businesses, the increase as a function of the ratio of credit having low rating to total credit to the segment, and in certain cases even a review had been made of the mix of borrowers in specific segments for the purpose of assessing the need for an additional increase in the relevant collective provision coefficient.

**Accounting write-off**

The Bank writes-off accounting wise any debt or part thereof assessed on specific basis, which is not considered collectible and of a low value so that its remaining as an asset is not justified, or a debt in respect of which the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). Regarding debts the collection of which depends on collateral, the Bank immediately performs an accounting write-off against the balance of the provision for credit losses, of that part of the stated balance of the debt exceeding the fair value of the collateral.

Regarding debts assessed on a collective basis, write-off principles have been determined based on their period of default (in most cases over 150 consecutive default days) and on other problem parameters. In respect of housing loans, where the minimal provision is based on the extent of the default period, the Bank writes-off accounting wise balances of debts remaining after the realization of the collateral where no other sources for the repayment of the debt are available, or in cases of difficulty in the realization of the collateral, or in cases where a collateral covering all or a part of the debt exists but has not been realized during a period of five years for humane reasons.

It should be clarified that accounting write-offs do not involve legal waiver and they reduce the reported debt balance for accounting purposes only, creating a new cost basis for the debt in the books of the Bank.

Notwithstanding the above, concerning debts assessed on a collective basis and classified as impaired due to the restructure of a troubled debt, the need for an immediate write-off is being examined. In any event, such debts are being written-off accounting wise no later than the date on which the debt has become a debt in arrears of sixty days or over, in relation to the terms of the restructure.

**Income recognition**

At date of classification of the debt as impaired, the Bank defines the debt as nonperforming and ceases to accrue interest income in respect thereof, except as stated below regarding certain restructured debts. Furthermore, at date of classification of the debt as impaired, the Bank cancels all interest income accrued and not yet collected, which had been recognized in profit and loss. The debt continues to be classified as nonperforming so long as its classification as impaired has not been removed. A debt which has formally been restructured as a troubled debt and following such restructuring reasonable assurance exists that the debt will be repaid and will perform according to its new terms, is treated as a performing impaired debt. See Item (4) above for details regarding the recognition of income on a cash basis in respect of debts classified as impaired.

The Bank does not cease to accrue interest income on debts that are assessed and provided for on a collective basis, which are in arrear for ninety days or over. Such debts are subject to assessment methods for the provision for credit losses which ensure that the profit of the Bank is not inclined upwards. Charges in respect of arrears regarding such debts are recognized as income when the right to such charges is established on condition that collection thereof is reasonably assured.

**Disclosure requirements**

The Bank implements the disclosure requirements regarding credit quality of debts and provision for credit losses as determined in the updated accounting standard ASU 2010-20. These require the Bank to provide a wider disclosure of outstanding debts, movement in the balance of provision for credit losses, indication as to the credit quality, any material purchase or sale of debt portfolios during the reported period.

Furthermore, in accordance with the instructions of the Supervisor of Banks regarding the change in the format of the financial statements, the Bank presents condensed principal information regarding credit risk, credit to the public and the provision for credit losses (see Note 13) and additional information regarding credit risk, as stated (see Note 29).

**(6) Securities**

- The bank's investments in securities are classified, into three portfolios, as follows:
  - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover substantially all of its recorded investment therein. Held to maturity bonds are stated at cost together with exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss on impairment considered to be of a nature other than temporary.
  - Available-for-Sale Bonds - bonds not classified as bonds held to maturity or as trading securities. Available for sale bonds are stated in the balance sheet at their fair value on the reporting date. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax provision, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits, except for losses in respect of impairment considered to be of a nature other than temporary.
  - Trading Securities - securities purchased and held for sale in the near future or securities which the Bank elects to measure at fair value through profit and loss, according to the fair value alternative, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
  - Shares not held for trading

    - Shares in respect of which fair value is readily available, are stated in the balance sheet at fair value as of the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
    - Shares in respect of which no readily available fair value exists, are stated in the balance sheet at cost, net of impairment and with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of that same issuer. Unrealized gains or losses on adjustment to changes in observable prices, as stated, are reflected in the statement of income.
- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of a nature other than temporary are reflected in profit and loss.
- Interest income in respect of purchased beneficiary rights (such as asset backed financial instruments of the MBS class), as well as beneficiary rights continued to be held by the Bank as part of securitization of financial instruments, excluding beneficiary rights of a high credit quality, are recognized by the prospective interest method, while adjusting the rate of interest used for the recognition of interest income to changes in assessment of future cash flows. In this respect, high credit quality of beneficiary rights are beneficiary rights issued under guarantee of the US Government or by US Government agencies, as well as asset backed securities the international credit rating of which is at least "AA".
- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.
- The cost of realized securities is based on the "first in first out" method.
- See Item (7) hereunder regarding the computation of fair value.
- See Item (9) hereunder regarding the treatment of impairment of a nature other than temporary.

**(7) Derivative Financial Instruments including hedge accounting**

The Bank holds derivative financial instruments for the purpose of hedging exposure to certain risks (such as: interest risk, foreign currency risk) as well as derivatives not used as hedge, including separated embedded derivatives. As a general rule, derivatives are initially recognized at fair value. Following initial recognition, the derivatives are measured at fair value, changes in fair value being treated as described hereunder:

**Hedge accounting**

The Bank is exposed to interest risk stemming from its investments in fixed interest bonds. As part **of** the general strategy of the Bank for the management of exposure level to this risk, the Bank designates certain financial instruments as **fair value** hedge.

At date of beginning the hedge relations, the Bank formally documents the hedge relations and the purpose of its risk management and strategy for conducting the hedge. Documentation includes identification of each of the following: the hedge instrument, the hedged item or transaction, the substance of the hedged risk, and the method to be used by the Bank for the assessment of the effectiveness of the hedge relations, offsetting exposure to changes in fair value of the hedged item (in a fair value hedge) attributed to the hedged risk.

**Fair value hedge**

The Bank designates derivative instruments as hedge for exposure to changes in fair value of an asset or liability, or an identified part thereof, which may be attributed to a certain risk.

Where a derivative instrument is used as a hedge instrument for fair value, the changes in its fair value included in the assessment of the effectiveness of the hedge, are recognized on a current basis in profit and loss and are presented in the same item in which the effect of the hedged item is presented. The profit or loss (namely, the changes in fair value) in respect of the hedged item that is attributed to the hedged risk, is treated as adjustment to the book value of the hedged item, and is recognized on a current basis in profit and loss. The adjustment to the book value of the hedged item shall be treated in a similar manner to other components of its book value.

The Bank ceases to apply hedge accounting when: the criteria for the application of hedge accounting no longer exist, the derivative instrument expires, is sold, cancelled or is realized, or when the Bank cancels the designation of the hedge relations.

**Economic hedge**

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur and are presented in the item "non-interest financing income".

**Derivative instruments not used for hedge standing on their own**

Derivative instruments not used for hedge purposes and which are standing on their own, are measured at fair value and presented in the balance sheet in items of assets or liabilities in respect of derivative instruments. Changes in their fair value are recognized on a current basis in profit and loss and presented in the item "non-interest financing income".

**Embedded derivative instruments that were separated and not used for hedge**

Embedded derivative instruments are separated from the host contract and treated separately as derivative instruments in accordance with sub-item 815-10 of the Codification, when: (1) the economic characteristics and the risks of the embedded derivative instrument are not clearly and closely connected to the economic characteristics and risks of the host contract; (2) the instrument involved is not remeasured on the basis of its fair value in accordance with other suitable accepted accounting principles, together with the recognition of changes in fair value in profit and loss as they occur; and (3) a different instrument having the same terms of the embedded derivative instrument agrees with the definition of a derivative.

In certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss. The said election is made upon acquisition of the hybrid instrument or when certain events occur in which the instrument is subject to remeasurement (a remeasurement event), such as a business combination or material changes taking place in the debt instrument. Election of measurement according to fair value, as stated, is irrevocable and is made in respect of each instrument separately.

**(8) Fair value determination of financial instruments**

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. Sub-item 820-10 of the Codification details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

### Securities

The fair value of trading securities, available-for-sale bonds and of shares not held for trading is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that same quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the position of the Bank relatively to the volume of trading (the block holding factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like). Excluding shares not held for trading that have no readily available fair value and are measured as detailed in item (6) above.

### Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

### Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and non-tradable securities) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts.

### Evaluation of credit risk and of nonperformance risk

FAS 157 (ASC 820) requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

## (9) Impairment of financial instruments

### Securities - bonds available for sale or which are held to maturity

As of each reporting date, the Bank examines whether impairment of a nature other than temporary has occurred with respect to the fair value of bonds classified to the available-for-sale portfolio and to the held to redemption portfolio.

During a reporting period, the Bank recognizes impairment of a nature other than temporary, at least regarding any bond to which one or more of the following conditions apply:

- A bond that had been sold prior to date of publication of the report for the relevant period;
- A bond, which proximate to the date of publication of the report for the relevant period, the Bank intends to sell within a short period of time;
- A bond, the rating in respect of which was significantly lowered from its level at date of purchase by the Bank to its rating level at date of publication of the report for the relevant period. For this purpose, a material downgrade will be considered if the security's rating was lowered below investment rating;

- A bond, which subsequent to its purchase has been classified by the Bank as "troubled";
- A bond, in respect of which a default in payment occurred subsequent to its purchase;
- A bond, the fair value of which at the end of the reporting period and at a date proximate to the publication of the financial report was lower at the rate of over 40% than its cost (in case of a bond - its written-down cost), and the period in which the fair value of the bond was lower than its cost exceeds three consecutive quarters. This, unless the Bank has objective and solid evidence as well as a careful analysis of all relevant factors, which indicate at a high level of assurance, that the decrease in value is of a temporary nature.

Furthermore, the examination as to whether the impairment is of a nature other than temporary is based on the following considerations:
- Deterioration in the condition of the issuer or in market condition as a whole;
- The intention and ability of the Bank to hold the bond for a long enough period allowing the recovery of fair value of the bond or until maturity;
- The rate of return to maturity;

When impairment of a nature other than temporary occurs, the written down cost of the bond is written-down to its fair value, which serves as a new cost basis. The cumulative loss pertaining to a bond classified as available-for-sale, which in the past was reflected in a separate item of shareholders' equity within the framework of other comprehensive profit, is recorded in profit and loss when in respect of which, impairment that is not of a nature other than temporary is recognized. Increases in value in subsequent periods are recognized as a separate item of shareholders' equity within the framework of other cumulative comprehensive profit and are not reflected in profit and loss (new cost basis).

**Securities - shares that have no readily available fair value**

In each reporting period, the Bank performs a qualitative assessment, which takes into account impairment indicators in order to estimate whether impairment has occurred regarding the investment in shares that have no readily available fair value. Where, according to such assessment, impairment of the investment in shares has occurred, the Bank assesses the fair value of the investment for the purpose of determining the amount of loss on impairment.

**Credit to the public and outstanding debt**

See Item (5) above.

**(10) Offsetting of financial assets and liabilities**

The Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

a. In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
b. Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
c. Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

Furthermore, the Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

**(11) Transfers and service of financial assets and the settlement of liabilities**

The Bank applies the measurement and disclosure rules determined within the framework of the instructions of Sub-Item 860-10 of the Codification in the matter of transfer and service of financial assets for the purpose of treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: the transfer of a financial asset in entirety, of a group of financial assets in entirety, or of a participating interest in a financial asset in entirety, by which the transferor bank waives control over the said financial assets, is recorded as a sale, if and only if, all the following conditions exist: (1) the transferred financial assets had been isolated from the transferor and are beyond the reach of the transferor and his creditors also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset has the right to pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which also grants the transferor a larger than just a trivial benefit; and (3) the transferor does not retain effective control over the transferred financial assets.

In the event that the Bank performs a transfer of a part of an entire financial asset, the Bank examines as to whether such transfer conforms to the definition of a participating interest. A participating interest has all the following characteristics: (a) from date of transfer onwards, it represents a pro-rata ownership right in the entire asset; (b) from date of transfer onwards, all cash flows received from the entire financial asset are divided proportionately among holders of the participating interest, in amounts equal to their share in ownership; (c) the rights of all holders of participating interests (including the transferor in his role as a holder of a participating interest) have identical priority, and no right of any holder of a participating interest is inferior to the right of another holder of a participating interest; and (d) no party has the right to pledge or change the entire financial asset, unless all holders of participating interest agree to pledge or exchange the entire financial asset.

To the extent that the transfer fulfills the conditions for recording it as a sale, the Bank removes the transferred financial assets and recognizes at fair value the assets received and the liabilities created as a result of the sale (assets received and liabilities created). The difference between the fair value of the net receipt and the book value of the financial assets sold is recognized in the statement of profit and loss.

In the event that the transfer does not conform to the terms of a sale, as stated above, or if a transfer of a part of an entire financial asset does not conform to the definition of a participating interest, then the said transfer is treated as a secured borrowing with a pledge of collateral. The Bank continues to record in the balance sheet the financial assets transferred, with no change in the measurement thereof.

Furthermore, in accordance with an update to Bank of Israel instructions regarding the improved use of financial statements for the years 2017 and 2018, the disclosure requirements regarding syndication transactions were updated. See Note 29 regarding "Additional information regarding credit risk, credit to the public and provision for credit losses".

**Settlement of liabilities**

The Bank deletes a liability if, and only if, that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

**Transactions regarding the lending of securities managed as credit transactions**

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

Treatment of non-secured lending of securities held in the available-for-sale portfolio or in the trading portfolio.

On the day that the Bank lends securities to cover short sales by the borrower, the Bank deletes the securities on loan, recognizing credit granted in the amount of the market value of the securities on the lending day. In following periods, the Bank measures the credit granted in the same manner in which the securities had been measured prior to the lending thereof. The credit is measured at market value. Income on an accrual basis in respect of such securities is recognized as interest income from credit and changes in market value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the trading portfolio, or as part of other comprehensive profit, in the case of available-for-sale bonds. Upon the termination of lending, the Bank recognizes again the securities and deletes the credit.

**Treatment of non-secured borrowing of securities**

The non-secured borrowing of securities by the Bank is recorded on the borrowing date as a deposit, at the fair value of the securities received on the borrowing day. The securities received are recognized in the "Securities" item and are classified to the trading portfolio. So long as the Bank does not short sell the security borrowed, the Bank records at each reporting period the difference, whether positive or negative, between the market value of the security at the reporting date and the balance recorded as a deposit from the public (or other deposit if the borrowing was not from the public). Changes in this item in the reported period stemming from changes in market value of the security are recorded as "non-interest financing income" (these changes offset the gains or losses recorded in profit and loss in respect of the security which was not as yet short sold).

When the Bank short sells a borrowed security, the Bank examines at any reporting date, whether the difference between the market value of the short sold security at the reporting date and the balance in respect of the non-secured borrowing transaction included in deposits from the public (or in other deposits if the borrowing was not from the public) is positive. In the case that the said difference is positive, it is recognized and reported as "non-interest financing income" in profit and loss.

### (12) Fixed assets (buildings and equipment)

**Recognition and measurement**

Fixed asset items, including investment real estate, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.

Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.

Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item “Other income” in the statement of profit and loss.

**Depreciation**

Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the useful lives of the assets. Land owned by the Bank is not depreciated.

An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.

Assessment of the useful lives of assets for the reported and comparative periods is as follows:

| | | | |
|---|---|---|---|
| - | Buildings and land | - 25-50 | years |
| - | Furniture and equipment | - 7-17 | years |
| - | Motor vehicles | - 5 | years |
| - | Leasehold improvements | - 7-18 | years |
| - | Information technology equipment | - 3-8 | years |

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined when events or changes in circumstances indicate that the present assessments are no longer applicable, and are modified, where required.

**Impairment**

The Bank tests noncurrent assets (or group of assets) for impairment when events or changes in circumstances indicate that the written down cost may not be recoverable.

For the purpose of examination and measurement of impairment, the Bank groups together an asset (or a group of assets) with other assets and liabilities at the lowest level possible which produces cash flows that are not dependent on cash flows produced by other groups of assets and liabilities. Recognized losses on impairment are taken only to the asset (or group of assets) to which Item 360 of the Codification applies.

Losses on impairment are recognized only if the book value of a noncurrent asset (or group of assets) is not recoverable and exceeds its fair value.

Book value is considered irrecoverable if it exceeds the total noncapitalized cash flow expected to be derived from use of the noncurrent asset (group of assets) and its disposal.

Loss on impairment amounts to the difference between the book value of the noncurrent asset (or group of assets) and its fair value, and is reflected in the statement of profit and loss.

When a loss on impairment is recognized, the adjusted book value of the noncurrent asset (or group of assets) comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the noncurrent asset occurs.

**(13) Leasing**

Contracts which grant the Bank control over the use of an asset within the framework of a lease for a period of time in return for consideration are treated as leases. Upon initial recognition, a liability is recorded in the amount equal to the present value of the future lease payments over the lease period (these payments do not include variable lease payments), and in parallel, a right of use asset is recognized in the amount of the liability in respect of the lease, adjusted for lease payments paid in advance or accrued, and net of lease incentives, with the addition of accrued direct expenses in respect of the lease.

The lease period is determined as the period in which the lease may not be terminated, together with periods covered by an option for extension or for termination of the lease, where it is reasonably certain that the lessee would exercise or not exercise the option, respectively, and together with periods covered by an option to extend or not to terminate the lease, where the right to exercise the option is controlled by the lessor.

The Bank has elected to apply the practical mitigation according to which short-term leases of up to one year are treated in a way that the lease fees are recognized in profit and loss by the "straight line" method, over the period of the lease, with no recognition of a right of use asset and/or a liability in respect of the lease in the financial condition report.

In the case of lease of land and buildings, the land and buildings components are tested separately for the purpose of classification and measurement, where a significant consideration in classifying the land component is the fact that generally land has an indeterminate lifespan.

The Bank has elected to apply the practical mitigation of not separating from the lease components, those components that do not comprise a lease, such as services or maintenance, treating them as one lease component.

### Consecutive measurement

Following the initial recognition, a liability in respect of an operating lease is measured at amortized cost in accordance with the effective interest method. Likewise, the Bank tests a right of use asset (in respect of both operating and financial leases) for the purpose of impairment in accordance with sub-item 360-10-35 of the Codification regarding impairment of fixed assets.

### Operating lease payments

The lease payments, excluding variable lease payments, are recognized in profit and loss according to the "straight line" method, over the period of the lease. Lease incentives received are recognized as an integral part of total lease expenses according to the "straight line" method, over the period of the lease. Variable lease payments dependent on the CPI or on the interest rate, are recognized in profit and loss in the lease period. Variable lease payments not dependent on the CPI or on the interest rate, are recognized in profit and loss in the period in which it is expected that the specific target leading to changes in the lease payments would be reached, and these would be cancelled in the period in which it is no longer expected that the specific target would be reached.

At each consecutive reporting date, the right of use asset is recognized in the amount of the amortized cost of the liability in respect of the lease, adjusted for lease payments paid in advance or which had accrued, net of lease incentives and with the addition of not yet amortized direct costs, net of losses on impairment accrued in respect of the right of use asset.

## (14) Intangible assets

### Costs of software for own use

Software purchased by the Group is measured at cost, which generally includes the cost of the transaction, less accumulated amortization and losses on impairment.

The Bank capitalizes costs related to software development for internal use only when: (1) the preliminary stage of the project had been completed; and (2) Management, having the appropriate authority, has approved and has committed to finance, directly or indirectly, the project for the development of software and it is expected that the development would be completed.

Upon development or obtaining software for own use, the Bank capitalizes the following costs: direct costs of materials and services consumed, cost of payroll for employees directly connected with the development or obtaining the software. Other costs incurred in respect of development work and costs in the preliminary stage of the project, are recognized in profit and loss as incurred.

### Subsequent costs

The cost of upgrading and improvement of software for internal use is capitalized only if it is expected that the incurred costs would lead to additional functionality. Other subsequent costs are recognized as an expense as incurred.

### Amortization

Intangible assets created by software projects are amortized to profit and loss by the "straight-line" method over the estimated useful life of the software, beginning with the date on which the software is ready for its intended use. In this respect, software is ready for its intended use when all material examinations thereof have been completed.

Assessment of the useful lives of software costs for the reported and comparative periods is five years.

The assessments regarding the useful lives of intangible assets having a defined lifespan are re-examined on a periodic basis in order to determine whether events or circumstances justify a change in the remaining amortization period, which is accordingly adjusted, where required.

### Impairment

The Bank tests for impairment intangible assets having a determinable lifespan, when events or changes in circumstances occur, indicating that the written down cost may not be recoverable. Losses on impairment are recognized only if the book value of the intangible asset is irrecoverable and exceeds its fair value. The book value is considered irrecoverable if it exceeds the total cash flows in noncapitalized values, expected to be derived from the use of the asset and its final disposal.

Loss on impairement amounts to the difference between the book value of the intangible asset and its fair value, and is reflected in the statement of profit and loss.

When a loss on impairment is recognized, the adjusted book value of the intangible asset comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the intangible asset occurs.

Hereunder are examples of events or changes in circumstances indicating impairment of in-house development costs of computer software:

1. It is not anticipated that the software will provide significant potential services;
2. A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
3. A material change in the software was performed or would be performed in the future;
4. The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;

When it is no longer expected that development of the software would be completed, the Bank adjusts the book value of the software so that its amount would be the lower of its book value or its fair value, net of sale costs. In this respect, a disputable assumption exists that the fair value of the software in such a case is worthless.

**(15) Employee rights**

**Post-retirement benefits - pension, severance compensation and other benefits (hereinafter -"compensation") - defined benefits plans**

Pension benefits comprise a part of the compensation payable to an employee in return for his services. In a defined benefit pension plan, the Bank is committed to provide, in addition to current wages, severance compensation upon retirement or termination of employment. On a general level, the amount of benefit payable is dependent on certain future events included in the benefit formula of the plan, which often includes the number of years of service of the employee and the compensation earned by him in the years immediately prior to his retirement or termination.

The net cost of pension for a period is the amount recognized in the financial statements of the Bank as the cost of the pension plan for a given period. The component of the net cost of pension for the period are the cost of service, the cost of interest, the actual return on assets of the plan, profit or loss, amortization of cost or credit in respect of prior service, and the amortization of an asset or liability in respect of the transition existing at date of initial implementation, in accordance with the public reporting instructions. The term "net pension cost for the period" is used instead of "net pension expense for the period", due to the fact that a part of the recognized cost for the period might be capitalized together with additional costs as part of an asset, for example: software for internal use.

In this respect, profit or loss is the amount of (1) the difference between the actual return on assets of the plan and the forecasted return on the assets of the plan, and of (2) the deduction of the net profit or loss recognized in other cumulative comprehensive earnings.

Pension benefits are generally attributed to periods of service of an employee, based on the benefit formula of the plan, to the extent that the formula states such attribution or that attribution is inferred there from.

The Bank computes the forecasted long-term return on the assets of the plan using historical rates of return over a long period of time relating to a portfolio having a similar composition of assets. For this purpose, the Bank uses available market data as regards each of the significant categories of assets in the portfolio, and averages them in accordance with the composition of the plan's assets.

The commitment in respect of the forecasted benefit reflects the present actuarial value of all benefits attributed to the service of the employee provided prior to balance sheet date. The measurement of this commitment is based on appropriate actuarial assumptions at date of the balance sheet of the Bank (for example: replacement, mortality, discounting rates etc.) as well as population census data as of that date.

In the event that the commitment in respect of the forecasted benefit exceeds the fair value of the plan's assets, the Bank recognizes in the balance sheet a liability equal to the amount of the unfunded commitment in respect of the forecasted benefit. Where the fair value of the assets of the plan exceed the commitment in respect of the forecasted benefit, the Bank recognizes in the balance sheet an asset in an amount equal to the overfunded amount in respect of the forecasted benefit.

The Bank collects together the positions of all overfunded plans and recognizes this amount as an asset in the balance sheet. Similarly, the Bank collects together the positions of all under-funded plans and recognizes this amount as a liability in the balance sheet.

The Bank reviews its assumptions on a quarterly basis and revises such assumptions accordingly.

A change in the value of a commitment in respect of a forecasted benefit or in the value of assets of a plan, stemming from actual experience, which is different from the forecast, or which stems from a change in the actuarial assumptions, constitutes "profit or loss" (hereinafter - "actuarial profit or loss"). Actuarial profits or losses are not recognized as part of the net cost of pension for the period when incurred, but are recognized in other comprehensive earnings. In following periods, such profits or losses are later recognized in profit and loss as a component of the net cost of pension for the period according to the "straight line" method over the remaining average period of service of the employees expected to enjoy the benefits under the plan.

The Bank recognizes losses in respect of settlements effected under its defined benefit programs, when the expected one-time payments related to the program would be higher than the total cost of the service and the cost of the annual interest. The amount of the loss is calculated in accordance with the percentage of the rate in which the actuarial liability declined as a result of the settlement, multiplied by the balance of the actuarial profits and losses accumulated in other comprehensive earnings.

The discounting rate regarding the benefits to employees is computed on the basis of the return on Israeli government bonds with the addition of the average spread on corporate bonds rated AA (international) and above, at reporting date. For practical considerations, the spread is determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity, for the same maturity periods, on US government bonds, everything at date of reporting.

The Bank follows the guidelines of the Supervisor of Banks regarding internal control over the financial reporting process in the matter of employee rights, including the matter of examining a "commitment in substance" to grant its employees benefits in respect of enlarged severance compensation.

**Post-retirement benefits - defined deposit plan**

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, and defines the manner of deposits made to the account of the employee instead of determining the amount of benefits to be paid to the employee. In the post-retirement defined deposit plan, the benefits that the participant in the plan would receive are dependent only on the amount deposited into the account of the participant in the plan, on the return accumulated of the assets of such deposits, and on the forfeiture of benefits of other participants that might be allocated to the account of that participant.

Where it is required that the defined deposits of a plan to the account of a person shall be made for periods in which this person provides services, the net cost of pension or the net cost of other post-retirement benefit for the period, shall be the required deposit for that period.

The commitment of the Bank for the payment of severance compensation in accordance with Section 14 of the Severance Compensation Act is treated as a defined deposit plan.

**Other post-retirement benefits**

The Bank recognizes the non-discounted amount of the current benefit at the date of granting the service. In addition, the Bank accumulates the liability during the relevant period, which is determined in accordance with the rules applying to other post-retirement benefits.

**Paid leave of absence**

The Bank accumulates a liability in respect of compensation of employees during future periods of leave of absence, if all the following conditions exist: (a) the commitment of the Bank regarding the right of employees to receive compensation in respect of future periods of leave of absence is attributed to services already provided by the employees; (b) the commitment relates to vesting or accumulated rights; (c) payment of the compensation is expected; (d) the amount may be reasonably estimated.

Vacation - the Bank accumulates the liability over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are not taken into account. All components of the cost of the benefit for the period are immediately recognized in profit and loss.

Sick leave - no liability is being accumulated in respect of paid sick leave.

**Award payable at termination of employment in respect of unutilized sick leave**

The Bank accumulates this liability as leave of absence entitled to compensation over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss. In determining the discounting rate of interest and the manner of allocation to periods of cost of the service, the Bank applies the rules applying to defined benefits pension plans, with the required modifications.

**Other long-term benefits to active employees - seniority awards**

The liability is accumulated over the period entitling to the benefit. For the purpose of computing the liability in respect of such benefit, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss.

**(16) Contingent Liabilities**

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

1. Probable - prospects of risk materializing are of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
2. Reasonably possible - prospects of risk materializing are between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.
3. Remote - prospects of risk materializing are below 20%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, the Bank does not include a provision in this respect.

Note 25 regarding contingent liabilities and special commitments include a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Furthermore, disclosure is provided in respect of any claim the amount of which exceeds 1% of the equity of the Bank. Disclosure is also provided in respect of claims, the results of which cannot be estimated at this stage, and which amount exceed 0.5% of the equity of the Bank.

### (17) Guaranties

A guaranty constitutes a contract contingently requiring the guarantor to make payments to the guarantee when conditions which require the realization of the guaranty materialize. A liability in respect of a guaranty is recognized in the books in the amount of its fair value, even if it is not expected that the guaranty would be realized in the future. In cases where upon initial recognition, the Bank is required to recognize a provision for a contingent loss in respect of a guaranty, in accordance with Item 450 of the Codification, the liability in respect of the guaranty is measured at date of initial recognition at the higher of the fair value and the amount of the provision according to the rules of Item 450 of the Codification.

The liability is removed from the books at date on which the Bank is released from the risk. The date of release from risk in respect of the guaranty depends on the substance of the guaranty. In general, the Bank removes the liability on date of settlement of the liability. Where the guarantee is measured at date of initial recognition in accordance with the rules of Item 450 of the Codification, the following measurement is also performed in accordance with the rules of Item 450 of the Codification.

The rules with respect to the recognition and measurement at date of initial recognition do not apply to guaranties issued between a parent company and a subsidiary, between two sister companies or between the owner of a company and the company.

### (18) Income Tax Expense

The financial statements of the Bank include current and deferred taxes.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

The Bank allocates the tax expense or the tax benefits between continuing operations, discontinued operations, other comprehensive income and other items directly recognized in equity.

#### Current taxes

Current taxes are the amount of taxes on income paid or payable (or refundable) in respect of the current period, as determined by the tax laws enacted with respect to taxable income. The current tax expense includes also changes in tax payments relating to prior years.

#### Deferred taxes

Deferred tax liabilities and deferred tax assets represent the future implications on taxes on income stemming from temporary differences and carry forward losses at end of a period.

The Bank recognizes deferred tax liabilities with respect to all taxable temporary differences except for the following temporary difference: retained earnings of a domestic subsidiary, which in substance are for a permanent period of time; and differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all tax-deductible temporary differences and carry forward losses, and concurrently recognizes a separate valuation allowance in respect of that amount included in the value of an asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assets by the amount of any tax benefits that are not expected to be realized, based on available evidence - both positive evidence supporting recognition of a deferred tax asset and the negative evidence supporting the creation of a valuation allowance in respect of a deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

Deferred tax liabilities or deferred tax assets are measured using the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.

The Bank classifies interest income and expenses with respect to taxes on income and penalties payable to the Tax Authorities to the Item "Taxes on income".

**Offsetting deferred tax assets and liabilities**

The Bank offsets all deferred tax assets against all deferred tax liabilities as well as all valuation allowances related to a particular taxable component and within the jurisdiction of a particular tax authority.

**Uncertain tax positions**

The Bank applies the recognition, measurement and disclosure rules stated within the framework of FIN 48. In accordance with these rules, the Bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

**(19) Earnings per share**

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

**(20) Segment Reporting**

(a) **Regulatory segments of operation**

A regulatory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the Supervisor of Banks. The format of reporting on the regulatory segments of operation of the Bank was set in the Public Reporting Directives of the Supervisor of Banks.

A regulatory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between minute and small businesses, middle market and corporate businesses), institutional bodies and the financial management segment. In addition, the Bank is required to implement the disclosure requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the regulatory business segments.

(b) **Segments of operation according to Management's approach**

In addition to the uniform reporting in accordance with regulatory segments of operation, the letter requires disclosure on segments of operation according to Management's approach in accordance with accounting principles accepted by US banks in the matter of business segments (included in ASC 280) (see note 28A to the report).

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The classification of business segments at the Bank is based on the characterization of customer segments. Such segments include also banking products.

**(21) Transactions with controlling parties**

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

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

### (1) Adoption of updates to accounting principles accepted by US banks

On November 30, 2020, Bank of Israel issued a public reporting instruction in the matter of "implementation of US accepted accounting principles regarding expected credit losses". In accordance with the letter, it is required to apply the accounting principles accepted by US banks in the matters of: provisions for credit losses; financial instruments, including derivative instruments and hedge operations; as well as leasing. The initial application shall be made in accordance with transitional instructions determined in the US principles.

The letter adopts the US accepted accounting principles in the matter of provisions for expected credit losses, published within the framework of updating the ASU2016-13 Standard. The aim of the new rules is to improve the reporting quality regarding the financial condition of banking corporations, by means of advancing the recording of provisions for credit losses, in a manner that fortifies the anti-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 to strengthen the bond between credit risk management and the manner in which such risks are reflected in the Financial statements, while being based on existing systems and processes.

The Standard is to be applied by a banking corporation as from January 1, 2022 and thereafter, and by a clearing agent as from January 1, 2023 and thereafter. Upon initial application the banking corporation and the clearing agent shall act in accordance with the transitional instructions determined by accounting principles accepted by US banks, mutatis mutandis.

The principal changes expected in the accounting treatment in financial statements of banking corporations following the application of the above rules, are, inter alia: the provision for credit losses would be computed according to the expected loss over the life of the debt, instead of assessment of the loss incurred but not yet identified; in assessing the provision for credit losses, significant use is to be made of forward looking information reflecting reasonable forecasts of future economic events; disclosure would be expanded regarding the effect of the date on which credit had been granted on the credit quality of the credit portfolio; the way in which impairment of available-for-sale bonds is recorded would be changes; as well as the new rules for the computation of the provision for credit losses would apply to credit (including residential loans), bonds held to maturity, and of certain off-balance sheet credit exposure.

On November 30, 2020, the Supervisor of Banks published a letter in the matter of "supervisory capital – effect of application of accounting principles regarding expected credit losses". The letters stated transitional instructions applying to the effect of initial adoption of the new accounting rules in the matter of expected credit losses, and this, in order to reduce the unexpected impact of the application of the rules upon the supervisory capital, in accordance with guidelines of the Basel Committee for the Supervision of Banks and the supervisory authorities in the US and in other countries around the world.

In addition to the above, the Supervisor of Banks published on February 2, 2021, a letter in the matter of "expected credit losses on financial instruments", within the framework of which, the requirement for a collective provision in respect of residential loans at a minimum rate of 0.35% had, inter alia, been cancelled, as well as was the requirement for a minimum provision in accordance with the length default period. Furthermore, additional amendments to the instructions had been added, according to which banking corporations are required to deduct from the Tier I equity capital amounts in respect of residential loans classified over a period of time as non-accruing interest.

The Bank is preparing for the implementation of the instruction. These preparations include, inter alia: the mapping of the new instructions and their possible implications on the Bank; review of the practices in effect at present for the management of credit risk and for the assessment of the provision for credit losses, in order to identify processes that might be used for the purpose of the implementation of the new rules. Identification of the challenges and the way to face them, as well as examination of the changes required to adapt the models for the assessment of credit losses.

**(2) 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 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 considers that application of the rules is not expected to have a material effect upon its financial statements.

**(3) Amendment of Standard ASU 2018-13 regarding changes in disclosure requirements for fair value measurement**

On August 28, 2018, the US Financial Accounting Standards Board (FASB) published ASU 2018-13 regarding the disclosure framework - changes in disclosure requirements of fair value valuation, which comprises an update of Item 820 of the Codification in the matter of fair value measurement (hereinafter -"the Update").

The purpose of the Update is to improve effectiveness of disclosure in notes to the financial statements, as well as reduce the costs involved in the preparation of the required notes.

The changes contained in the Update delete useless disclosure, clarify specific disclosure requirements and add disclosure requirements identified as relevant.

The rules of the Update shall apply to public entities in the United States, starting with the annual periods beginning after December 15, 2019. In accordance with a letter of the Supervisor of Banks regarding "improving the usefulness of reports to the public by banking corporations for the years 2019 and 2020", which had been formed on the basis of the update of Standard 2018-13 of the Codification, the date of application had been deferred to January 1, 2021. Earlier adoption is permitted, including in interim periods. Upon initial application it is required to apply the changes by way of retroactive application, except for the added requirements as well as the updated disclosure requirement regarding uncertainty in the measurement of fair value at level 3, in respect of which application is by way of "from now onwards".

The Bank considers that the application of the instructions is not expected to have a material effect upon the financial statements.

## F. Effects of the Coronavirus crisis

Approximately one year following the first outbreak of the Coronavirus and its spreading around the world, a renewed outbreak is observed around the world, particularly in view of the emergence of mutation causing quicker contamination. This continues to present difficulties in forecasting the exact time for the recovery of economies globally and the return to normality. A part of the countries around the world are imposing lockdowns, and a third lockdown was imposed in Israel in December, which has been tightened with the rise in level of morbidity. Certain countries, including Israel have started to provide vaccination, with the anticipation in Israel that the vaccinations would allow the beginning of return to some sort of careful normality, as from the end of the first quarter of 2021, and thereafter. In general, the year 2020 has ended demonstrating economic recovery globally, following the steep decline in economic activity in the first half of the year. In continuation of the fiscal policy and expansionary monetary policy, a faster recovery from the crisis is anticipated in comparison with forecasts of the previous quarter, though uncertainty still exists, depending on the pace of vaccination as compared with the growing contamination, leading to considerable differences in forecasting the rates of growth of the different economies in the coming years.

The spreading of the virus leads to a material deterioration in activity of the Israeli economy, to which the activity of the Bank is exposed, and which may have additional implications on the business of the Bank, including an additional increase in credit risk and liquidity difficulties of borrowers, both in the business sector and in the private sector, and in respect of the slowdown in economic activity. Furthermore, the reduction in interest rates by the central banks in the short-term has the effect of reducing financing income. From aspects of operation and of business continuity, the Bank has adopted during the year a series of moves and measures, including work distancing, dilution/splitting of units, changes in the mode of operation of branches and activity with customers, deferral of loan and mortgage repayments, and more.

On background of the spreading of the Coronavirus and in order to secure the ability of banks to continue the offer credit, the Supervisor of Banks reduced on March 31, 2020, the capital requirements of banks, as part of a provisional instruction in effect for a period of six months, with the possibility for extension. On September 16, 2020, the Supervisor of Banks issued an update, which includes an extension of the provisional instruction for an additional period of six months.

An instruction within the framework of the provisional instruction was published on November 15, 2020, by which, the leverage ratio requirement was reduced by one half percentage point (from 5% to 4.5%), in effect until March 31, 2021, when following the termination of the mitigating period, an additional period of twenty-four months shall apply, provided that the leverage ratio shall not be lower than the ratio at the end of the instruction period, or the minimum leverage ratio required prior to the application of the provisional instruction, whichever is lower. On March 7, 2021, the Bank of Israel published a draft amendment of the directive, according to which, the period of the provisional instruction will be extended, in respect of most of the reliefs, by additional period of six months, until September 30, 2021.

For additional details regarding instructions by the Supervisor of Banks, capital adequacy and dividends, see Note 24A below.

Due to the crisis, the Bank has decided to increase the collective provision, by way of updating the qualitative adjustments in the calculation of the collective provision, in order reflect the uncertianty that may materialize in the future by incraesing the specific provision. In 2020, following the spreading of the virus and the impact on economic condition, the Bank recorded expenses in respect of credit losses of NIS 436 million. These expenses include an increase of NIS 402 million in the volume of the collective provision and an increase of NIS 34 million in the specific provision.

It is noted in this respect, that in the wake of the Corona event, until December 31, 2020, the Bank had deferred loan repayments (principal and/or interest), which according to subsection C (2) above, had not been classified as restructure of a troubled debt, in the amount of NIS 125 million.

As stated, at this stage it is not possible to assess in full the impact of the event on the Bank and its scope, due to the uncertainty regarding the duration of the spreading of the virus, potency of measures that would be adopted to stop the spreading, as well as uncertainty with respect to derivative effects on economic activity, trends in the capital markets and different financial measures taken in the matter by governments, central banks and regulators.

# NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

| | | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|---|
| | | For the year ended December 31 | | | For the year ended December 31 | | |
| | | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| **A.** | **Interest income (expenses)** (1) | | | | | | |
| | From credit to the public | **2,702** | 2,797 | 2,764 | **2,473** | 2,565 | 2,102 |
| | From credit to the Government | **(4)** | 2 | 4 | **-** | - | - |
| | From deposits with banks | **5** | 23 | 14 | **3** | 25 | 18 |
| | From deposits with Bank of Israel and from cash | **49** | 68 | 32 | **48** | 66 | 27 |
| | From securities which were borrowed | **-** | 1 | 1 | **-** | 1 | 1 |
| | From bonds | **126** | 194 | 186 | **123** | 190 | 156 |
| | From Investees companies | **-** | - | - | **-** | - | 8 |
| | Total interest income | **2,878** | 3,085 | 3,001 | **2,647** | 2,847 | 2,312 |
| **B.** | **Interest expenses** | | | | | | |
| | On deposits from the public | **202** | 366 | 320 | **190** | 367 | 313 |
| | On deposits from the Government | **3** | 4 | 4 | **3** | 4 | 4 |
| | On deposits from banks | **1** | 4 | 4 | **16** | 21 | 40 |
| | On deposits with Bank of Israel | **1** | - | - | **1** | - | - |
| | On bonds and subordinated capital notes | **33** | 106 | 184 | **42** | 96 | 151 |
| | On other liabilities | **1** | 3 | 3 | **1** | 3 | 3 |
| | Total interest expenses | **241** | 483 | 515 | **253** | 491 | 511 |
| | Total interest income, net | **2,637** | 2,602 | 2,486 | **2,394** | 2,356 | 1,801 |
| **C.** | **Details on net effect of hedging derivative instruments on interest income and expenses** | | | | | | |
| | Interest expenses(2) | **(36)** | (10) | (3) | **(35)** | (9) | (8) |
| **D.** | **Details of interest income from bonds on cumulative basis** | | | | | | |
| | Held to maturity | **31** | 33 | 34 | **31** | 33 | 29 |
| | Available for sale | **95** | 160 | 148 | **92** | 156 | 123 |
| | Held for trading | **-** | 1 | 4 | **-** | 1 | 4 |
| | Total included in interest income | **126** | 194 | 186 | **123** | 190 | 156 |

(1) Including effect of hedging relations (2018 - effective component in hedging relations).
(2) Details of effect of hedging derivative instruments on subsection (A).

# NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| **A. Non-interest financing income (expenses) in respect of non-trading activities** | | | | | | |
| **1. From activity in derivative instruments** | | | | | | |
| Total from activity in derivative instruments(1) | **(694)** | (421) | 571 | **(694)** | (420) | 525 |
| **2. From investments in bonds** | | | | | | |
| Gains from sale of bonds available for sale(2) | **39** | 27 | 7 | **39** | 23 | 5 |
| Losses from sale of bonds available for sale(2) | **(12)** | - | - | **(12)** | - | - |
| Provision for impairment of available-for-sale bonds(2) | **(3)** | (1) | - | **(3)** | (1) | - |
| Total from investment in bonds | **24** | 26 | 7 | **24** | 22 | 5 |
| **3. Net exchange differences** | **794** | 561 | (439) | **794** | 572 | (418) |
| **4. From investment in shares** | | | | | | |
| Gains from sale of shares not for trading(5) | **10** | 2 | (4)79 | **10** | 2 | (4)74 |
| Losses from sale of shares not for trading(5) | **(14)** | - | - | **(14)** | - | - |
| Provision for impairment of shares not for trading(5) | **-** | - | (9) | **-** | - | (3) |
| Dividend from shares not for trading(5) | **16** | 10 | 10 | **16** | 10 | 10 |
| Unrealized gains (losses)(3) | **(11)** | 59 | - | **(11)** | 59 | - |
| Total from investment in shares | **1** | 71 | 80 | **1** | 71 | 81 |
| Total non-interest financing income in respect of non-trading activities | **125** | 237 | 219 | **125** | 245 | 193 |

(1) Excluding effect of hedging relations (2018 - excluding effective component in hedging relations).
(2) Reclassified from 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 gain from the sale of the Stock Exchange shares.
(5) Until December 31, 2018 shares available for sale.

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

(NIS million)

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| **B. Net income (expenses) in respect of non-interest financing activity for trading(3)** | | | | | | |
| Net income in respect of other derivative instruments | **22** | 2 | 11 | **22** | 2 | 10 |
| Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading(1) | **4** | (14) | 2 | **4** | (14) | 1 |
| Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading(2) | **(3)** | - | (1) | **(3)** | - | (1) |
| Total non-interest financing income (expenses) from trading activities(4) | **23** | (12) | 12 | **23** | (12) | 10 |
| Total non-interest financing income | **148** | 225 | 231 | **148** | 233 | 203 |
| **Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure** | | | | | | |
| Interest rate exposure | **7** | - | 3 | **7** | - | 1 |
| Foreign currency exposure | **12** | (18) | 1 | **12** | (18) | 1 |
| Exposure to shares | **4** | 6 | 8 | **4** | 6 | 8 |
| Total | **23** | (12) | 12 | **23** | (12) | 10 |

(1) Of which: profit in respect of trading bonds on hand at balance sheet date NIS 1 million, consolidated and the Bank (2019 – losses in the amount of NIS 1 million, 2018 - non).

(2) No gains/losses 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.

## NOTE 4A - FEES

(NIS million)

Composition:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Account management | **208** | 228 | 244 | **186** | 205 | 175 |
| Credit cards | **101** | 102 | 108 | **90** | 91 | 70 |
| Securities and certain derivative instruments activity | **505** | 405 | 420 | **488** | 388 | 349 |
| Financial products distribution commissions(1) | **110** | 110 | 102 | **105** | 105 | 72 |
| Management, operation and trust to institutional entities | **93** | 95 | 96 | **33** | 32 | 33 |
| Credit handling | **15** | 19 | 19 | **14** | 17 | 15 |
| Conversion differences | **173** | 148 | 148 | **169** | 144 | 127 |
| Foreign-trade activity | **41** | 45 | 47 | **41** | 44 | 43 |
| Commissions from financing activities | **79** | 86 | 90 | **75** | 83 | 81 |
| Other fees | **46** | 48 | 51 | **33** | 35 | 30 |
| Total Fees | **1,371** | 1,286 | 1,325 | **1,234** | 1,144 | 995 |

(1) Mutual and provident funds distribution fees.

## Note 4B - INCOME FROM CONTRACTS WITH CUSTOMERS
(NIS million)

Following is the reconciliation of the income divided to segements of activity according to Management approach:

| Consolidated | | | | | For the year ended December 31, 2020 | |
|---|---|---|---|---|---|---|
| | Banking Division | Corporate Division | Customer Asset Division | Subsidiary companies | Adjustments | Total |
| Account management | **167** | **32** | **6** | **22** | **(19)** | **208** |
| Credit cards | **89** | **4** | **1** | **10** | **(3)** | **101** |
| Securities and certain derivative instruments activity | **345** | **113** | **488** | **21** | **(462)** | **505** |
| Financial products distribution commissions(1) | **104** | **3** | **105** | **5** | **(107)** | **110** |
| Management, operation and trust to institutional entities | **-** | **-** | **93** | **-** | **-** | **93** |
| Credit handling | **2** | **11** | **-** | **11** | **(9)** | **15** |
| Conversion differences | **77** | **68** | **170** | **4** | **(146)** | **173** |
| Foreign-trade activity | **24** | **27** | **1** | **1** | **(12)** | **41** |
| Commissions from financing activities | **23** | **63** | **1** | **3** | **(11)** | **79** |
| Other fees | **37** | **6** | **1** | **6** | **(4)** | **46** |
| Total Fees from contracts with customers | **868** | **327** | **866** | **83** | **(773)** | **1,371** |

| Consolidated | | | | | For the year ended December 31, 2019 | |
|---|---|---|---|---|---|---|
| | Banking Division | Corporate Division | Customer Asset Division | Subsidiary companies | Adjustments | Total |
| Account management | 183 | 36 | 5 | 23 | (19) | 228 |
| Credit cards | 89 | 4 | 1 | 11 | (3) | 102 |
| Securities and certain derivative instruments activity | 281 | 80 | 388 | 20 | (364) | 405 |
| Financial products distribution commissions(1) | 104 | 2 | 104 | 6 | (106) | 110 |
| Management, operation and trust to institutional entities | - | - | 95 | - | - | 95 |
| Credit handling | 3 | 13 | - | 10 | (7) | 19 |
| Conversion differences | 64 | 54 | 144 | 4 | (118) | 148 |
| Foreign-trade activity | 25 | 30 | 1 | 1 | (12) | 45 |
| Commissions from financing activities | 24 | 69 | 1 | 3 | (11) | 86 |
| Other fees | 37 | 9 | 1 | 6 | (5) | 48 |
| Total Fees from contracts with customers | 810 | 297 | 740 | 84 | (645) | 1,286 |

(1) Mutual and provident funds distribution fees.

## NOTE 5 - OTHER INCOME

(NIS million)

Composition:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Capital gains from the sale of building and equipment | **-** | 3 | 69 | **-** | 3 | 4 |
| Other | **4** | 6 | 12 | **45** | 51 | 147 |
| Total other income | **4** | 9 | 81 | **45** | 54 | 151 |

## NOTE 6 - SALARIES AND RELATED EXPENSES

(NIS million)

Composition:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Salaries | **1,027** | 1,087 | 1,190 | **956** | 1,012 | 928 |
| Other related expenses including study funds, vacation and sick days | **127** | 120 | 109 | **122** | 115 | 86 |
| Long-term benefits | **1** | 11 | 4 | **1** | 6 | 1 |
| National insurance and VAT on salaries | **274** | 284 | 291 | **256** | 265 | 222 |
| Pension expenses (including severance pay and allowances)(1): | | | | | | |
| Defined benefit - cost of service | **18** | 17 | 21 | **15** | 13 | 12 |
| Defined deposit | **71** | 69 | 69 | **67** | 65 | 47 |
| Other post-employment benefits and non-pension post-retirement benefits(1)(2) | **14** | 13 | 12 | **12** | 11 | 7 |
| Total salaries and related expenses | **1,532** | 1,601 | 1,696 | **1,429** | 1,487 | 1,303 |

(1) See note 23 regarding "employees benefits".

(2) Of which: cost of service in respect of other post-employment benefits and post-retirement benefit, which are not pension in the amount of NIS 5 million and NIS 4 million consolidated and the bank, respectively (2019 - amounted to NIS 4 million and NIS 3 million, consolidated and the Bank, respectively, 2018- amounted to NIS 4 million and NIS 2 million, consolidated and the Bank, respectively).

## NOTE 7 - OTHER EXPENSES

(NIS million)

Composition:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Pension expenses (including severance pay and allowances), defined benefit (excluding cost of service) | **24** | 24 | 23 | **24** | 23 | 19 |
| Reductions, Dismissals(1) | **26** | 50 | 113 | **24** | 49 | 12 |
| Marketing and advertising | **47** | 63 | 53 | **41** | 56 | 31 |
| Communications | **63** | 65 | 66 | **61** | 62 | 57 |
| Computer | **129** | 129 | 119 | **126** | 126 | 114 |
| Office | **10** | 9 | 11 | **9** | 8 | 7 |
| Insurance | **8** | 5 | 5 | **7** | 4 | 3 |
| Legal, audit and consultancy | **49** | 56 | 58 | **39** | 48 | 35 |
| Directors' fees and fees for participation in meetings | **5** | 6 | 8 | **4** | 4 | 4 |
| Professional instruction and training | **2** | 3 | 5 | **2** | 3 | 3 |
| Commissions | **155** | 112 | 111 | **162** | 118 | 156 |
| Other | **79** | 86 | 84 | **71** | 82 | 67 |
| Total other expenses | **597** | 608 | 656 | **570** | 583 | 508 |

(1) See note 23 regarding "employees benefits".

# NOTE 8 - PROVISION FOR TAXES ON PROFIT
(NIS million)

## A. Composition:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Current taxes in respect of the current year | **552** | 508 | 439 | **497** | 449 | 344 |
| Current taxes in respect of prior years | **(40)** | (5) | (7) | **(38)** | (6) | (2) |
| Total current taxes | **512** | 503 | 432 | **459** | 443 | 342 |
| Addition (deduction): | | | | | | |
| Deferred taxes in respect of the current year | **(144)** | (4) | (27) | **(144)** | (4) | (23) |
| Deferred taxes in respect of prior years | **-** | (21) | 3 | **-** | (21) | - |
| Total deferred taxes* | **(144)** | (25) | (24) | **(144)** | (25) | (23) |
| Total provision for taxes | **368** | 478 | 408 | **315** | 418 | 319 |
| **(*) Deferred taxes** | | | | | | |
| Expenses (income) of deferred taxes before effect of items detailed below | **(145)** | (26) | (25) | **(145)** | (26) | (24) |
| Decrease from carry forward losses | **1** | 1 | 1 | **1** | 1 | 1 |
| Total deferred taxes | **(144)** | (25) | (24) | **(144)** | (25) | (23) |

## NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

(NIS million)

### B. Reconciliation of provision for taxes to the theoretical tax expense

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** |
| Profit before taxes | **1,127** | 1,330 | 1,138 | **969** | 1,175 | 854 |
| Prevailing tax rate | **34.2%** | 34.2% | 34.2% | **34.2%** | 34.2% | 34.2% |
| Tax at the prevailing tax rate | **385** | 455 | 389 | **331** | 402 | 292 |
| Tax (saving) in respect of: | | | | | | |
| Non-deductible expenses | **12** | 17 | 16 | **10** | 15 | 13 |
| Amortization of excess of cost | **-** | - | 1 | **-** | - | - |
| Elimination of taxes computed in respect of the Bank's share in earnings of investee companies. | **-** | - | (2) | **-** | - | 6 |
| Adjustment of statutory tax rate to the tax rate applicable on income of consolidated companies | **-** | (1) | (1) | **1** | - | - |
| Additional amounts to be paid in respect of impaired debts | **9** | 24 | 16 | **9** | 24 | 16 |
| Adjustment and differences of depreciation and capital gain | **1** | 1 | (18) | **1** | 1 | (10) |
| Taxes in respect of prior years | **(40)** | (26) | (4) | **(38)** | (27) | (2) |
| Other differences | **1** | 8 | 11 | **1** | 3 | 4 |
| Provision for taxes on profit | **368** | 478 | 408 | **315** | 418 | 319 |

### C. Tax assessments and additional matters relating to the provision for taxes

(1) In March 2020, the Bank received final tax assessments for the tax years 2014-2017. Consequently, the Bank recorded in the first quarter of the year income from taxes in respect of previous years in the amount of NIS 35 million.

(2) The investee companies have final tax assessments up to and including the tax year 2015.

## NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

### D. Details of deferred tax assets and liabilities – Consolidated

| | Balance as at December 31, 2019 | Changes allocate to profit and loss | Changes allocated to comprehensive profit | Balance as at December 31, 2020 | Average tax rate 2020 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Provision for credit losses | **275** | **130** | **-** | **405** | **34.2%** |
| Provision for vacation pay and other benefits to employees | **117** | **15** | **-** | **132** | **34.2%** |
| Excess liabilities in respect of employee benefits over assets of the scheme | **185** | **10** | **25** | **220** | **34.2%** |
| Carry forward loss for tax purposes | **2** | **(1)** | **-** | **1** | **23.0%** |
| Other | **2** | **(1)** | **-** | **1** | **34.2%** |
| Balance of deferred tax assets, gross | **581** | **153** | **25** | **759** | |
| Provision for deferred tax asset | **(1)** | **-** | **-** | **(1)** | |
| Balance of deferred tax assets after deduction of provision for deferred taxes | **580** | **153** | **25** | **758** | |
| Balance of available for setoff against deferred tax assets | | | | **(78)** | |
| | | | | **680** | |
| **Deferred tax liabilities** | | | | | |
| Adjustment of depreciable non-monetary assets | **61** | **7** | **-** | **68** | **34.2%** |
| Investments in affiliates | **47** | **6** | **-** | **53** | **11.2%** |
| Balance of deferred tax liability, gross | **108** | **13** | **-** | **121** | |
| Balance of available for setoff against deferred tax liabilities | | | | **(78)** | |
| | | | | **43** | |
| Balance of deferred tax assets, net | **472** | **140** | **25** | **637** | |

| | Balance as at December 31, 2018 | Changes allocate to profit and loss | Changes allocated to comprehensive profit | Balance as at December 31, 2019 | Average tax rate 2019 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Provision for credit losses | 271 | 4 | - | 275 | 34.2% |
| Provision for vacation pay and other benefits to employees | 110 | 7 | - | 117 | 34.2% |
| Excess liabilities in respect of employee benefits over assets of the scheme | 162 | (1) | 24 | 185 | 34.2% |
| Carry forward loss for tax purposes | 3 | (1) | - | 2 | 23.0% |
| Other | 3 | (1) | - | 2 | 34.2% |
| Balance of deferred tax assets, gross | 549 | 8 | 24 | 581 | |
| Provision for deferred tax asset | (2) | 1 | - | (1) | |
| Balance of deferred tax assets after deduction of provision for deferred taxes | 547 | 9 | 24 | 580 | |
| Balance of available for setoff against deferred tax assets | | | | (67) | |
| | | | | 513 | |
| **Deferred tax liabilities** | | | | | |
| Adjustment of depreciable non-monetary assets | 59 | 2 | - | 61 | 34.2% |
| Investments in affiliates | 65 | (18) | - | 47 | 11.2% |
| Balance of deferred tax liability, gross | 124 | (16) | - | 108 | |
| Balance of available for setoff against deferred tax liabilities | | | | (67) | |
| | | | | 41 | |
| Balance of deferred tax assets, net | 423 | 25 | 24 | 472 | |

## NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

### D. Details of deferred tax assets and liabilities - The bank

| | Balance as at December 31, 2019 | Changes allocate to profit and loss | Changes allocated to comprehensive profit | Balance as at December 31, 2020 | Average tax rate 2020 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Provision for credit losses | **256** | **127** | **-** | **383** | **34.2%** |
| Provision for vacation pay and other benefits to employees | **112** | **17** | **-** | **129** | **34.2%** |
| Excess liabilities in respect of employee benefits over assets of the scheme | **174** | **11** | **24** | **209** | **34.2%** |
| Carry forward loss for tax purposes | **2** | **(1)** | **-** | **1** | **23.0%** |
| Other | **1** | **(1)** | **-** | **-** | **34.2%** |
| Balance of deferred tax assets, gross | **545** | **153** | **24** | **722** | |
| Provision for deferred tax asset | **(1)** | **-** | **-** | **(1)** | |
| Balance of deferred tax assets after deduction of provision for deferred taxes | **544** | **153** | **24** | **721** | |
| Balance of available for setoff against deferred tax assets | | | | **(78)** | |
| | | | | **643** | |
| **Deferred tax liabilities** | | | | | |
| Adjustment of depreciable non-monetary assets | **61** | **7** | **-** | **68** | **34.2%** |
| Investments in affiliates | **47** | **6** | **-** | **53** | **11.2%** |
| Balance of deferred tax liability, gross | **108** | **13** | **-** | **121** | |
| Balance of available for setoff against deferred tax liabilities | | | | **(78)** | |
| | | | | **43** | |
| Balance of deferred tax assets, net | **436** | **140** | **24** | **600** | |

| | Balance as at December 31, 2018 | Merging a subsidiary | Changes allocate to profit and loss | Changes allocated to comprehensive profit | Balance as at December 31, 2019 | Average tax rate 2019 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Provision for credit losses | 196 | 58 | 2 | - | 256 | 34.2% |
| Provision for vacation pay and other benefits to employees | 80 | 26 | 6 | - | 112 | 34.2% |
| Excess liabilities in respect of employee benefits over assets of the scheme | 120 | 33 | - | 21 | 174 | 34.2% |
| Carry forward loss for tax purposes | 3 | - | (1) | - | 2 | 23.0% |
| Other | 1 | 1 | (1) | - | 1 | 34.2% |
| Balance of deferred tax assets, gross | 400 | 118 | 6 | 21 | 545 | |
| Provision for deferred tax asset | (2) | - | 1 | - | (1) | |
| Balance of deferred tax assets after deduction of provision for deferred taxes | 398 | 118 | 7 | 21 | 544 | |
| Balance of available for setoff against deferred tax assets | | | | | (67) | |
| | | | | | 477 | |
| **Deferred tax liabilities** | | | | | | |
| Adjustment of depreciable non-monetary assets | 60 | 1 | - | - | 61 | 34.2% |
| Investments in affiliates | 60 | 5 | (18) | - | 47 | 11.2% |
| Balance of deferred tax liability, gross | 120 | 6 | (18) | - | 108 | |
| Balance of available for setoff against deferred tax liabilities | | | | | (67) | |
| | | | | | 41 | |
| Balance of deferred tax assets, net | 278 | 112 | 25 | 21 | 436 | |

## NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

**E.** See Note 10B regarding taxes on income recognized outside profit and loss.

### F. Changes in tax legislation

1. **Corporation tax**
   The tax rate applying on the Bank for the years 2018-2020 is 23%.

2. **Profit tax and payroll tax rates**
   Profit tax and payroll tax rate applying to financial institutions for the years 2018-2020 is 17%. Accordingly, the statutorical tax rate applied on financial institutions is 34.2%.

## NOTE 9 - PROFIT PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

| | Number of shares for the years 2020, 2019 and 2018 |
|---|---|
| Shares of NIS 0.05 par value | **100,330,040** |

## NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

### A. Changes in comulative 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 securities in fair value(3) | 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 |
| Balance as of January 1, 2018 | 45 | (174) | (129) | (9) | (120) |
| Net changes during the year | (67) | 24 | (43) | (4) | (39) |
| Balance as of January 1, 2019 | (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 changes during the year | 67 | (49) | 18 | (2) | 20 |
| Balance as of January 1, 2020 | **53** | **(199)** | **(146)** | **(15)** | **(131)** |
| Net changes during the year | **(3)** | **(49)** | **(52)** | **-** | **(52)** |
| Balance as of December 31, 2020 | **50** | **(248)** | **(198)** | **(15)** | **(183)** |

* 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.C.(1).

(1) 2018 - available for sale securities.

## NOTE 10 - 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 year ended December 31, 2020 | | | For the year ended December 31, 2019 | | | For the year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Before tax | Tax effect | After tax | 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 non-controlling interests** | | | | | | | | | |
| **Adjustments in respect of available for sale securities presentation according to fair value**(3) | | | | | | | | | |
| Unrealized net gains (losses) from adjustments to fair value | **122** | **(42)** | **80** | 238 | (81) | 157 | (92) | 32 | (60) |
| Gains in respect of available for sale securities reclassified to income statement(1)(3) | **(126)** | **43** | **(83)** | (137) | 47 | (90) | (10) | 3 | (7) |
| Net changes during the period | **(4)** | **1** | **(3)** | 101 | (34) | 67 | (102) | 35 | (67) |
| **Employee benefits:** | | | | | | | | | |
| Net actuarial loss for the period | **(118)** | **41** | **(77)** | (139) | 47 | (92) | (10) | 3 | (7) |
| Net losses reclassified to the statement of profit and loss(2) | **44** | **(16)** | **28** | 65 | (22) | 43 | 47 | (16) | 31 |
| Net change during the period | **(74)** | **25** | **(49)** | (74) | 25 | (49) | 37 | (13) | 24 |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to non-controlling interests** | | | | | | | | | |
| Total changes during the period | **-** | **-** | **-** | (4) | 2 | (2) | (6) | 2 | (4) |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders** | | | | | | | | | |
| Total changes during the period | **(78)** | **26** | **(52)** | 31 | (11) | 20 | (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 of expenses in respect of employee benefits, see note 23.
(3) 2018 - available for sale securities.

## NOTE 11 - CASH AND DEPOSITS WITH BANKS

(NIS million)

### Composition:

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2020 | 2019 | 2020 | 2019 |
| Cash and deposits with Central banks | **54,835** | 35,396 | **53,611** | 34,174 |
| Deposits with commercial banks | **2,967** | 2,134 | **3,146** | 2,354 |
| Total (1) | **57,802** | 37,530 | **56,757** | 36,528 |
| (1) Includes cash and deposits with banks, the initial period of which does not exceed three months | **57,328** | 37,275 | **56,071** | 35,964 |

## NOTE 12 - SECURITIES

(NIS million)

### Composition:

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | December 31, 2020 | | | | |
| **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 | **2,233** | **2,233** | **104** | **-** | **2,337** |
| Of financial institutions in Israel | **78** | **78** | **1** | **-** | **79** |
| Of others in Israel | **203** | **203** | **21** | **-** | **224** |
| Total debentures held to maturity | **2,514** | **2,514** | **126** | **-** | **2,640** |

| | | | Cumulative other comprehensive income | | |
|---|---|---|---|---|---|
| **B. Bonds available for sale** | **Book value** | **Amortized cost** | **Profits** | **Losses** | **Fair value** (1) |
| Of Israeli government | **8,080** | **8,014** | **67** | **1** | **8,080** |
| Of foreign governments | **1,312** | **1,312** | **-** | **-** | **1,312** |
| Of financial institutions in Israel | **80** | **79** | **1** | **-** | **80** |
| Of foreign financial institutions | (5)(7)**239** | **237** | **2** | **-** | **239** |
| Of others in Israel | (6)**274** | **266** | **9** | **1** | **274** |
| Of foreign others | **93** | **92** | **1** | **-** | **93** |
| Total bonds available for sale | **10,078** | **10,000** | (2)**80** | (2)**2** | **10,078** |

| **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 | **307** | **298** | (3)**17** | (3)**8** | **307** |
| Of which: shares, the fair value of which is not ready determinable | **120** | **120** | **-** | **-** | **120** |
| Total not for trading securities | **12,899** | **12,812** | **223** | **10** | **13,025** |

| **D. Securities held for trading** | **Book value** | **Amortized cost** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value** (1) |
|---|---|---|---|---|---|
| Of Israeli government | **206** | **206** | **-** | **-** | **206** |
| Total trading bonds | **206** | **206** | (3)**-** | (3)**-** | **206** |
| Total securities | **13,105** | **13,018** | **223** | **10** | **13,231** |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(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 issue.

(5) Including securities of corporations owned by government in the amount of NIS 32 million.

(6) Including impaired bonds accruing interest income in amount of NIS 47 million.

(7) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 18 million.

## NOTE 12 - SECURITIES (CON'T)

(NIS million)

| | | | | | Consolidated |
|---|---|---|---|---|---|
| | | | | | December 31, 2019 |
| 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 | 1,751 | 1,751 | 93 | - | 1,844 |
| Of financial institutions in Israel | 56 | 56 | 1 | - | 57 |
| Of others in Israel | 241 | 241 | 30 | - | 271 |
| Total debentures held to maturity | 2,048 | 2,048 | 124 | - | 2,172 |

| | | | Cumulative other comprehensive income | | |
|---|---|---|---|---|---|
| B. Bonds available for sale | Book value | Amortized cost | Profits | Losses | Fair value (1) |
| Of Israeli government | 4,577 | 4,508 | 69 | - | 4,577 |
| Of foreign governments | 1,956 | 1,955 | 1 | - | 1,956 |
| Of financial institutions in Israel | 43 | 42 | 1 | - | 43 |
| Of foreign financial institutions | (6)640 | 639 | 1 | - | 640 |
| Mortgage backed (MBS) securities | (5)378 | 377 | 2 | 1 | 378 |
| Of others in Israel | (7)431 | 424 | 10 | 3 | 431 |
| Of foreign others | 478 | 477 | 1 | - | 478 |
| Total bonds available for sale | 8,503 | 8,422 | (2)85 | (2)4 | 8,503 |

| 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 | 339 | 288 | (3)52 | (3)1 | 339 |
| Of which: shares, the fair value of which is not ready determinable | 129 | 129 | - | - | 129 |
| Total not for trading securities | 10,890 | 10,758 | 261 | 5 | 11,014 |

| D. Bonds held for trading | Book value | Amortized cost | Unrealized gains from adjustment to fair value | Unrealized losses from adjustment to fair value | Fair value (1) |
|---|---|---|---|---|---|
| Of Israeli government | 95 | 95 | - | - | 95 |
| Of financial institutions in Israel | 4 | 4 | - | - | 4 |
| Of others in Israel | 6 | 6 | - | - | 6 |
| Total trading bonds | 105 | 105 | (3)- | - | 105 |
| Total securities | 10,995 | 10,863 | 261 | 5 | 11,119 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(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 issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 377 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities of corporations owned by government in the amount of NIS 453 million and securities of corporations owned and have specified government guarantee in the amount of NIS 162 million.

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

## NOTE 12 - SECURITIES (CON'T)
(NIS million)

### Composition:

| | The Bank | | | | |
|---|---|---|---|---|---|
| | December 31, 2020 | | | | |
| **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 | 2,233 | 2,233 | 104 | - | 2,337 |
| Of financial institutions in Israel | 78 | 78 | 1 | - | 79 |
| Of others in Israel | 199 | 199 | 21 | - | 220 |
| Total debentures held to maturity | 2,510 | 2,510 | 126 | - | 2,636 |

| **B. Bonds available for sale** | **Book value** | **Amortized cost** | **Cumulative other comprehensive income** | | **Fair value** (1) |
|---|---|---|---|---|---|
| | | | **Profits** | **Losses** | |
| Of Israeli government | 7,460 | 7,398 | 62 | - | 7,460 |
| Of foreign governments | 1,312 | 1,312 | - | - | 1,312 |
| Of financial institutions in Israel | 79 | 78 | 1 | - | 79 |
| Of foreign financial institutions | (5)(7)239 | 237 | 2 | - | 239 |
| Of others in Israel | (6)274 | 266 | 9 | 1 | 274 |
| Of foreign others | 93 | 92 | 1 | - | 93 |
| Total bonds available for sale | 9,457 | 9,383 | (2)75 | (2)1 | 9,457 |

| **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 | 307 | 298 | (3)17 | (3)8 | 307 |
| Of which: shares, the fair value of which is not ready determinable | 120 | 120 | - | - | 120 |

| | | | | | |
|---|---|---|---|---|---|
| Total not for trading securities | 12,274 | 12,191 | 218 | 9 | 12,400 |

| **D. Bonds held for trading** | **Book value** | **Amortized cost** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value** (1) |
|---|---|---|---|---|---|
| Of Israeli government | 206 | 206 | - | - | 206 |
| Total trading debentures and bonds | 206 | 206 | (3)- | (3)- | 206 |
| Total securities | 12,480 | 12,397 | 218 | 9 | 12,606 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(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) 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 issue.

(5) Including securities of corporations owned by government in the amount of NIS 32 million.

(6) Including impaired bonds accruing interest income in amount of NIS 47 million.

(7) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 18 million.

## NOTE 12 - SECURITIES (CON'T)
(NIS million)

### Composition:

| | | | | | The Bank |
|---|---|---|---|---|---|
| | | | | | December 31, 2019 |
| 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 | 1,751 | 1,751 | 93 | - | 1,844 |
| Of financial institutions in Israel | 56 | 56 | 1 | - | 57 |
| Of others in Israel | 236 | 236 | 30 | - | 266 |
| Total debentures held to maturity | 2,043 | 2,043 | 124 | - | 2,167 |

| B. Bonds available for sale | Book value | Amortized cost | Cumulative other comprehensive income: Profits | Cumulative other comprehensive income: Losses | Fair value (1) |
|---|---|---|---|---|---|
| Of Israeli government | 4,329 | 4,260 | 69 | - | 4,329 |
| Of foreign governments | 1,956 | 1,955 | 1 | - | 1,956 |
| Of financial institutions in Israel | 38 | 38 | - | - | 38 |
| Of foreign financial institutions | (6)640 | 639 | 1 | - | 640 |
| Mortgage backed (MBS) securities | (5)378 | 377 | 2 | 1 | 378 |
| Of others in Israel | (7)430 | 423 | 10 | 3 | 430 |
| Of foreign others | 478 | 477 | 1 | - | 478 |
| Total bonds available for sale | 8,249 | 8,169 | (2)84 | (2)4 | 8,249 |

| 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 | 339 | 288 | (3)52 | (3)1 | 339 |
| Of which: shares, the fair value of which is not ready determinable | 129 | 129 | - | - | 129 |
| Total not for trading securities | 10,631 | 10,500 | 260 | 5 | 10,755 |

| D. Bonds held for trading | Book value | Amortized cost | Unrealized gains from adjustment to fair value | Unrealized losses from adjustment to fair value | Fair value (1) |
|---|---|---|---|---|---|
| Of Israeli government | 95 | 95 | - | - | 95 |
| Of financial institutions in Israel | 4 | 4 | - | - | 4 |
| Of others in Israel | 6 | 6 | - | - | 6 |
| Total trading debentures and bonds | 105 | 105 | - | - | 105 |
| Total securities | 10,736 | 10,605 | 260 | 5 | 10,860 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(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) 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 issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 377 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities of corporations owned by government in the amount of NIS 453 million and securities of corporations owned and have specified government guarantee in the amount of NIS 162 million.

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

## NOTE 12 - SECURITIES (CONT'D)
(NIS million)

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

| Consolidated | As of December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| | | | | | | | | (NIS million) |
| **Bonds available for sale** | | | | | | | | |
| Of Israeli government | **123** | **1** | **-** | **1** | **-** | **-** | **-** | **-** |
| Of others in Israel | **28** | **1** | **-** | **1** | **-** | **-** | **-** | **-** |
| Total bonds available for sale | **151** | **2** | **-** | **2** | **-** | **-** | **-** | **-** |

| Consolidated | As of December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| | | | | | | | | (NIS million) |
| **Bonds available for sale** | | | | | | | | |
| Mortgage backed (MBS) securities | - | - | - | - | 77 | 1 | - | 1 |
| Of others in Israel | - | - | - | - | 42 | 3 | - | 3 |
| Total bonds available for sale | - | - | - | - | 119 | 4 | - | 4 |

(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.

## NOTE 13 - 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

| Consolidated | | | | | | December 31, 2020 |
|---|---|---|---|---|---|---|
| | | | Credit to the public | | | |
| | Commercial(3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | **36,595** | **-** | **390** | **36,985** | **3,623** | **40,608** |
| Debts examined on an collective basis | **5,983** | **28,336** | **20,943** | **55,262** | **-** | **55,262** |
| Of which: according to the extent of arrears | **88** | **28,320** | **-** | **28,408** | **-** | **28,408** |
| Total | **42,578** | **28,336** | **21,333** | **92,247** | **3,623** | **95,870** |
| Of which: | | | | | | |
| Debts restructuring | **114** | **-** | **113** | **227** | **-** | **227** |
| Other impaired debts | **273** | **36** | **41** | **350** | **-** | **350** |
| Total impaired debts | **387** | **36** | **154** | **577** | **-** | **577** |
| Debts in arrears of 90 days or more | **43** | **156** | **18** | **217** | **-** | **217** |
| Other problematic debts | **943** | **95** | **157** | **1,195** | **-** | **1,195** |
| Total problematic debts | **1,373** | **287** | **329** | **1,989** | **-** | **1,989** |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | **693** | **-** | **40** | **733** | **-** | **733** |
| In respect of debts examined on an collective basis | **116** | **164** | **264** | **544** | **-** | **544** |
| Of which: according to the extent of arrears | **1** | (2)**164** | **-** | **165** | **-** | **165** |
| Total | **809** | **164** | **304** | **1,277** | **-** | **1,277** |
| Of which: in respect of impaired debts | **144** | **-** | **37** | **181** | **-** | **181** |

| Consolidated | | | | | | December 31, 2019 |
|---|---|---|---|---|---|---|
| | | | Credit to the public | | | |
| | Commercial(3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | 36,094 | - | 340 | 36,434 | 3,173 | 39,607 |
| Debts examined on an collective basis | 5,483 | 25,583 | 21,329 | 52,395 | - | 52,395 |
| Of which: according to the extent of arrears | 233 | 25,566 | - | 25,799 | - | 25,799 |
| Total | 41,577 | 25,583 | 21,669 | 88,829 | 3,173 | 92,002 |
| Of which: | | | | | | |
| Debts restructuring | 140 | - | 108 | 248 | - | 248 |
| Other impaired debts | 413 | 10 | 38 | 461 | - | 461 |
| Total impaired debts | 553 | 10 | 146 | 709 | - | 709 |
| Debts in arrears of 90 days or more | 37 | 186 | 26 | 249 | - | 249 |
| Other problematic debts | 518 | 32 | 143 | 693 | - | 693 |
| Total problematic debts | 1,108 | 228 | 315 | 1,651 | - | 1,651 |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | 485 | - | 38 | 523 | - | 523 |
| In respect of debts examined on an collective basis | 60 | 121 | 226 | 407 | - | 407 |
| Of which: according to the extent of arrears | 2 | (2)121 | - | 123 | - | 123 |
| Total | 545 | 121 | 264 | 930 | - | 930 |
| Of which: in respect of impaired debts | 169 | - | 35 | 204 | - | 204 |

(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 an collective basis in the amount of NIS 124 million (31.12.19 - NIS 89 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 3,009 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.19 - NIS 2,718 million).

## NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)
(NIS million)

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

| The Bank | | | | | | December 31, 2020 |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial(3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | **35,739** | **-** | **350** | **36,089** | **3,182** | **39,271** |
| Debts examined on an collective basis | **5,884** | **28,336** | **16,700** | **50,920** | **-** | **50,920** |
| Of which: according to the extent of arrears | **88** | **28,320** | **-** | **28,408** | **-** | **28,408** |
| Total | **41,623** | **28,336** | **17,050** | **87,009** | **3,182** | **90,191** |
| Of which: | | | | | | |
| Debts restructuring | **110** | **-** | **81** | **191** | **-** | **191** |
| Other impaired debts | **271** | **36** | **33** | **340** | **-** | **340** |
| Total impaired debts | **381** | **36** | **114** | **531** | **-** | **531** |
| Debts in arrears of 90 days or more | **39** | **156** | **11** | **206** | **-** | **206** |
| Other problematic debts | **930** | **95** | **139** | **1,164** | **-** | **1,164** |
| Total problematic debts | **1,350** | **287** | **264** | **1,901** | **-** | **1,901** |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | **675** | **-** | **32** | **707** | **-** | **707** |
| In respect of debts examined on an collective basis | **116** | **164** | **217** | **497** | **-** | **497** |
| Of which: according to the extent of arrears | **1** | (2)**164** | **-** | **165** | **-** | **165** |
| Total | **791** | **164** | **249** | **1,204** | **-** | **1,204** |
| Of which: in respect of impaired debts | **140** | **-** | **29** | **169** | **-** | **169** |

| The Bank | | | | | | December 31, 2019 |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial(3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | 35,225 | - | 308 | 35,533 | 2,769 | 38,302 |
| Debts examined on an collective basis | 5,371 | 25,583 | 17,226 | 48,180 | - | 48,180 |
| Of which: according to the extent of arrears | 233 | 25,566 | - | 25,799 | - | 25,799 |
| Total | 40,596 | 25,583 | 17,534 | 83,713 | 2,769 | 86,482 |
| Of which: | | | | | | |
| Debts restructuring | 135 | - | 81 | 216 | - | 216 |
| Other impaired debts | 408 | 10 | 33 | 451 | - | 451 |
| Total impaired debts | 543 | 10 | 114 | 667 | - | 667 |
| Debts in arrears of 90 days or more | 33 | 186 | 20 | 239 | - | 239 |
| Other problematic debts | 499 | 32 | 129 | 660 | - | 660 |
| Total problematic debts | 1,075 | 228 | 263 | 1,566 | - | 1,566 |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | 472 | - | 33 | 505 | - | 505 |
| In respect of debts examined on an collective basis | 59 | 121 | 186 | 366 | - | 366 |
| Of which: according to the extent of arrears | 2 | (2)121 | - | 123 | - | 123 |
| Total | 531 | 121 | 219 | 871 | - | 871 |
| Of which: in respect of impaired debts | 164 | - | 30 | 194 | - | 194 |

(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 an collective basis in the amount of NIS 124 million (31.12.19 - NIS 89 million).
(3) The balance of commercial debts include housing loans in the amount of NIS 2,866 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.19 - NIS 2,838 million).

## NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### 2. Change in provision for credit losses

| Consolidated | Credit to the public | | | | Banks and Governments | Total |
|---|---|---|---|---|---|---|
| | Commercial | Housing | Other private | Total | | |
| **Change in provision for credit losses - debts** | | | | | | |
| Provision for credit losses at December 31, 2017 | 471 | 115 | 252 | 838 | - | 838 |
| Expenses from credit losses | 94 | 4 | 65 | 163 | - | 163 |
| - Accounting write-offs | (188) | (3) | (127) | (318) | - | (318) |
| - Collection of debts written off in accounting in previous years | 112 | 3 | 70 | 185 | - | 185 |
| Net accounting write-offs | (76) | - | (57) | (133) | - | (133) |
| Provision for credit losses at December 31, 2018 | 489 | 119 | 260 | 868 | - | 868 |
| Expenses from credit losses | 73 | 3 | 69 | 145 | - | 145 |
| - Accounting write-offs | (185) | (2) | (138) | (325) | - | (325) |
| - Collection of debts written off in accounting in previous years | 168 | 1 | 73 | 242 | - | 242 |
| Net accounting write-offs | (17) | (1) | (65) | (83) | - | (83) |
| Provision for credit losses at December 31, 2019 | **545** | **121** | **264** | **930** | **-** | **930** |
| Expenses from credit losses | **320** | **41** | **74** | **435** | **-** | **435** |
| - Accounting write-offs | **(143)** | **-** | **(122)** | **(265)** | **-** | **(265)** |
| - Collection of debts written off in accounting in previous years | **87** | **2** | **88** | **177** | **-** | **177** |
| Net accounting write-offs | **(56)** | **2** | **(34)** | **(88)** | **-** | **(88)** |
| Provision for credit losses at December 31, 2020 | **809** | **164** | **304** | **1,277** | **-** | **1,277** |

| Consolidated | Credit to the public | | | | Banks and Governments | Total |
|---|---|---|---|---|---|---|
| | Commercial | Housing | Other private | Total | | |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at December 31, 2017 | 48 | - | 13 | 61 | - | 61 |
| Increase (decrease) in provision | 5 | - | (2) | 3 | - | 3 |
| Provision at December 31, 2018 | 53 | - | 11 | 64 | - | 64 |
| Decrease in provision | (7) | - | - | (7) | - | (7) |
| Provision at December 31, 2019 | **46** | **-** | **11** | **57** | **-** | **57** |
| Increase in provision | **26** | **-** | **3** | **29** | **-** | **29** |
| Provision at December 31, 2020 | **72** | **-** | **14** | **86** | **-** | **86** |

## NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### 2. Change in provision for credit losses

| The Bank | Credit to the public | | | | Banks and Governments | Total |
|---|---|---|---|---|---|---|
| | Commercial | Housing | Other private | Total | | |
| **Change in provision for credit losses - debts** | | | | | | |
| Provision for credit losses at December 31, 2017 | 356 | 112 | 139 | 607 | - | 607 |
| Expenses in respect of credit losses | 60 | 4 | 50 | 114 | - | 114 |
| - Accounting write-offs | (107) | (2) | (79) | (188) | - | (188) |
| - Collection of debts written off in accounting in previous years | 81 | 2 | 38 | 121 | - | 121 |
| Net accounting write-offs | (26) | - | (41) | (67) | - | (67) |
| Provision for credit losses at December 31, 2018 | 390 | 116 | 148 | 654 | - | 654 |
| Merging a subsidiary | 87 | 3 | 70 | 160 | - | 160 |
| Expenses from credit losses | 71 | 3 | 60 | 134 | - | 134 |
| - Accounting write-offs | (183) | (2) | (125) | (310) | - | (310) |
| - Collection of debts written off in accounting in previous years | 166 | 1 | 66 | 233 | - | 233 |
| Net accounting write-offs | (17) | (1) | (59) | (77) | - | (77) |
| Provision for credit losses at December 31, 2019 | **531** | **121** | **219** | **871** | **-** | **871** |
| Expenses from credit losses | **315** | **41** | **59** | **415** | **-** | **415** |
| - Accounting write-offs | **(140)** | **-** | **(107)** | **(247)** | **-** | **(247)** |
| - Collection of debts written off in accounting in previous years | **85** | **2** | **78** | **165** | **-** | **165** |
| Net accounting write-offs | **(55)** | **2** | **(29)** | **(82)** | **-** | **(82)** |
| Provision for credit losses at December 31, 2020 | **791** | **164** | **249** | **1,204** | **-** | **1,204** |

| The Bank | Credit to the public | | | | Banks and Governments | Total |
|---|---|---|---|---|---|---|
| | Commercial | Housing | Other private | Total | | |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at December 31, 2017 | 46 | - | 8 | 54 | - | 54 |
| Increase (decrease) in provision | 4 | - | (1) | 3 | - | 3 |
| Provision at December 31, 2018 | 50 | - | 7 | 57 | - | 57 |
| Merging a subsidiary | 4 | - | 1 | 5 | - | 5 |
| Decrease in provision | (7) | - | - | (7) | - | (7) |
| Provision at December 31, 2019 | **47** | **-** | **8** | **55** | **-** | **55** |
| Increase in provision | **26** | **-** | **2** | **28** | **-** | **28** |
| Provision at December 31, 2020 | **73** | **-** | **10** | **83** | **-** | **83** |

## NOTE 14 - CREDIT TO THE GOVERNMENT

(NIS million)

| Composition: | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31, | | December 31, | |
| | **2020** | **2019** | **2020** | **2019** |
| Other credit to the Government | **656** | 1,039 | **35** | 415 |

# NOTE 15 - INVESTEE COMPANIES
(NIS million)

## A. Composition:

| | Consolidated | | The Bank | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | | | December 31, 2019 | | |
| | Equity basis investee | Equity basis investee | Equity basis investee | Consolidated subsidiaries | Total | Equity basis investee | Consolidated subsidiaries | Total |
| Investments in shares on equity basis | **636** | 605 | **636** | **557** | **1,193** | 605 | 668 | 1,273 |
| Other investments: | | | | | | | | |
| Capital notes and subordinated capital notes | **-** | - | **-** | **5** | **5** | - | 5 | 5 |
| Total investments in investee companies | **636** | 605 | **636** | **562** | **1,198** | 605 | 673 | 1,278 |
| Earnings accumulated since acquisition, net | **380** | 351 | **380** | **989** | **1,369** | 351 | 922 | 1,273 |
| Items accrued in equity capital since purchase date: | | | | | | | | |
| Adjustments in respect of presenting available-for-sale bonds at fair value | **-** | - | **-** | **-** | **-** | - | - | - |
| Employee benefits | **(11)** | (9) | **(11)** | **(4)** | **(15)** | (9) | (4) | (13) |

## B. The Bank's share in profits of equity-basis investees:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| | | | | | | NIS millions |
| The Bank's share in operating profits of investee companies | **33** | 57 | 41 | **100** | 114 | 202 |
| Current taxes | **-** | (6) | - | **-** | (6) | - |
| Provision for deferred taxes | **(4)** | - | (4) | **(4)** | - | (4) |
| The Bank's share in operating profits of investee companies, after tax | **29** | 51 | 37 | **96** | 108 | 198 |

## NOTE 15 - INVESTEE COMPANIES (CONT'D)

### C. Details regarding major investee companies:

| Name of investee | Major activity | Bank's share in equity | | Bank's voting right | | Carrying value of the investment on equity basis(3) | |
|---|---|---|---|---|---|---|---|
| | | December 31 | | December 31 | | December 31 | |
| | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | | % | % | % | % | NIS million | |
| **Israeli consolidated subsidiaries:** | | | | | | | |
| Bank Massad Ltd. | Commercial Bank | **51.0** | 51.0 | **51.0** | 51.0 | **410** | 370 |
| UBank trust company Ltd. | Trust services | **100.0** | 100.0 | **100.0** | 100.0 | **62** | 40 |
| **Foreign consolidated subsidiaries:** | | | | | | | |
| F.I.B.I. Switzerland (registered in Switzerland) (voluntary liquidated)(4) | Commercial Bank | **-** | 100.0 | **-** | 100.0 | **-** | 178 |
| **Equity basis investee:** | | | | | | | |
| Israel Credit Cards Ltd. | Credit Cards | **28.2** | 28.2 | **21.0** | 21.0 | **636** | 605 |

(1) The above list does not include wholly owned and controlled consolidated companies that are property companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.
(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.
(3) Including balance of excess cost attributed to customers relation.
(4) See Section "F" below regarding the agreement for the sale of the operations of FIBI Bank (Switzerland).

### D. Condensed information regarding an equity basis investee, without adjustment to the rate of ownership held by the Group

1. Condensed information regarding the financial condition

| | Bank's share in equity | Total assets | Total liabilities | Capital attributed to the company's shareholders |
|---|---|---|---|---|
| | % | NIS millions | | |
| Israel Credit Cards Ltd. | | | | |
| 31 December 2020 | **28.2** | **18,536** | **16,603** | **1,933** |
| 31 December 2019 | 28.2 | 19,159 | 17,338 | 1,821 |

2. Condensed information regarding the results of operation

| | Bank's share in equity | Net profit for the year |
|---|---|---|
| | % | NIS millions |
| Israel Credit Cards Ltd. | | |
| For the year ended 31 December 2020 | **28.2** | **119** |
| For the year ended 31 December 2019 | 28.2 | 201 |
| For the year ended 31 December 2018 | 28.2 | 157 |

| | Other capital investments | | Bank's equity earnings | | Dividend recorded | | Other items accumulated in shareholders' equity | |
|---|---|---|---|---|---|---|---|---|
| | December 31 | | | | | | | |
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| | | NIS million | | NIS million | | NIS million | | NIS million |
| | **5** | 5 | **40** | 39 | **-** | - | **-** | (2) |
| | **-** | - | **22** | 21 | **-** | (22) | **-** | - |
| | **-** | - | **-** | (10) | **(178)** | - | **-** | - |
| | **-** | - | **33** | 57 | **-** | (56) | **(2)** | (2) |

## E. Merger of Otsar Hahayal

On January 1, 2019 the merger was completed between the Bank and Otsar Hahayal, a wholly owned subsidiary of the Bank, according to which, Otsar Hahayal was merged with and into the Bank (under the provisions of the first Chapter of Part VIII of the Companies Act, 1999 and in accordance with the provisions of Chapter II of Part E(2) of the Income Tax Ordinance, 1961) in a way that the assets and liabilities of Otsar Hahayal on record at date of merger, passed to the Bank with no consideration, and Otsar Hahayal was eliminated without liquidation, and removed from the Register of Companies.

## NOTE 15 - INVESTEE COMPANIES (CONT'D)

Following are condensed pro-forma statements reflecting the results of operation for the period of the year ended December 31, 2018 of the Bank and Otsar Hahayal (in NIS millions):

Condensed pro-forma profit and loss statements:

| | For the year ended December 31, 2018 | | |
|---|---|---|---|
| | As reported in these statements | Including Otsar Hahayal data | Pro-forma data |
| Interest Income | 2,312 | 469 | 2,781 |
| Interest Expenses | 511 | 7 | 518 |
| Interest Income, net | 1,801 | 462 | 2,263 |
| Expenses from credit losses | 117 | 42 | 159 |
| Net Interest Income after expenses from credit losses | 1,684 | 420 | 2,104 |
| **Non-Interest Income** | | | |
| Non-Interest Financing income | 203 | 14 | 217 |
| Fees | 995 | 188 | 1,183 |
| Other income | 151 | (52) | 99 |
| Total non-Interest income | 1,349 | 150 | 1,499 |
| **Operating and other expenses** | | | |
| Salaries and related expenses | 1,303 | 282 | 1,585 |
| Maintenance and depreciation of premises and equipment | 282 | 68 | 350 |
| Amortizations and impairment of intangible assets | 86 | - | 86 |
| Other expenses | 508 | 112 | 620 |
| Total operating and other expenses | 2,179 | 462 | 2,641 |
| Profit before taxes | 854 | 108 | 962 |
| Provision for taxes on profit | 319 | 33 | 352 |
| Profit after taxes | 535 | 75 | 610 |
| The bank's share in profit of equity-basis investee, after taxes | 198 | (75) | 123 |
| Net profit attributed to shareholders of the Bank | 733 | - | 733 |

**F.** On January 2020, the capital of FIBI Switzerland Ltd., subsidiary of the Bank (the Company), was distributed to the Bank and on May 25, 2020 the voluntary liquidation of the Company was consummated.

**G.** Between the Bank and other shareholders in Massad bank Ltd. and between the Bank and other shareholders in Israel Credit Cards Ltd, exist agreements, which arrange the rights and obligations towards each other, as shareholders at Massad bank Ltd. and Israel Credit Cards Ltd.

## NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

| | Consolidated | | | The Bank | | |
|---|---|---|---|---|---|---|
| | Buildings & premises (1) | Furniture, equipment and vehicles | Total | Buildings & premises (1) | Furniture, equipment and vehicles | Total |
| **Cost of assets** | | | | | | |
| Balance as at December 31, 2018 | 1,434 | 594 | 2,028 | 1,295 | 564 | 1,859 |
| Additions | 12 | 37 | 49 | 12 | 37 | 49 |
| Disposals | (15) | (60) | (75) | (15) | (60) | (75) |
| Merging a subsidiary | - | - | - | 71 | 15 | 86 |
| At December 31, 2019 | 1,431 | 571 | 2,002 | 1,363 | 556 | 1,919 |
| Additions | **20** | **20** | **40** | **18** | **20** | **38** |
| Disposals | **(13)** | **(11)** | **(24)** | **(11)** | **-** | **(11)** |
| At December 31, 2020 | **1,438** | **580** | **2,018** | **1,370** | **576** | **1,946** |
| **Accumulated depreciation (2)** | | | | | | |
| Balance as at December 31, 2018 | 513 | 492 | 1,005 | 430 | 469 | 899 |
| Depreciation | 39 | 30 | 69 | 36 | 29 | 65 |
| Disposals | (8) | (60) | (68) | (8) | (60) | (68) |
| Merging a subsidiary | - | - | - | 48 | 11 | 59 |
| At December 31, 2019 | 544 | 462 | 1,006 | 506 | 449 | 955 |
| Depreciation | **40** | **31** | **71** | **36** | **30** | **66** |
| Disposals | **(13)** | **(11)** | **(24)** | **(11)** | **-** | **(11)** |
| At December 31, 2020 | **571** | **482** | **1,053** | **531** | **479** | **1,010** |
| Amortized balance as at December 31, 2018 | 921 | 102 | 1,023 | 865 | 95 | 960 |
| Amortized balance as at December 31, 2019 | 887 | 109 | 996 | 857 | 107 | 964 |
| Amortized balance as at December 31, 2020 | **867** | **98** | **965** | **839** | **97** | **936** |
| Weighted average depreciation rate in % as at 31.12.20 | **3.8%** | **15.5%** | | **3.6%** | **15.5%** | |
| Weighted average depreciation rate in % as at 31.12.19 | 3.6% | 15.5% | | 3.5% | 15.6% | |

(1) Including fixtures and improvements in the rental.
(2) Depreciation accrued including losses accrued from impairment.

B. The Bank and its subsidiaries own rental or leasehold rights in different properties in a total amount of NIS 381 million (December 31, 2019 - NIS 390 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 305 million (December 31, 2019 - NIS 314 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 326 million (December 31, 2019 - NIS 336 million).

C. Land rights totaling NIS 314 million (31.12.19 - NIS 323 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.

D. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 7 million (31.12.19 - NIS 6 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2020 amounted to NIS 595 million (31.12.19 - NIS 576 million).

## NOTE 16 - PREMISES AND EQUIPMENT (CONT'D)

(NIS million)

### F. Information regarding leases

Starting with January 1, 2020, the Bank applies Item 842 of the Codification with respect to leases. Through the medium of lease arrangements, the Bank leases property (mostly office premises and branch offices) and motor vehicles, essentially for the business activity of the Bank. The lease arrangements made by the Bank are classified as operating leases. In most property lease agreements and in all vehicle lease agreements to which the Bank is a party, the lease payments are linked to the Consumer Price Index (CPI), based on the most recent index published prior to the date of engagement in the lease ("known index").

The lease period is defined as the period in which the lease may not be cancelled, together with periods covered by an option for extension of the lease, where it is reasonably certain that the lessee would exercise the option.

With respect to a part of the properties leased by the Bank, the Bank, at its exclusive discretion, has the option of terminating the lease after 3-5 years, subject to an advance notice to the lessor of at least 3-12 months. The option for termination has not been taken into account in computing the liability in respect of leases.

Whereas, the rate of interest inherent in the lease is not easily determinable, use has been made of the additional rate of interest of the Bank, being the rate of interest that the Bank would have been required to pay in respect of a loan in an amount equal to the lease payments over a similar period, where the leased property serves as an economic collateral and in a similar environment. The Bank uses the rate of interest applying to the raising of funds for the Bank, for the relevant period of the transaction.

The Bank has no lease arrangements which are classified as financial leases.

#### 1. Expenses in respect of leases

| | Consolidated | The Bank |
|---|---|---|
| | For the year ended December 31, | For the year ended December 31, |
| | 2020 | 2020 |
| | | NIS million |
| Expenses in respect of operating leases | 73 | 67 |
| Variable lease expenses | - | - |
| Total expenses in respect of leases | 73 | 67 |

#### 2. Additional information regarding leases

| | Consolidated | The Bank |
|---|---|---|
| | For the year ended December 31, | For the year ended December 31, |
| | 2020 | 2020 |
| | | NIS million |
| Cash paid for balances included in the measurement of liabilities for leases: | | |
| - Cash flow in respect of current operations regarding operating leases | 72 | 66 |
| Right of use assets recognized in respect of new operating leases | 42 | 39 |
| Balance of weighted average period (in years) in respect of operating leases | 4.2 | 4.2 |
| Weighted average discounting interest in respect of operating leases (in percentages) | 0.05 | 0.06 |

### 3. Non capitalized cash flows and liabilities in respect of operating leases

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31, 2020 | | December 31, 2020 | |
| | Noncapitalized cash flows | Liability for leases | Noncapitalized cash flows | Liability for leases |
| | | | | NIS million |
| Up to one year | **72** | **72** | **66** | **66** |
| Over one to two years | **58** | **58** | **53** | **52** |
| Over two to three years | **46** | **46** | **42** | **42** |
| Over three to four years | **38** | **38** | **34** | **34** |
| Over four to five years | **36** | **35** | **31** | **31** |
| Over five years | **141** | **140** | **124** | **123** |
| Total | **391** | **389** | **350** | **348** |

## NOTE 17 - INTANGIBLE ASSETS

(NIS million)

| | Consolidated | | | The Bank |
|---|---|---|---|---|
| | Customers relations | Software | Total | Software |
| **Cost** | | | | |
| At December 31, 2018 | 538 | 1,065 | 1,603 | 1,064 |
| Addition | - | 101 | 101 | 101 |
| Disposals | - | - | - | - |
| At December 31, 2019 | 538 | 1,166 | 1,704 | 1,165 |
| Addition | **-** | **120** | **120** | **120** |
| Disposals | **-** | **-** | **-** | **-** |
| At December 31, 2020 | **538** | **1,286** | **1,824** | **1,285** |
| **Amortization** | | | | |
| At December 31, 2018 | 525 | 839 | 1,364 | 838 |
| Amortization for the year | 3 | 89 | 92 | 89 |
| Disposals | - | - | - | - |
| At December 31, 2019 | 528 | 928 | 1,456 | 927 |
| Amortization for the year | **2** | **94** | **96** | **94** |
| Disposals | **-** | **-** | **-** | **-** |
| At December 31, 2020 | **530** | **1,022** | **1,552** | **1,021** |
| **Book value** | | | | |
| At December 31, 2018 | 13 | 226 | 239 | 226 |
| At December 31, 2019 | 10 | 238 | 248 | 238 |
| At December 31, 2020 | **8** | **264** | **272** | **264** |

## NOTE 18 - OTHER ASSETS
(NIS million)

### Composition:

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2020 | 2019 | 2020 | 2019 |
| Deferred taxes, net (see Note 8) | **680** | 513 | **643** | 477 |
| Income tax advances, net of provisions and other institutions | **5** | 3 | **3** | 3 |
| Assets relating to MAOF market activity | **247** | 42 | **247** | 42 |
| Right-of-use assets in respect of operating lease[(1)] | **387** | - | **346** | - |
| Other receivables and debit balances | **145** | 140 | **150** | 145 |
| Total other assets | **1,464** | 698 | **1,389** | 667 |

(1) See note 1.c. in respect of initial implementation of generally accepted accounting principles in the US in respect of leases.

## NOTE 19 - DEPOSITS FROM THE PUBLIC
(NIS million)

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

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2020 | 2019 | 2020 | 2019 |
| Demand | | | | |
| - Non-bearing interest | **62,106** | 47,692 | **57,671** | 44,272 |
| - Bearing interest | **25,384** | 17,765 | **25,384** | 17,765 |
| Total demand | **87,490** | 65,457 | **83,055** | 62,037 |
| Fixed-term | **54,187** | 54,595 | **52,472** | 52,799 |
| Total deposits in Israel* | **141,677** | 120,052 | **135,527** | 114,836 |
| * Of which: | | | | |
| Deposits of private individuals | **72,435** | 59,306 | **64,903** | 53,333 |
| Deposits of institutional entities | **26,310** | 25,080 | **26,262** | 25,010 |
| Deposits of corporates and others | **42,932** | 35,666 | **44,362** | 36,493 |

### B. Deposits of the public by size (consolidated)

| | December 31 | |
|---|---|---|
| **Maximum amount of deposit** | 2020 | 2019 |
| Up to 1 | **55,269** | 46,064 |
| From 1 to 10 | **35,447** | 27,842 |
| From 10 to 100 | **17,187** | 14,703 |
| From 100 to 500 | **8,046** | 6,146 |
| Over 500 | **25,728** | 25,297 |
| Total | **141,677** | 120,052 |

## NOTE 20 - DEPOSITS FROM BANKS
(NIS million)

Composition:

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | 2020 | 2019 | 2020 | 2019 |
| **In Israel** | | | | |
| Commercial Banks: | | | | |
| Demand deposits | **1,184** | 1,069 | **1,208** | 1,180 |
| Fixed-term deposits | **8** | 23 | **2,503** | 1,414 |
| Acceptances | **39** | 45 | **39** | 46 |
| Central banks: | | | | |
| Fixed-term deposits | **1,761** | - | **1,761** | - |
| Total deposits from banks | **2,992** | 1,137 | **5,511** | 2,640 |

## NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES
(NIS million)

### A. Composition:

| | Duration (1) | Internal rate of return (1) | Consolidated | | The Bank | |
|---|---|---|---|---|---|---|
| | | | December 31 | | December 31 | |
| | Years | % | 2020 | 2019 | 2020 | 2019 |
| Bonds and subordinated capital notes in - | | | | | | |
| - Non-linked Israeli currency | **0.08** | **5.05** | **241** | 476 | **9** | 11 |
| - Israeli currency linked to the CPI | **4.66** | **1.33** | **4,153** | 3,198 | **2,077** | 2,044 |
| Total bonds and non-convertible subordinated capital notes(2) | | | **4,394** | 3,674 | **2,086** | 2,055 |
| Including: subordinated capital notes | | | **2,085** | 2,055 | **90** | 133 |

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.
Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.
The data as to the internal rate of return and the duration to maturity are as at December 31, 2020, and related to the consolidated statements.

(2) Of which: registered for trade at the Tel Aviv Stock Exchange, bonds in the amount of NIS 2,309 million and subordinated capital notes in the amount of NIS 1,995 million (December 31, 2019 - bonds in the amount of NIS 1,619 million and subordinated capital notes in the amount of NIS 1,922 million).

## NOTE 22 - OTHER LIABILITIES
(NIS million)

Composition:

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31 | | December 31 | |
| | **2020** | **2019** | **2020** | **2019** |
| Deferred tax liabilities, net (see Note 8) | **43** | 41 | **43** | 41 |
| Provision for current taxes, net of advance tax payments | **227** | 204 | **224** | 196 |
| Excess of provision for severance pay over amounts funded (see note 23) | **617** | 512 | **609** | 503 |
| Income received in advance | **72** | 70 | **69** | 66 |
| Creditors in respect of credit cards activity | **4,020** | 4,073 | **3,475** | 3,520 |
| Liabilities relating to MAOF market activity | **247** | 42 | **247** | 42 |
| Creditors in respect of salaries and related costs (see also Note 23) | **492** | 539 | **448** | 483 |
| Short selling of securities | **11** | 5 | **11** | 5 |
| Liabilities in respect of operating leases[1] | **389** | - | **348** | - |
| Other creditors and Credit balances | **289** | 237 | **267** | 218 |
| Total other liabilities | **6,407** | 5,723 | **5,741** | 5,074 |

(1) See note 1.c. in respect of initial implementation of generally accepted accounting principles in the US in respect of leases.

## NOTE 23 - EMPLOYEE BENEFITS

### 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**

Some of the 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 Group 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. regarding employment agreements with the CEO and the Chairman of the Board.

## NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

### C. Composition of benefits:

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| | (NIS million) | | (NIS million) | |
| **Pension and severance pay** | | | | |
| Amount of liability | **960** | 927 | **866** | 826 |
| Fair value of assets of the scheme | **(343)** | (415) | **(257)** | (323) |
| Excess liabilities over assets of the scheme | **617** | 512 | **609** | 503 |
| Excess liabilities of the scheme included in the item "other liabilities" | **617** | 512 | **609** | 503 |
| **Long-service awards - amount of liability** | **19** | 18 | **18** | 17 |
| **Benefit regarding unused sick leave - amount of liability** | **35** | 35 | **35** | 35 |
| **Other post-employment benefits** | **8** | 11 | **8** | 11 |
| **Other post-retirement benefits** | **219** | 207 | **196** | 184 |
| **Vacation pay** | **76** | 65 | **71** | 60 |
| **Other** | **135** | 203 | **120** | 176 |
| **Total** | | | | |
| Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities" | **1,109** | 1,051 | **1,057** | 986 |

### D. Defined benefits severance pay and pension schemes

#### (1) Liabilities and financing situation

| | | Severance pay, and pension schemes | | Other post-retirement benefits | |
|---|---|---|---|---|---|
| | | For the year ended December 31, | | For the year ended December 31, | |
| | | 2020 | 2019 | 2020 | 2019 |
| | | (NIS million) | | (NIS million) | |
| A. | **Change in liability regarding anticipated benefits** | | | | |
| | Liability regarding anticipated benefit at beginning of period | **927** | 1,109 | **207** | 152 |
| | Cost of service | **21** | 20 | **5** | 4 |
| | Cost of interest | **19** | 24 | **5** | 6 |
| | Actuarial loss | **107** | 125 | **7** | 50 |
| | Update of liability** | **-** | 17 | **-** | - |
| | Benefits paid | **(114)** | (370) | **(5)** | (5) |
| | Other, including loss from reduction and structural changes | **-** | 2 | **-** | - |
| | Liability regarding anticipated benefit at end of period | **960** | 927 | **219** | 207 |
| | Liability regarding cumulative benefit at end of period | **854** | 827 | **217** | 205 |
| 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 | **415** | 655 | **-** | - |
| | Actual return on assets of the scheme | **8** | 54 | **-** | - |
| | Update of assets of the scheme ** | **-** | 17 | **-** | - |
| | Deposits in the scheme by the Bank | **9** | 9 | **-** | - |
| | Benefits paid | **(89)** | (320) | **-** | - |
| | Fair value of assets of the scheme at end of period | **343** | 415 | **-** | - |
| | Financing situation - net liability recognized at end of period* | **617** | 512 | **219** | 207 |

* Included in the item "Other liabilities".

** Deriving from actuarial addition in respect of assets in excess of 100% of severance pay provisions.

## NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

| | | Severance pay, and pension schemes | | Other post-retirement benefits | |
|---|---|---|---|---|---|
| | | December 31, | | December 31, | |
| | | **2020** | **2019** | **2020** | **2019** |
| | | | (NIS million) | | (NIS million) |
| **C.** | **Amounts recognized in the consolidated balance sheet** | | | | |
| | Amounts recognized in the item "other liabilities" | **617** | 512 | **219** | 207 |
| | Net liability recognized at end of period | **617** | 512 | **219** | 207 |
| **D.** | **Amounts recognized in other cumulative comprehensive loss, before the tax effect** | | | | |
| | Actuarial loss, net | **272** | 204 | **78** | 75 |
| | Liability net, in respect of transition* | **-** | - | **-** | - |
| | Closing balance in other cumulative comprehensive profit | **272** | 204 | **78** | 75 |
| **E.** | **Schemes in which the liability regarding cumulative benefits exceeds the assets of the scheme** | | | | |
| | Liability regarding anticipated benefit | **960** | 927 | **219** | 207 |
| | Liability regarding cumulative benefit | **854** | 827 | **217** | 205 |
| | Fair value of assets of the scheme | **343** | 415 | **-** | - |

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

## NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

### (2) Expense for the period

| | | Severance pay, and pension schemes | | | Other post-retirement benefits | | |
|---|---|---|---|---|---|---|---|
| | | December 31, | | | December 31, | | |
| | | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| | | (NIS million) | | | (NIS million) | | |
| A. | **Cost components of net benefit recognized in profit and loss** | | | | | | |
| | Cost of service | **21** | 20 | 24 | **5** | 4 | 4 |
| | Cost of interest | **19** | 24 | 34 | **5** | 6 | 6 |
| | Anticipated return on assets of the scheme | **(9)** | (14) | (21) | **-** | - | - |
| | Amortization of non-recognized amounts: | | | | | | |
| | Net actuarial loss | **14** | 14 | 10 | **4** | 3 | 2 |
| | Other, including loss from reduction or dismissal and structural changes | **26** | 50 | 113 | **-** | - | - |
| | Capitalized cost of software | **(3)** | (3) | (3) | **-** | - | - |
| | Total cost of benefits, net | **68** | 91 | 157 | **14** | 13 | 12 |
| B. | **Changes in assets of the scheme and in liability for benefits recognized in other comprehensive loss (profit), before the tax effect** | | | | | | |
| | Net actuarial loss (profit) for the period | **108** | 85 | 18 | **7** | 50 | (8) |
| | Amortization of actuarial loss | **(14)** | (14) | (10) | **(4)** | (3) | (2) |
| | Dismissal | **(26)** | (48) | (35) | **-** | - | - |
| | Total recognized in other comprehensive profit | **68** | 23 | (27) | **3** | 47 | (10) |
| | Total net cost of benefit | **68** | 91 | 157 | **14** | 13 | 12 |
| | Total net cost of benefit for the period recognized in other comprehensive profit | **136** | 114 | 130 | **17** | 60 | 2 |

| | | Severance pay, and pension schemes | Other post-retirement benefits |
|---|---|---|---|
| | | | (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 2021, before the tax effect** | | |
| | Net actuarial loss | **37** | **4** |
| | Total amount expected to be amortized from other cumulative comprehensive profit | **37** | **4** |

## NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

### (3) Assumptions

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

| | Severance pay, and pension schemes | | Other post-retirement benefits | |
|---|---|---|---|---|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| | | percent | | percent |
| 1. Principal guidelines used to determine the liability for benefits | | | | |
| Discounting rate | **0.3** | 0.4 | **0.8** | 1.0 |
| Forecasted rate of rise in the CPI | **1.3** | 1.4 | **1.4** | 1.4 |
| Retirement rate | **2.0** | 2.0 | **2.0** | 2.0 |
| Rate of increase in real-term compensation | **1.8** | 1.6 | **0.2** | 0.2 |

| | Severance pay, and pension schemes | | | Other post-retirement benefits | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31, | | | For the year ended December 31, | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| | | | percent | | | percent |
| 2. Principal guidelines used to measure the net cost of benefits for the period | | | | | | |
| Discounting rate | **0.4-2.0** | 0.6-1.9 | 1.1-1.5 | **1.0-2.3** | 1.3-2.4 | 1.7-2.1 |
| Anticipated long-term return on assets of the scheme | **1.6-2.8** | 3.1-3.4 | 3.1-3.4 | **-** | - | - |
| Rate of increase in real-term compensation | **1.8** | 1.6 | 1.4 | **0.2** | 0.2 | - |

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

| | Severance pay, and pension schemes | | | | Other post-retirement benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | One percentage point growth | | One percentage point decline | | One percentage point growth | | One percentage point decline | |
| | December 31, | | December 31, | | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | | (NIS million) | | (NIS million) | | (NIS million) | | (NIS million) |
| Discounting rate | **(70)** | (71) | **87** | 88 | **(38)** | (34) | **50** | 46 |
| Retirement rate | **78** | 80 | **(110)** | (111) | **(2)** | (2) | **2** | 2 |
| Rate of increase in compensation | **86** | 85 | **(69)** | (69) | **2** | 2 | **(1)** | (2) |

## NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

### (4) Assets of the scheme

**A. Composition of the fair value of the assets of the scheme**

| | Severance pay, and pension schemes | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2020 | | | | December 31, 2019 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | | | | (NIS million) | | | | (NIS million) |
| Cash and deposits with banks | **19** | **2** | **-** | **21** | 24 | 9 | - | 33 |
| Shares | **72** | **-** | **-** | **72** | 121 | - | - | 121 |
| Bonds: | | | | | | | | |
| Government bonds | **129** | **10** | **-** | **139** | 98 | 11 | - | 109 |
| Corporate bonds | **45** | **28** | **-** | **73** | 98 | 16 | - | 114 |
| Total | **174** | **38** | **-** | **212** | 196 | 27 | - | 223 |
| Other | **3** | **25** | **10** | **38** | 2 | 24 | 12 | 38 |
| Total | **268** | **65** | **10** | **343** | 343 | 60 | 12 | 415 |

**B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2021**

| | Severance pay, and pension schemes | | |
|---|---|---|---|
| | Allotment | % of scheme's assets | |
| | target | December 31, | |
| | 2021 | 2020 | 2019 |
| | | | percent |
| Cash and deposits with banks | **5.8** | **6.1** | 8.0 |
| Shares | **25.9** | **21.0** | 29.1 |
| Bonds: | | | |
| Government bonds | **37.0** | **40.5** | 26.3 |
| Corporate bonds | **22.6** | **21.3** | 27.4 |
| Total | **59.6** | **61.8** | 53.7 |
| Other | **8.7** | **11.1** | 9.2 |
| Total | **100.0** | **100.0** | 100.0 |

**C. Cash flows**

(1) Deposits

| | Severance pay, and pension schemes | | |
|---|---|---|---|
| | | Actual deposits | |
| | Forecast | For the year ended December 31, | |
| | *2021 | 2020 | 2019 |
| | | | (NIS million) |
| Deposits | **9** | 9 | 9 |

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2021.

## NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(2) Benefits expected to be paid by the Bank in the future**

| Year | Severance pay, and pension schemes | Other post-retirement benefits |
|---|---|---|
| | | (NIS million) |
| 2021 | 122 | 8 |
| 2022 | 56 | 8 |
| 2023 | 48 | 7 |
| 2024 | 54 | 8 |
| 2025 | 40 | 7 |
| 2026-2030 | 239 | 40 |
| 2031 and thereafter | 442 | 186 |
| Total | 1,001 | 264 |

** Non-discounted values. Not including future service cost.

## NOTE 24A - SHAREHOLDERS' EQUITY

(NIS million)

### A. Share capital - Composition:

| | Authorized | Issued and paid up |
|---|---|---|
| | December 31 | December 31 |
| | 2020 and 2019 | 2020 and 2019 |
| Ordinary shares of NIS 0.05 each | **18** | **5** |

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.
Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles it's holder to participate in the distribution of profits and to participate in the distribution of the Bank’s net assets in the event of liquidation, pro-rata to its par value.

### B. Dividend distribution policy

On August 30, 2010, the Bank Board of Directors adopted a dividend distribution policy, and on June 9, 2015 it was amended. According to the amended distribution policy the Bank would distribute annual dividends up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements shall be no less than the regulatory targets and targets specified, or to be specified, by the Bank Board of Directors from time to time. Past retained earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business, provided that no adverse changes occur to Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.
Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and to statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all. It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.
In addition, on August 14, 2017 the Board of Directors resolved to update the dividend policy, thus the net annual profit of the Bank, qualified to be distributed will refer to the annual net profit of the current year. The remaining condition were unchanged. It is clarified the the implementation of the updated policy will take into account the dividend distribution starting with and including the dividend paid at June 14, 2017.

It is noted that a dividend distribution by the Bank is subject, in addition to provision of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Directive No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (unless the prior consent of the Supervisor of Banks is obtained): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.
- Proper Conduct of Banking Business Directives which include guidelines regarding the manner of calculation of minimal capital ratio requirements. Proper Conduct of Banking Business Directive No. 201 requires that as from January 1,

2015, the minimal ratio of Tier 1 equity capital to risk assets will be 9% and the ratio of comprehensive capital to risk assets will be 12.5%. Other ratios and dates, which do not apply to the Bank, were determined for banking corporations with stated consolidated assets that equal or exceed 20% of total assets of the banking sector as a whole.

- "Restrictions on extending housing loans"- as a result of the application of the amendment to Proper Conduct of Banking Business Directive No. 329, it is required to raise the target of Tier 1 equity capital and the target of the comprehensive capital by a rate reflecting 1% of the outsatanding balance of housing loans.
- A letter addressed to the Bank by the Supervisor of Banks requires the Bank to inform the Supervisor in advance as to the intention to distribute a dividend in an amount exceeding 33% of the annual profit. It should be noted that during 2017 an updated letter from the Supervision of Banks was received by the Bank, according to which, dividend distribution in a rate of up to 50% of the annual profit of the Bank in the current year, no advance notice to the Supervisor is needed.
- The permit by the Governor of Bank of Israel issued in 2003 stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.

Following are details regarding dividends distributed by the Bank, as from the year 2018:

| Declaration date | Payment date | Total dividend paid | Dividend per share |
|---|---|---|---|
| | | NIS million | NIS |
| 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 |
| 26 November 2019 | 12 December 2019 | 110 | 1.10 |
| 15 March 2020 | 31 March 2020 | 125 | 1.25 |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| Dividend declared and paid by the Bank | **125** | 410 | 355 |

On the background of the letter of the Supervisor of Banks, dated March 29, 2020, addressed to all the commercial banks and with respect to the Provisional Instruction dated March 31, 2020, amending Proper Conduct of Banking Business directive 201, in which boards of directors of banks are requested, inter alia, to re-examine their dividend policies, on the background of the Coronavirus crisis and the uncertainty deriving from it. The Board of Directors of the Bank held a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which was originaly set for six months, until September 30, 2020, with an option for an extension of another six months. On September 16, 2020 the provisional instruction was extended until March 31, 2021. On the backgroud of the expectations of the Supervision of Banks in respect of the banking system in the matter, based on the continuing economic uncertainty and the possible effect of the continuance of the negative impact to the economy, the Board of Directors of the Bank decided, on March 16, 2021, to refrain from distributing dividends at this time.

It is clarified that the dividend distribution policy remains unchanged. The Board of Directors of the Bank would be entitled to examine the resolution regarding implementation of dividend distribution and modify it at its discretion.

It should be noted, that on march 7, 2021, the Bank of Israel published a draft amendment to the provisional instruction, according to which, the period of the instruction would be extended until September 30, 2021.

## NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY 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 from January 1, 2014, 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. In 2020, the maximum rate of instruments qualified as regulatory capital amounts to 20%.

#### (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 24% 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%. 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.

On background of the spreading of the Coronavirus and as part of the adjustment to Proper Banking Management directives and in order to secure the ability of Banks to continue the offer of credit, The Supervisor of Banks, published on March 31, 2020, a provisional instruction , concerning the update of directive 201, which includes a reduction of 1% of the capital requirements of banks and an update to directive 329 which cancel the demand of additional 1% on housing loans that were granted during the period of the crisis. These capital requirements were valid for a period of six months with an option for extension of another six months. On September 16, 2020 the Supervision of Banks published a circular which extends the provisional instruction until March 31, 2021. On March 7, 2021, Bank of Israel published a draft amendment to the provisional instruction, according to which, the period of the provisional instruction would be extended in respect of most of the reliefs , by an additional period of six months, until September 30, 2021. After these periods, if relevant, the Bank will have to present progressive delineation for the reaccumulation of the capital, as much as was eroded, over a period of two years.

In light of the abovementioned, the capital requirements applicable to the Bank as from the financial statements for March 31, 2020 are:

| | **Minimum capital ratio required** | | |
|---|---|---|---|
| **Minimum capital ratios** | **As of December 31, 2019** | **From 31.3.20 until 31.3.21** | **From 1.4.21 until 31.3.23** |
| **Teir 1 equity capital ratio** | 9% | 8% | The lower of:<br>- The Bank's capital ratio as of 31.3.21.<br>- The Bank's minimal capital ratio before the period of the provisional instruction |
| **Compehensive capital ratio** | 12.5% | 11.5% | |
| **Addition in respect of residential loans** | 1% of the outstanding balance of residential loans at date of the reporting | 1% of the outstanding balance of residential loans at date of the reporting except for loans extended during the period of the provisional instruction | |

For the outstanding balance of the residential loans see note 29.B.3.

## NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

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, are in accordance with the regulatory requirements, as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.30% and comprehensive capital ratio of not lower than 12.79%. Given the relief of the Bank of Israel, tier I equity capital ratio of not lower than 8.3% and comprehensive capital ratio of not lower than 11.79%.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

**(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":

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **a. Consolidated** | | |
| **1. Capital for calculation of capital ratio** | | |
| Tier 1 capital, after supervisory adjustments and deductions | **9,369** | 8,785 |
| Tier 2 capital after deductions | **2,749** | 2,345 |
| Total overall capital | **12,118** | 11,130 |
| **b. Weighted balances of risk assets** | | |
| Credit risk | **(2)76,203** | (2)73,862 |
| Market risk | **883** | 875 |
| Operational risk | **6,729** | 6,512 |
| Total weighted balances of risk assets | **83,815** | 81,249 |
| | | percent |
| **c. Ratio of capital to risk assets** | | |
| Ratio of tier 1 capital to risk assets | **11.18%** | 10.81% |
| Total ratio of capital to risk assets | **14.46%** | 13.70% |
| Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **(1)8.29%** | (1)9.31% |
| Minimal ratio of capital required by the Supervisor of Banks | **(1)11.79%** | (1)12.81% |

| | | percent |
|---|---|---|
| **B. Significant Subsidiaries** | | |
| **Bank Massad Ltd.** | | |
| Ratio of equity capital tier 1 to risk assets | **14.03%** | 13.50% |
| Total ratio of capital to risk assets | **15.19%** | 14.52% |
| Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **8.00%** | 9.00% |
| Minimal ratio of capital required by the Supervisor of Banks | **11.50%** | 12.50% |

# NOTE 24B - 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)

| | December 31, | |
|---|---|---|
| | **2020** | **2019** |
| **A. Equity capital tier 1** | | |
| Capital attributed to shareholders | **9,141** | 8,568 |
| **Differences between capital attributed to shareholders and equity capital tier 1** | | |
| Non-controlling interests | **208** | 233 |
| Total equity capital tier 1 before regulatory adjustments and deductions | **9,349** | 8,801 |
| **Regulatory adjustments and deductions:** | | |
| Intangible assets | **(98)** | (100) |
| Regulatory adjustments and other deductions- equity capital tier 1 | **(2)** | (5) |
| Total regulatory adjustments and deductions before adjustments in respect of efficiency measures- equity capital tier 1 | **(100)** | (105) |
| Total adjustments in respect of efficiency measures - equity capital tier 1 | **120** | 89 |
| Total equity capital tier 1 after regulatory adjustments and deductions | **9,369** | 8,785 |
| **B. Tier 2 capital** | | |
| Tier 2 capital: instruments before deductions | **1,796** | 1,564 |
| Tier 2 capital: provisions before deductions | **953** | 781 |
| Total tier 2 capital before deductions | **2,749** | 2,345 |
| **Deductions:** | | |
| Total deductions- tier 2 capital | **-** | - |
| Total tier 2 capital | **2,749** | 2,345 |

| | December 31, | |
|---|---|---|
| | **2020** | **2019** |
| **(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 | **11.03%** | 10.68% |
| Effect of adjustments in respect of efficiency measures | **0.15%** | 0.13% |
| Ratio of tier 1 equity capital to risk assets | **11.18%** | 10.81% |

(1) Minimal capital ratio required until March 31, 2020 are 9.0% and 12.5%, respectively. Starting from that date and during the period of the provisional instruction (see section A.1. above) are 8.0% and 11.5% respectively. To these relations was added capital requirement of 1% of housing loans balance for the reporting date, except for housing loans granted in the period from 19.3.20 until 31.12.20, the balance of which amount to NIS 3,850 million.

(2) An amount of NIS 158 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (31.12.19 - NIS 121 million).

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy". 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 a five years period.

For additional details in respect of the effect of the efficiency measures see 4 above.

(NIS million)

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

### (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 and the risk assets are 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.
- The effect of the changes in the CPI and exchange rates on the balances of assets.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of December 31, 2020:

| | 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 | **1.76** | **2.10** |

### (6) Efficiency

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency. A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line" method over five years. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

(a) 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. These efficiency measures include, inter alia, the continuation of expanding operations by digital means; the reduction in the number of branches and improvements in work processes at the branches and at head office. The efficiency measures include a reduction in the floor area used by the Bank as well as a gradual reduction in the workforce position of the Bank's group of an average of approximately 130 employees per year, in total, a reduction of approximately 650 employees until the end of 2020.

The Bank has received from the Supervisor of Banks an approval in principle for the spreading of the cost of these measures over five years by the "straight line" method, for the purpose of computing the capital adequacy.

The cost of benefits to employees within the framework of the efficiency measures implemented in the years 2016 and until 2020, is estimated at NIS 207 million, before the tax effect. The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2020, to be lower by 0.03%.

(b) 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 the year, 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).

The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2020, to be lower by 0.04%.

(c) On July 28, 2020 and on November 3, 2020, the Board of Directors of the Bank approved an efficiency plan, according to which, 60 tenured employees, belonging to the targeted population, will be enabled to retire in early retirement with preferred conditions.

The plan increased other comprehensive loss, gross, in the amount of NIS 48 million in respect of compensation liability and post retirement benefits.

In addition, in the fourth quarter of the year, an additional provision for increased severance pay was recorded in an amount of NIS 50 million, in respect of additional early retirement anticipated in the next few years. The effect, net after taxes, in respect of these measures amounted to NIS 65 million.

The impact on the ratio of equity to risk components, is recognized, as stated, in installments over five years, and is estimated at December 31, 2020, to be lower by 0.08%.

**(7) Application of accounring standard in respect of leasing**

On January 1, 2020 the Bank started to implement the new instruction concerning leasing. The implementation of the new instructions decreased the teir 1 equity capital ratio and comprehensive capital ratio in rate of 0.06% and 0.08% respectively, this as a result of weighing the risk assets in respect of right of use assets derived from operating leases which were recognized in the balance sheet in a rate of 100%.

## NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

### 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 24% of the total stated assets of the banking industry, including the Bank.

On November 15, 2020 the Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 250 – Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Coronavirus crisis (Provisional Instruction), within its framework was updated Proper Conduct of Banking Business directive No. 218 in the matter of Leverage Ratio. The update relieves the requirement of the leverage ratio by 0.5 percent point, so the Bank has to comply with leverage ratio of no less than 4.5% (instead of 5%) on a consolidated basis, for a banking corporation, the total consolidated stated assets of which is up to 24% of total stated assets of the banking sector as a whole (including the Bank). The relief will be valid until March 31, 2021. After this date the relief will be valid for another 24 months, in which the leverage ratio will not be less than the leverage ratio at the date of the end of the Provisional Instruction, or the minimal leverage ratio applying to a banking corporation prior to the Provisional Instruction, whichever is lower. On March 7, 2021, the Bank of Israel published a draft amendment to the instruction, according to which the period of the provisional instruction will be extended by another six months, in respect of most of the reliefs, until September 30, 2021.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | | NIS million |
| **A. Consolidated** | | |
| Tier 1 capital* | **9,369** | 8,785 |
| Total exposures | **177,195** | 151,120 |
| | | percent |
| Leverage ratio | **5.29%** | 5.81% |
| **B. Significant Subsidiary** | | |
| **Bank Massad Ltd.** | | |
| Leverage ratio | **7.24%** | 7.68% |
| Minimal Leverage ratio required by the Supervisor of banks | **4.50%** | 5.00% |

* For the effect of adjustments in respect of efficiency measures, see paragraph A(4) above.

## NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

### (3) Application of accounring standard in respect of leasing

On January 1, 2020 the Bank started to implement the new instruction concerning leasing. The implementation of the new instructions decreased the leverage ratio in rate of 0.02%, this as a result of weighing the risk assets in respect of right of use assets derived from operating leases which were recognized in the balance sheet in a rate of 100%.

### 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 three months ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| | | percent |
| **A. Consolidated*** | | |
| Liquidity coverage ratio | **150%** | 128% |
| **B. The bank*** | | |
| Liquidity coverage ratio | **150%** | 127% |
| **Significant Subsidiary*** | | |
| **Bank Massad Ltd.** | | |
| Liquidity coverage ratio | **241%** | 213% |
| Minimal liquidity coverage ratio required by the Supervisor of banks | **100%** | 100% |

* In terms of simple averages of daily observations.

# NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

## A. Off-balance sheet commitment in respect of activity based on the collection of loans(1) at the end of the year

| | Consolidated and The Bank | |
|---|---|---|
| | December 31 | |
| | 2020 | 2019 |
| **Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)** | | |
| Non-linked Israeli currency | **16** | 20 |
| CPI linked Israeli currency | **277** | 309 |
| Total | **293** | 329 |

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).

(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 54 million, consolidated and in the Bank (December 31, 2019 - NIS 40 million consolidated and in the Bank), were not included in the above table.

### Flows of collection commission and interest margins in respect of activity based on the collection of loans(1)

| | Consolidated and The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | December 31 | | | | | | December 31 |
| | 2020 | | | | | | 2019 |
| | Up to one year | One to three years | Three to five years | Five to ten years | Ten to twenty years | Total | Total |
| Contractual future flows | **2** | **3** | **2** | **2** | **1** | **10** | 12 |
| Expected future flows, net of management's estimate of premature repayments | **2** | **3** | **2** | **1** | **-** | **8** | 10 |
| Discounted future flows, net of management's estimate of premature repayments(2) | **2** | **3** | **2** | **1** | **-** | **8** | 11 |

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.

(2) The capitalization is based on a negative rate of 0.7% (2019 - negative rate of 0.7%).

### Information as to the granting of housing loans during the year

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Loans granted out of deposits repayable to the extent of collection of the loans | **29** | 21 |
| Standing loans | **16** | 11 |

## B. Other contingent liabilities and special commitments

| | | Consolidated | | The Bank | |
|---|---|---|---|---|---|
| | | December 31 | | December 31 | |
| | | 2020 | 2019 | 2020 | 2019 |
| 1. | Improvements to premises and acquisition of new premises, equipment and software | **9** | 10 | **9** | 10 |
| | Commitments to invest in private investment funds | **55** | 46 | **55** | 46 |

## NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(NIS million)

**2.** The Bank and its investees 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(1):

| | Consolidated | The Bank |
|---|---|---|
| | December 31 | December 31 |
| | 2019 | 2019 |
| First year | 73 | 67 |
| Second year | 67 | 61 |
| Third year | 59 | 54 |
| Fourth year | 52 | 47 |
| Fifth year | 47 | 42 |
| Sixth year and thereafter | 211 | 188 |
| Total | 509 | 459 |

(1) For information in respect of leasing agreement for 2020, see note 16.B. in respect of building and equipment - information regarding leases.

**C.** 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time, including directors who are controlling shareholders of the Bank (Mr. Tzadik Bino and Mr. Gill Bino) hereinafter: "Officers"). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders enlarged the scope of indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

In the years 2014, 2017 and recently on July 15, 2020, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, approved the granting again of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letter granted to the other Directors and Officers of the Bank and which had also been granted to them prior to the new approval, for a period of three additional years from date of approval of the relevant General Meeting.

On November 29, 2016 the Board of Directors of the Bank approved, after obtaining the approval of the Audit Committee and the Compensation Committee, to grant letter of exemption and indemnification also to whoever acts from time to time as the CEO of MATAF Computer and Financial Operations Ltd., a wholly owned subsidiary of the Bank. The letter of exemption and indemnification obligation are in accordance with the principles, the scope and the policy approved at the Bank, as mentioned above, to officers at the Bank.

On February 23, 2017, and thereafter on February 26, 2020, the General Meeting of Shareholders approved a compensation policy, which determined that an exemption to office holders shall not apply in respect of an act of commission or omission of the office holder regarding a decision or transaction in which a controlling shareholder or any office holder has a personal interest therein. This restriction is not to be applied to office holders which were initially appointed prior to the approval of this compensation policy by the General Meeting held on February 23, 2017, and who are entitled to exemption in accordance with decisions that had been approved in the past by the Bank.

On October 30, 2017, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to grant exemption from responsibility to officers who were initially appointed or would be appointed after February 23, 2017, and which in their respect includes a qualification according to which the exemption shall not apply in respect to an act of commission or omission by the officer regarding a decision or transaction in which a controlling shareholder or any officer has a personal interest therein, and all in accordance with the compensation policy of the Bank, as stated above. It is noted that the Bank has not tabled for reapproval by the General Meeting of Shareholders the letters of exemption granted in 2004 to Directors holding a controlling interest in the Bank.

Likewise, obligations to indemnify and exemptions in accordance with the principles approved by the General Meeting of Shareholders of June 2004, have been granted also to the following persons:

- Directors who had officiated in the Provident Fund Management Company owned by the Bank, and to those who had officiated in the provident funds controlled by the Bank prior to the sale of their operations. The said company was voluntarily liquidated in December 2014.
- Directors who had officiated on behalf of the Bank in FIBI Bank (U.K.) during the period in which it had been a consolidated subsidiary of the Bank. The holdings in FIBI Bank (U.K.) were sold by the Bank to a third party in June 2014.
- Directors who had officiated on behalf of the Bank in its consolidated subsidiary FIBI (Suisse). It is noted that this subsidiary sold its operations in June 2017 and that during that year all its banking activity was terminated.
- Directors who had officiated on behalf of the Bank in International Underwriting during the period in which this company was engaged in underwriting business. It is noted that in December 2010 this company changed its status to "an inactive underwriter", and that in December 2015, it was voluntarily liquidated.

The amount of the indemnity obligation is in accordance with the policy of the Bank in this matter.

2. In accordance with decisions taken by UBank Ltd. (hereinafter - "UBank") exemption is granted to Directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) from responsibility regarding the violation of the duty of care towards UBank.

Furthermore, UBank has committed to indemnify the said Directors and officers (as well as Directors appointed by UBank at UBank Finance (2005) Ltd. and who are not officers of UBank) in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders and in accordance with the principles approved in respect of officers of the First International Bank.

Upon the merger of Ubank with and into the Bank in 2015, all Ubank's commitments and rights detailed in this section were transferred to the Bank.

3. Otsar Hahayal has committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal and Massad according to its latest financial statements published shortly prior to the date of the actual indemnification. Upon consummation of the merger of Otsar Hahayal with and into the Bank on January 1, 2019, the commitment of Otsar Hahayal towards its Officers, including in respect of an event related to the merger, has passed to the Bank.

4. In accordance with decisions taken at Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI") exemption had been granted to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI. Furthermore, PAGI is committed to grant the said Officers indemnity with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI, and everything as detailed in the commitment for indemnity of Officers, and in accordance with the principles approved in respect of officers of the First International Bank.

   Upon the merger of PAGI in 2015 with and into the Bank, all PAGI's liabilities and rights detailed in this section were transferred to the Bank.

5. In accordance with the resolutions passed on August 17, 2020 by the General Meeting of Shareholders of Massad Bank Ltd. (hereinafter – "Massad") (following approval by the Audit Committee and the Board of Directors of Massad) exemption from responsibility for the violation of the duty of care regarding Massad has been granted to Directors of Massad and to Officers thereof (as defined by the Companies Act, 1999, including the internal auditor and the company secretary). Also granted to the said Officers are commitments for indemnification in respect of liability or expenditure imposed on them due to actions taken by them in fulfillment of their duties at Massad, and everything as detailed in the commitment for indemnification of Officers and in accordance with the principles applying to Officers of the First International Bank. The said resolution replaces an earlier resolution of 2013, according to which, Massad had committed to indemnify Officers, the amount of indemnification determined by the said commitment, in respect of all Officers of Massad together, regarding one or more of the stated indemnification events, was not to exceed 33% of the equity capital of Massad according to its latest financial statements published proximate prior to the actual date of indemnification. With respect to officiating Officers, the new arrangement will apply only with respect to an act of commission or omission occurring after the date of the resolution.

**D.** The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - “the Clearing House”) established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated on March 1, in every year, being equal to the total average daily clearing turnover in the calendar year that ended prior to the updating date, and in any event shall not be less than NIS 200 million. The share of the Bank amounts to NIS 194 million (December 31, 2019 - NIS 100 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank is required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened an account in its name with the Clearing House for the Bank, in which the Bank deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened an account in its name with another bank on behalf of the Bank, in which it may deposit funds as collateral, and also the Clearing House will deposit cash payable to the Bank, as income on its securities deposited and pledged as aforesaid.

As collateral for the fulfillment of all commitments of the Bank towards the Stock Exchange Clearing House, as stated above, with no limitation of their total amount, the bank registered on April 17, 2005, in favor of the clearing house, a first degree fixed pledge and an assignment by way of pledge in favor of the Clearing House, on its clearing account with the Clearing House and on its clearing account with another bank.

In order to improve the level of risk management of the Clearing House in the framework of the process of recognizing the Clearing House as a qualified central counterparty (QCCP), the Clearing House opened a monetary account with the Bank of Israel, in which it is possible to deposit the monetary collateral that the clearing house members place in its favor, whether to secure the operations of the Clearing House members or their liabilities to the risk fund of the Clearing House. In April 2017, the Bank registered a first-degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to all the rights of the Bank in the account of the Clearing House with the Bank of Israel. The monetary account with the other bank was closed in November 2020, and the monetary collateral is now deposited only in the account of the Clearing House with Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad, which is a Stock Exchange member but not a Clearing House member. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of its or its customers' operations.

As to the pledge to the Stock Exchange Clearing House see Note 26C below.

**E.** MAOF Clearing House formed a risk fund, the amount of which will be determined from time to time by the Board of Directors of the Clearing House. The initial amount determined for the risk fund is NIS 290 million linked to the consumer price index. Each member's share in the risk fund, including the Bank, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank in respect of the risk fund amounts to NIS 106 million as of December 31, 2020 in comparison with NIS 72 million on December 31, 2019.

Each of the member banks of the MAOF Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amounts at the balance sheet date relating to the Bank's customer transactions in respect of MAOF options are included in the balance sheet in the item “assets in respect of derivative instruments” and in the item “liabilities in respect of derivative instruments” in equal amounts based on the fair value. The balance of the liability of the Bank to the MAOF clearing house, over and above the amount stated in the balance sheet, based on the stock exchange models, is of NIS 374 million (December 31, 2019 - NIS 317 million).

The Bank registered in favor of the MAOF Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of MAOF securities managed in the name of the MAOF Clearing House at the Stock Exchange Clearing House (hereinafter - “the main account”) as well as on rights in an account managed in the name of the MAOF Clearing House at another bank (hereinafter - “the monetary account”). In addition, the Bank registered in favor of the MAOF Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. A further floating pledge was registered also on all rights attaching to the monetary account. As aforesaid in section D above the MAOF clearing house also opened an account with the Bank of Israel, in which it is also possible to deposit the monetary collateral, which its members are placing in its favor. In April 2017 the Bank registered a first-degree fixed pledge and an assignment by way of a pledge in favor of the MAOF clearing house on all its rights in the account of the MAOF clearing house with the Bank of Israel.

The monetary account with the other bank was closed in November 2020, and the monetary collateral is now deposited only in the account of the Clearing House with Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad, which is a Stock Exchange members but is not a MAOF Clearing House member. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of its or its customers' operations.

As to the pledge in favor of the MAOF Clearing House - see Note 26A below.

**F.** CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The CLS Clearing House elected the Bank as the third bank to serve as a provider of shekel liquidity, in addition to Bank Leumi and Bank Hapoalim. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank's rights to receive amounts and monetary charges in Israeli currency due and/or will be due from the Bank's customers comprising Israeli corporations.

**G.** The Bank Group (the Bank and its subsidiary companies) is a party to legal proceedings, including motions for approval of class actions. In the opinion of Management of the Bank and Managements of the subsidiary companies, based on legal opinions regarding the prospects of the actions, including the motions 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.

Following are details of actions filed against the Bank where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

1. 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 issued a verdict rejecting the motion for approval of the action as a class action. On November 4, 2019, the Plaintiff filed an appeal against this verdict.

2. On May 8, 2018, the Bank received notice of an action and a motion for approval of the action as a class action suit in the amount of NIS 146 million (hereinafter together - "the motion").

The Plaintiffs argue that the Bank concealed and did not disclose to its business customers the existing possibility of being classified as a "small business" and the practical significance of the classification of an account as a small business account as regards the retail price list, classified business customers under the default classification as a "large business" with no reasonable ground (thus applying to them the large business price list, which is the highest commission fee list), misled its customers and acted in order to hide both their classification as large business and their right to be defined as a small business, so that those of its customers who are entitled to be defined as a small business would continue to pay charges that do not apply to them or charges in amounts higher than those which should be payable by them.

The group which the Plaintiffs wish to represent comprises "all customers of the Bank, past and present, who were or are entitled to be defined as a "small business" under the Banking Rules (Customer service) (Commission fees), 2008, and who paid fees not in accordance with the pricelist applying to a small business, as from date of entry into effect of the commission fee rules and until this day".

3. On November 26, 2019, the Bank received an action brief together with a motion for approval of the action as a class action. The Plaintiff argues that an amendment to the commission fees rules entered into effect on November 1, 2017, which required banks in Israel to publish in Appendix "E" to the pricelist of the Bank a reduced pricelist applying to online transactions (namely, transactions made with no direct interface with a bank clerk). The Plaintiff further claims that Bank of Israel had instructed the banks that the discount required to be granted to the customer in respect of an online transaction, should be at least at the rate of 10% and alternatively 3%. The Plaintiff claims that as of date of filing of this action, and in respect of a part of the transactions detailed below, the Bank did not at all state in Appendix "E" to its pricelist, a commission rate applying to online transactions, and that in respect of all the online transactions detailed below, the Bank charges a commission fee as if the transaction had been made through a direct interface with a bank clerk, or charges a commission fee that is higher than the rate stated in the pricelist (for a transaction which is not online), or does not grant the customer the said discount, as instructed by Bank of Israel. The transactions in question are as follows: (1) Transfer of foreign currency from or to an account (any kind of foreign currency transfer including transfers from an account in Israel and an account abroad). (2) Purchase/sale/redemption of securities (shares and bonds) traded on the Tel Aviv Stock Exchange and/or purchase/sale/ redemption of securities (shares, bonds, mutual funds and options traded abroad). The Plaintiff did not state the amount of the claim, but argues that it is a considerable amount in the region of millions of NIS, and probably even higher.
4. On May 7, 2020, the Bank received notice of a motion for approval of a class action against the Bank with respect to the charging of a broker commission on operations in securities. The Plaintiff argues that for each transaction of purchase/sale of securities, the Bank charges a commission named by it as "broker commission", despite the fact that such a commission does not appear on the pricelist of the Bank and therefore is unlawfully charged. The Plaintiff further claims that to the extent that the matter involves a third party expense (which, according to the pricelist, the Bank may collect) the Bank has to provide details of the rate of the commission and manner of its calculation, which the Bank does not provide. The Plaintiff notes that it is not possible to assess the total amount of the claim, however, as argued, the personal damage caused to the Plaintiff in respect of each transaction amounts to NIS 2. Accordingly, the Plaintiff assumes that the total damage caused to the class as a whole during the seven years preceding the date of the action amounts to tens of millions of NIS, if not more. Accordingly, as argued in the claim, similar actions have been brought also against other banks.

The amount of additional exposure of the Bank and of the subsidiary companies of the Bank as of December 31, 2020, in respect of pending claims, which, in the opinion of the Bank, the possibility of their materialization, in whole or in part, is not remote and in respect of which no provision has been included, amounts to NIS 62 million.

**H.** 1. Following are details of claims against an affiliated company, Israel Credit Cards Ltd. ("ICC"), including motions for approval of class actions, the amount claimed therein is material. In the opinion of the Management of ICC, based inter alia on legal opinions, adequate provisions in respect of such claims are included in the financial statements, where required.

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

The subject matter of the motion is an argument claiming the existence of two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. The first binding arrangement, as argued by the Plaintiffs, refers to the rate of the cross commission in respect of transactions made by debit cards and prepaid cards. The second binding arrangement, as argued by the Plaintiffs, refers to the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the settlement companies had received the money.

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 "Anti-Trust 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.

On October 16, 2017, an action requesting declaratory relief was filed with the Competition Tribunal. 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 settlement companies, including ICC, have filed a motion for the in limine dismissal of the action, and on October 16, 2018, the Competition Tribunal ruled that the motion for in limine dismissal of the action requesting declaratory relief Order is admitted.

On November 29, 2018, an appeal was filed with the Supreme Court against the verdict of the Competition Tribunal, and on June 18, 2019, the Supreme Court ruled for the rejection of the appeal

On December 23, 2018, the Plaintiffs filed a plea with the Supreme Court sitting as a high Court of Justice, against the Competition Commissioner (formerly "Anti-Trust commissioner"), in which the Court is requested to instruct the Commissioner to act in order to clarify, cancel or change the verdict of the Competition Tribunal. The State filed its response on May 22, 2019. The hearing of the Plea was held on July 16, 2020, in which the arguments of the parties were heard at length. On the same day, the Court ruled for the rejection of the Plea with no order for costs. It was stated in the verdict that the Court does not voice an opinion regarding the question at the heart of the Plea for approval of the action as a class action. Accordingly, the class action proceedings will continue at the District Court. A preliminary hearing was fixed for April 12, 2021.

(b) 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-Yafo District Court.

It is alleged in the action that ICC had unlawfully increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Aviv-Yafo District Court in a similar case, wherein 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 ICC's response. A preliminary hearing of the case was held on January 15, 2020. In the meantime, the parties have accepted the recommendation of the Court to refer the matter to mediation. On October 28, 2020, the Plaintiffs informed the Court that the mediation process has failed and accordingly, the request the continuation of the proceedings at the Court. A preliminary hearing was held on December 17, 2020.

(c) 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-Yafo District Court. As argued in the action, which was served against ICC and against an additional company and a bank, which owned it, ICC did not provide proper disclosure of the manner of collecting interest by it. The plaintiff assesses his personal damage at NIS 38.54 and the total damage for the group at NIS 181 million. On March 5, 2019, ICC responded to the motion for approval. On June 7, 2020, the Court approved the motion for withdrawal from the claim against the defendant bank. A preliminary hearing has been fixed for April 9, 2021.

(d) On July 22, 2018, an action was filed with the Tel Aviv-Yafo District Court together with a motion for approval of the action as a class action, against ICC and against additional settlement 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 action 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 Plaintiff argues that the settlement companies are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Plaintiff states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million. ICC submitted its response to the motion on March 25, 2019. Preliminary hearing of the case was held on January 7, 2020.

(e) 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 three settlement companies, including ICC, in which the Appellants seeks 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 settlement companies may not earn profits from the cross-commission, which, as argued, is intended to cover only the costs of the issuer. ICC filed its response to the Plea on August 19, 2019. On July 27, 2020, the Court ruled for the rejection of the motion

2. The amount of exposure in respect of legal actions filed against ICC, the possibility of their materialization, in whole or in part, is reasonably possible, totals NIS 150 million.

3. A motion for approval of an action as a class action is pending against ICC, as detailed hereunder. ICC states in its reports, that in the opinion of ICC, based on opinions of its legal counsels, it is not possible at this stage to assess the prospects of the action and accordingly, no provision has been recorded in respect thereof.

   a. On May 14, 2020, an action was filed against ICC with the District Court-Central Region together with a motion for approval of the action as a class action. As argued in the action, the notice delivered to the Plaintiff regarding future charges in respect of use of a credit card, contained flaws requiring determination that the notice does not fulfill the notification duties required by law. The Plaintiff states its personal monetary damage at an amount of

NIS 13.5 and the non-monetary damage at an amount of NIS 100, but does not state the amount of the damage for the whole class.

b. On December 8, 2020, an action was filed against Isracard Ltd., Europay (EuroCard) Israel Ltd., Premium Express Ltd., ICC and Diners Club Israel Ltd., with the Tel Aviv-Yafo District Court together with a motion for approval of the action as a class action. The action requested the issue of mandatory injunctions, injunctions and monetary remedy in an estimated cumulative amount of NIS 150 million. The subject matter of the action is the argument that ICC makes illegitimate and prohibited use of the data base at its disposal (both by power of it being an issuer of credit cards and it being a settlement agent), and this without obtaining the informed agreement of its customers. ICC has to respond to the motion for approval of a class action by May 31, 2021.

4. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued to ICC 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). If the position of ICC would be rejected by the Court, it may be liable in respect of the issues raised in the VAT assessment, also for periods following the period of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Lod District Court. On November 3, 2019, the Supreme Court approved an agreed motion for the consolidation of the hearing of the appeal with those of the appeals filed by competitors of ICC. A pretrial was held on March 5, 2020. ICC estimates the amount of exposure in respect of which no provision is included in its financial statements regarding this matter, at NIS 153 million. Another pretrial is fixed for May 19, 2021.

**I.** Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.

As part of the market making activity, the Treasury has granted to the Bank a Government bond borrowing facility up to an amount of NIS 1 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26I.

**J.** The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers and liquidators, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for debt notes issued by them, subject to the terms of the relevant trust documents.

**K.** Within the framework of the voluntary liquidation process of FIBI (Suisse) Ltd., which was concluded on May 25, 2020, Deloitte AG (hereinafter - "Deloitte") had been appointed in August 2018, as liquidators of the Extension. As part of their appointment as Liquidators, different indemnifications had been granted to Deloitte by FIBI (Suisse) and by the Bank in connection with the liquidation.

**L.** The Bank issues debit card with the three credit card companies, in accordance with agreements described below.

**During the year 2020, the Bank has signed an extension of two joint issuance agreement of debit card with the credit card companies, as detailed below.**

- During the month of July, an agreement for joint issuance was signed with Isracard and/or Europay (Eurocard) Israel Ltd. According to the agreement, the parties to the agreement will continue the joint issuance of credit cards to the customers of the Bank. The extension of the agreement updated the commercial and operational terms, which were determined between the parties in the previous agreements.
- During the month of December, a joint issuance agreement was signed with ICC and Diners Club Ltd., a fully owned company of ICC. According to the agreement, the parties will continue the joint issuance of credit cards to the customers of the Bank. The extension of the agreement updated the commercial and operational terms which were determined between the parties in the previous agreements.

  During 2019, the Bank has signed a joint issuance agreement with Max It Finance Ltd. (formerly- Leumicard Ltd.) ("Max"). According to the agreement, the parties issue credit cards to the customers of the Bank, which their operation is performed by Max. In the aforementioned agreement, the rights and duties of the parties, as well as additional arrangements in respect of the described activity, were determined.

## NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS

A. To secure liabilities to the MAOF Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the MAOF Clearing House.

Set out below is the balance of the collateral which the Bank provided to the MAOF Clearing House (in NIS million):

| | December 31, 2020 | | Average balance for 2020 | | Highest balance for 2020 | |
|---|---|---|---|---|---|---|
| | **For risk fund** | **For customer & nostro activity** | **For risk fund** | **For customer & nostro activity** | **For risk fund** | **For customer & nostro activity** |
| Securities | **80** | **303** | **66** | **268** | **80** | **303** |
| Cash deposited as collateral | **26** | **-** | **22** | **-** | **26** | **-** |

| | December 31, 2019 | | Average balance for 2019 | | Highest balance for 2019 | |
|---|---|---|---|---|---|---|
| | **For risk fund** | **For customer & nostro activity** | **For risk fund** | **For customer & nostro activity** | **For risk fund** | **For customer & nostro activity** |
| Securities | 54 | 223 | 55 | 279 | 57 | 347 |
| Cash deposited as collateral | 18 | - | 18 | - | 19 | - |

B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed USD 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.

C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged cash and securities in favor of the Stock Exchange Clearing House.

Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

| | December 31 | | Average balance | | Highest balance | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Securities | **146** | 75 | **122** | 69 | **146** | 80 |
| Cash deposited as collateral | **48** | 25 | **41** | 23 | **48** | 27 |

D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiary, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.

(2) Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

| | December 31 | | Average balance | | Highest balance | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Securities | **1,882** | 107 | **953** | 106 | **1,882** | 107 |

* The credit facility secured by this pledge was not in use in the year 2019.

** See Note 11 regarding cash balances and deposits with Bank of Israel.

(3) See Note 25.F regarding a floating pledge in favor of Bank of Israel on rights to receive monetary sums and charges in Israeli currency due and/or will be due from customers comprising Israeli corporations as part of the Bank's operations as a supplier of CLS Clearing House services.

## NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS (CONT'D)

E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.

As of December 31, 2020, the Bank has transferred deposits in favor of counterparties in the amount of NIS 533 million (December 31, 2019 - NIS 193 million). At December 31, 2020 the Bank has received deposits from counterparties in the amount of NIS 251 million (December 31, 2019 - NIS 58 million).

In addition, to secure the fulfillment of the obligation and/or the credit exposure of the Bank as above, the Bank deposited cash deposits with counterparties, as initial margins, that as of December 31, 2020 amounted to NIS 105 million (December 31, 2019 - NIS 82 million).

F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engagements with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2020, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to NIS Dollar 82 million (December 31, 2019 - NIS Dollar 52 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of NIS 1,310 million (December 31, 2019 - NIS 552 million).

G. The Bank receives from a foreign bank foreign currency clearing services through the CLS clearing house. In order to secure the credit exposure of the foreign bank to the Bank with respect to the clearing of foreign currency transactions through the CLS, the Bank had deposited with the foreign bank a cash amount of US$ 50 million. The deposit serves as collateral and is subject to lien and offsetting rights of the foreign bank in connection with the clearing activity in the CLS clearing house.

H. Set out below are details of the securities that were pledged to lenders as stated in A, C, D and F where the lenders are not entitled to sell or pledge them (in NIS million):

| | | December 31, |
|---|---|---|
| | **2020** | **2019** |
| Securities held to maturity | **1,806** | 352 |
| Bonds available for sale | **687** | 52 |
| Total | **2,493** | 404 |

I. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

| | | December 31, |
|---|---|---|
| | **2020** | **2019** |
| Securities received in securities lending transactions in return for cash | **11** | 9 |
| Securities received under non-collateralized securities lending transaction | **283** | 766 |
| Total | **294** | 775 |

## NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

### A. Volume of activity on a consolidated basis

### 1. Face value of derivative instruments

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total |
| **Interest contracts** | | | | | | |
| Forward and Futures Contracts | **400** | **1,978** | **2,378** | 21 | 3,162 | 3,183 |
| Options written | **-** | **125** | **125** | - | 552 | 552 |
| Options purchased | **-** | **125** | **125** | - | 552 | 552 |
| SWAPS(1) | **4,444** | **11,842** | **16,286** | 3,859 | 13,144 | 17,003 |
| Total(2) | **4,844** | **14,070** | **18,914** | 3,880 | 17,410 | 21,290 |
| Of which: Hedging derivatives(3) | **3,527** | **-** | **3,527** | 2,911 | - | 2,911 |
| **Foreign currency contracts** | | | | | | |
| Forward and Futures Contracts(4) | **15,231** | **29,621** | **44,852** | 12,605 | 35,127 | 47,732 |
| Options written | **-** | **14,301** | **14,301** | 31 | 13,215 | 13,246 |
| Options purchased | **-** | **14,482** | **14,482** | 31 | 13,703 | 13,734 |
| SWAPS | **179** | **-** | **179** | 215 | - | 215 |
| Total | **15,410** | **58,404** | **73,814** | 12,882 | 62,045 | 74,927 |
| **Contracts on shares** | | | | | | |
| Forward and Futures Contracts | **-** | **27,466** | **27,466** | - | 12,347 | 12,347 |
| Options written | **-** | **13,850** | **13,850** | - | 16,030 | 16,030 |
| Options purchased(5) | **-** | **13,843** | **13,843** | - | 15,960 | 15,960 |
| Total | **-** | **55,159** | **55,159** | - | 44,337 | 44,337 |
| **Commodities and other contracts** | | | | | | |
| Forward and Futures Contracts | **-** | **151** | **151** | - | 72 | 72 |
| Options written | **-** | **10** | **10** | - | 42 | 42 |
| Options purchased | **-** | **10** | **10** | - | 42 | 42 |
| Total | **-** | **171** | **171** | - | 156 | 156 |
| Total face value | **20,254** | **127,804** | **148,058** | 16,762 | 123,948 | 140,710 |

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 10,567 million (31.12.19 - NIS 10,338 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 566 million (31.12.19 - NIS 686 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 1,830 million (31.12.19 - NIS 2,677 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 13,830 million (31.12.19 - NIS 15,878 million).

# NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

## 2. Gross fair value of derivative instruments

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | **4** | **217** | **221** | **250** | **203** | **453** |
| Of which: Hedging derivatives | **3** | **-** | **3** | **233** | **-** | **233** |
| Foreign currency contracts | **66** | **819** | **885** | **99** | **972** | **1,071** |
| Contracts on shares | **-** | **789** | **789** | **-** | **789** | **789** |
| Commodities and other contracts | **-** | **2** | **2** | **-** | **2** | **2** |
| Total assets/liabilities in respect of derivatives gross(1) | **70** | **1,827** | **1,897** | **349** | **1,966** | **2,315** |
| Amounts offset in the balance sheet | **-** | **-** | **-** | **-** | **-** | **-** |
| Balance sheet balance | **70** | **1,827** | **1,897** | **349** | **1,965** | **2,314** |
| Of which: not subject to net settlement arrangement or similar arrangements | **-** | **-** | **-** | **-** | **-** | **-** |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 3 | 246 | 249 | 146 | 238 | 384 |
| Of which: Hedging | 1 | - | 1 | 122 | - | 122 |
| Foreign currency contracts | 77 | 314 | 391 | 22 | 392 | 414 |
| Contracts on shares | - | 450 | 450 | - | 450 | 450 |
| Commodities and other contracts | - | 1 | 1 | - | 1 | 1 |
| Total assets/liabilities in respect of derivatives gross(1) | 80 | 1,011 | 1,091 | 168 | 1,081 | 1,249 |
| Amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance | 80 | 1,011 | 1,091 | 168 | 1,079 | 1,247 |
| 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 1 million (31.12.19 - NIS 2 million).

## NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

### B. Accounting hedge

#### General

The Bank is exposued to market risks, including basis risks and interest risks. Basis risk is the exsisting or future risk to the income or capital of the Group which can materialize as a result from changes in the CPI or the exchange rates of foreign currency due to the difference beyween the value of the assets to the value of the liabilities. Interest risk is the risk to the earnings or capital deriving from flactuations in the interest rates. Changes in the interest rates affect the Bank's earnings by change in net earnings, and the value of the Bank's assets, its liabilities and off balance sheet instruments, since the present value of future cash flows (and even the cash flows themselves) changes when a change occur in the interest rates. As part of the overall strategy of the Bank to manage the level of exposure to basis and interest risks, the Bank uses derivative instruments such as foreign currency and CPI forwards, foreign currency options and interest rate swaps (swaping fixed interest rate with variable interest rate). The Bank have derivativies designated and qualified as fair value hedges.

If a derivative is not designated as qualified hedging, the derivative is stated according to fair value and changes in the f air value are stated on a current basis in the profit and loss statement.

#### Fair value hedges

The Bank designates certain derivatives as fair value hedges. The change in the fair value of the derivatives, hedging the exposure to changes in the fair value of the underlying of the asset, is recognized on a currect basis in the profit and loss statement, as well as the change in the fair value of the hedged instrument, which can be attributed to the hedged risk.

| | For the year ended December 31, 2020 | For the year ended December 31, 2019 |
|---|---|---|
| | Interest income (expenses) | Interest income (expenses) |
| **1. Effect of accounting of fair value Hedge on profit (loss)** | | |
| **Profit from fair value Hedge** | | |
| Interest contracts | | |
| - Hedged items | **108** | 105 |
| - Hedging derivatives | **(144)** | (115) |

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | | Cumulative fair value adjustments increasing the book value | | Cumulative fair value adjustments increasing the book value |
| | Book value | Existing hedge relation | Book value | Existing hedge relation |
| **2. Items Hedged by fair value Hedge** | | | | |
| Securities- debt instruments classified as available for sale | **3,908** | **210** | 3,185 | 105 |

## NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

| | For the year ended December 31, 2020 | For the year ended December 31, 2019 |
|---|---|---|
| | 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 | **1** | (15) |
| - Foreign currency contracts | **(681)** | (410) |
| - Share contracts | **8** | 6 |

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

### C. Credit risk in respect of derivatives instruments, according to transaction counterparty on a consolidated basis

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Exchanges | Banks | Dealers/ brokers | Government and central banks | Others | Total |
| Balance sheet balance of assets in respect of derivative instruments | **166** | **630** | **329** | **90** | **682** | **1,897** |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments | **-** | **(428)** | **(42)** | **-** | **(301)** | **(771)** |
| Credit risk mitigation in respect of cash collateral received | **-** | **(9)** | **-** | **-** | **(170)** | **(179)** |
| Net amount of assets in respect of derivative instruments | **166** | **193** | **287** | **90** | **211** | **947** |
| Off balance sheet credit risk in respect of derivative instruments(2) | **-** | **285** | **50** | **14** | **1,446** | **1,795** |
| Off balance sheet credit risk mitigation | **-** | **(158)** | **(30)** | **-** | **(1,020)** | **(1,208)** |
| Net off balance sheet credit risk in respect of derivative instruments | **-** | **127** | **20** | **14** | **426** | **587** |
| Total credit risk in respect of derivative instruments | **166** | **320** | **307** | **104** | **637** | **1,534** |
| Balance sheet balance of liabilities in respect of derivative instruments(1) | **131** | **777** | **412** | **-** | **995** | **2,315** |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | **-** | **(428)** | **(41)** | **-** | **(129)** | **(598)** |
| Cash collateral which was attached by a lien | **-** | **(296)** | **(23)** | **-** | **(1)** | **(320)** |
| Net amount of liabilities in respect of derivative instruments | **131** | **53** | **348** | **-** | **865** | **1,397** |

## NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Exchanges | Banks | Dealers/ brokers | Government and central banks | Others | Total |
| Balance sheet balance of assets in respect of derivative instruments | 120 | 446 | 141 | 1 | 383 | 1,091 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments (1) | - | (269) | (17) | - | (142) | (428) |
| Credit risk mitigation in respect of cash collateral received | - | (25) | (4) | - | (115) | (144) |
| Net amount of assets in respect of derivative instruments | 120 | 152 | 120 | 1 | 126 | 519 |
| Off balance sheet credit risk in respect of derivative instruments(2) | - | 315 | 39 | - | 1,040 | 1,394 |
| Off balance sheet credit risk mitigation | - | (152) | (6) | - | (704) | (862) |
| Net off balance sheet credit risk in respect of derivative instruments | - | 163 | 33 | - | 336 | 532 |
| Total credit risk in respect of derivative instruments | 120 | 315 | 153 | 1 | 462 | 1,051 |
| Balance sheet balance of liabilities in respect of derivative instruments | 97 | 390 | 203 | - | 559 | 1,249 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | - | (269) | (17) | - | (85) | (371) |
| Cash collateral which was attached by a lien | - | (64) | - | - | - | (64) |
| Net amount of liabilities in respect of derivative instruments | 97 | 57 | 186 | - | 474 | 814 |

(1) The fair value of derivative instruments subject to netting agreements amounts to NIS 599 million, government bonds received as collateral amounts to NIS 132 million, shares received as collateral amounts to NIS 39 million and corporate bonds received as collateral amounts to NIS 1 million (31.12.19 - derivative instruments subject to netting agreements amounts to NIS 371 million, government bonds received as collateral amounts to NIS 54 million and shares received as collateral amounts to NIS 3 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, before credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

### D. Maturity dates (stated value amounts): year-end balance on consolidated basis

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Interest rate contracts - | | | | | |
| - NIS - CPI | **-** | **400** | **166** | **-** | **566** |
| - Other | **3,668** | **1,654** | **9,630** | **3,396** | **18,348** |
| Foreign currency contracts | **58,103** | **15,087** | **624** | **-** | **73,814** |
| Contracts of shares | **52,914** | **1,716** | **529** | **-** | **55,159** |
| Commodities and other contracts | **150** | **21** | **-** | **-** | **171** |
| Total | **114,835** | **18,878** | **10,949** | **3,396** | **148,058** |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Total | 99,157 | 26,585 | 11,679 | 3,289 | 140,710 |

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

### A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

  Where the income turnover of business customer does not represent its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines. Starting with the first quarter of 2020, business customer operating in the capital market or in the real estate segment, which indebtedness is less than NIS 100 million, the classification to customers' segments is made in accordance to the value of assets in the balance sheet. Comparative data were reclassified.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

**Principles for apportioning operating results among the different segments**

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

### A. Definitions (CON'T)

- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

# NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

## B. Operational supervision segment information

| Consolidated | For the year ended December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | |
| | Households | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | (NIS million) |
| Interest income from external | 1,646 | 7 | 671 | 158 | 232 | (8) | 172 | 2,878 |
| Interest expense from external | 105 | 29 | 46 | 10 | 37 | 14 | - | 241 |
| Net interest income | | | | | | | | |
| - From external | 1,541 | (22) | 625 | 148 | 195 | (22) | 172 | 2,637 |
| - Inter - segment | (323) | 46 | (2) | 7 | 109 | 61 | 102 | - |
| Total net interest income | 1,218 | 24 | 623 | 155 | 304 | 39 | 274 | 2,637 |
| Non-interest income | 586 | 77 | 344 | 71 | 100 | 212 | 133 | 1,523 |
| Total income | 1,804 | 101 | 967 | 226 | 404 | 251 | 407 | 4,160 |
| Expenses from credit losses | 117 | 1 | 162 | 84 | 98 | 2 | - | 464 |
| Operating and other expenses | 1,395 | 67 | 621 | 100 | 152 | 174 | 60 | 2,569 |
| Operating profit before taxes | 292 | 33 | 184 | 42 | 154 | 75 | 347 | 1,127 |
| Provision for taxes on operating profit | 105 | 11 | 58 | 11 | 44 | 26 | 113 | 368 |
| Operating profit after taxes | 187 | 22 | 126 | 31 | 110 | 49 | 234 | 759 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | 29 | 29 |
| Net profit: | | | | | | | | |
| Before attribution to non-controlling interests | 187 | 22 | 126 | 31 | 110 | 49 | 263 | 788 |
| Attributed to non-controlling interests | (26) | - | (4) | (2) | (1) | - | (5) | (38) |
| Net profit attributed to shareholders of the Bank | 161 | 22 | 122 | 29 | 109 | 49 | 258 | 750 |
| Average balance of assets(1) | 47,443 | 50 | 17,827 | 5,592 | 17,425 | 1,405 | 62,438 | 152,180 |
| of which: Investee Company(1) | - | - | - | - | - | - | 617 | 617 |
| of which: Average balance of credit to the public(1) | 47,443 | 50 | 17,827 | 5,592 | 17,425 | 1,405 | - | 89,742 |
| Balance of credit to the public | (4)49,687 | 70 | 18,876 | 5,385 | 16,724 | 1,505 | - | 92,247 |
| Balance of impaired debts | 190 | - | 231 | 78 | 78 | - | - | 577 |
| Balance in arrears over 90 days | 174 | - | 36 | - | 7 | - | - | 217 |
| Average balance of liabilities(1) | 60,059 | 8,698 | 22,255 | 5,589 | 13,162 | 22,665 | 10,630 | 143,058 |
| of which: Average balance of deposits from the public(1) | 59,151 | 8,666 | 21,759 | 5,413 | 12,317 | 22,553 | - | 129,859 |
| Balance of deposits from the public | 63,338 | 9,097 | 24,358 | 5,707 | 12,867 | 26,310 | - | 141,677 |
| Average balance of risk assets(1)(2) | 32,393 | 207 | 17,441 | 6,564 | 17,761 | 1,606 | 7,321 | 83,293 |
| Balance of risk assets(2) | 32,960 | 214 | 17,720 | 5,982 | 17,624 | 1,718 | 7,597 | 83,815 |
| Average balance of assets under management(1)(3) | 32,799 | 17,287 | 15,775 | 3,497 | 12,373 | 248,302 | - | 330,033 |
| Segmentation of net interest income: | | | | | | | | |
| - Earnings from credit - granting activity | 1,073 | - | 582 | 148 | 296 | 14 | - | 2,113 |
| - Earnings from deposits - taking activity | 156 | 24 | 47 | 9 | 14 | 26 | - | 276 |
| - Other | (11) | - | (6) | (2) | (6) | (1) | 274 | 248 |
| Total net interest income | 1,218 | 24 | 623 | 155 | 304 | 39 | 274 | 2,637 |

(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.
(4) Including residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,253 million.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

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

| Consolidated | For the year ended December 31, 2019* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | |
| | Households | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total activity in Israel |
| | | | | | | | | (NIS million) |
| Interest income from external | 1,669 | 14 | 670 | 164 | 265 | 16 | 287 | 3,085 |
| Interest expense from external | 172 | 52 | 87 | 17 | 67 | 77 | 11 | 483 |
| Net interest income | | | | | | | | |
| - From external | 1,497 | (38) | 583 | 147 | 198 | (61) | 276 | 2,602 |
| - Inter - segment | (253) | 76 | 72 | 18 | 76 | 136 | (125) | - |
| Total net interest income | 1,244 | 38 | 655 | 165 | 274 | 75 | 151 | 2,602 |
| Non-interest income | 549 | 68 | 313 | 75 | 111 | 190 | 214 | 1,520 |
| Total income | 1,793 | 106 | 968 | 240 | 385 | 265 | 365 | 4,122 |
| Expenses from credit losses | 72 | - | 35 | 12 | 18 | 1 | - | 138 |
| Operating and other expenses | 1,443 | 65 | 632 | 110 | 161 | 184 | 59 | 2,654 |
| Operating profit before taxes | 278 | 41 | 301 | 118 | 206 | 80 | 306 | 1,330 |
| Provision for taxes on operating profit | 95 | 14 | 103 | 44 | 90 | 27 | 105 | 478 |
| Operating profit after taxes | 183 | 27 | 198 | 74 | 116 | 53 | 201 | 852 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | 51 | 51 |
| Net profit: | | | | | | | | |
| Before attribution to non-controlling interests | 183 | 27 | 198 | 74 | 116 | 53 | 252 | 903 |
| Attributed to non-controlling interests | (24) | - | (5) | (3) | - | - | (6) | (38) |
| Net profit attributed to shareholders of the Bank | 159 | 27 | 193 | 71 | 116 | 53 | 246 | 865 |
| Average balance of assets(1) | 45,476 | 50 | 16,653 | 5,623 | 16,599 | 1,039 | 50,865 | 136,305 |
| of which: Investee Company(1) | - | - | - | - | - | - | 605 | 605 |
| of which: Average balance of credit to the public(1) | 45,476 | 50 | 16,653 | 5,623 | 16,599 | 1,039 | - | 85,440 |
| Balance of credit to the public | (4)47,418 | 67 | 17,264 | 5,539 | 17,280 | 1,261 | - | 88,829 |
| Balance of impaired debts | 156 | - | 220 | 35 | 298 | - | - | 709 |
| Balance in arrears over 90 days | 212 | - | 20 | 4 | 13 | - | - | 249 |
| Average balance of liabilities(1) | 52,093 | 7,619 | 19,232 | 5,225 | 10,527 | 23,365 | 9,516 | 127,577 |
| of which: Average balance of deposits from the public(1) | 50,896 | 7,611 | 18,660 | 4,968 | 9,861 | 22,825 | - | 114,821 |
| Balance of deposits from the public | 51,572 | 7,734 | 19,157 | 5,491 | 11,018 | 25,080 | - | 120,052 |
| Average balance of risk assets(1)(2) | 31,559 | 213 | 16,480 | 6,654 | 16,416 | 1,070 | 7,627 | 80,019 |
| Balance of risk assets(2) | 32,112 | 218 | 16,844 | 6,448 | 16,880 | 1,159 | 7,588 | 81,249 |
| Average balance of assets under management(1)(3) | 35,493 | 17,337 | 16,139 | 3,993 | 13,001 | 236,423 | - | 322,386 |
| Segmentation of net interest income: | | | | | | | | |
| - Earnings from credit - granting activity | 1,046 | - | 575 | 149 | 265 | 10 | - | 2,045 |
| - Earnings from deposits - taking activity | 215 | 38 | 89 | 20 | 20 | 66 | - | 448 |
| - Other | (17) | - | (9) | (4) | (11) | (1) | 151 | 109 |
| Total net interest income | 1,244 | 38 | 655 | 165 | 274 | 75 | 151 | 2,602 |

* Reclassified. See item A in page 219.

(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.

(4) Including residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,038 million.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

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

| Consolidated | For the year ended December 31, 2018* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Activity in Israel |
| | Households | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total activity in Israel |
| | | | | | | | | (NIS million) |
| Interest income from external | 1,524 | 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 | (33) | 571 | 157 | 293 | (45) | 202 | 2,486 |
| - Inter - segment | (196) | 66 | 48 | 20 | 4 | 107 | (49) | - |
| Total net interest income | 1,145 | 33 | 619 | 177 | 297 | 62 | 153 | 2,486 |
| Non-interest income | 577 | 62 | 321 | 81 | 119 | 194 | 283 | 1,637 |
| Total income | 1,722 | 95 | 940 | 258 | 416 | 256 | 436 | 4,123 |
| Expenses from credit losses | 67 | - | 55 | 8 | 35 | 1 | - | 166 |
| Operating and other expenses | 1,545 | 63 | 653 | 120 | 188 | 178 | 72 | 2,819 |
| Operating profit before taxes | 110 | 32 | 232 | 130 | 193 | 77 | 364 | 1,138 |
| Provision for taxes on operating profit | 41 | 12 | 87 | 49 | 72 | 29 | 118 | 408 |
| Operating profit after taxes | 69 | 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 | 20 | 145 | 81 | 121 | 48 | 283 | 767 |
| Attributed to non-controlling interests | (20) | - | (5) | (4) | - | - | (5) | (34) |
| Net profit attributed to shareholders of the Bank | 49 | 20 | 140 | 77 | 121 | 48 | 278 | 733 |
| Average balance of assets(1) | 43,802 | 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 | 51 | 15,426 | 5,739 | 17,855 | 764 | - | 83,637 |
| Balance of credit to the public | (4)45,359 | 51 | 15,948 | 5,816 | 17,052 | 934 | - | 85,160 |
| Balance of impaired debts | 100 | - | 218 | 35 | 114 | - | - | 467 |
| Balance in arrears over 90 days | 215 | - | 23 | 5 | - | - | - | 243 |
| Average balance of liabilities(1) | 48,806 | 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) | 30,158 | 189 | 15,106 | 6,926 | 17,857 | 1,042 | 8,039 | 79,317 |
| Balance of risk assets(2) | 30,725 | 190 | 15,404 | 7,053 | 16,329 | 1,517 | 7,919 | 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 | - | 560 | 164 | 292 | 12 | - | 2,035 |
| - Earnings from deposits - taking activity | 159 | 33 | 72 | 19 | 21 | 51 | - | 355 |
| - Other | (21) | - | (13) | (6) | (16) | (1) | 153 | 96 |
| Total net interest income | 1,145 | 33 | 619 | 177 | 297 | 62 | 153 | 2,486 |

* Reclassified. See item A in page 219.
(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.
(4) Including residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 934 million.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

### C. Private individuals - household and private banking - activity in Israel

| Consolidated | For the year ended December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Households segment | | | | Private banking segment | | | |
| | Housing loans | Credit cards | other | Total | Credit cards | other | Total | Total |
| | | | | | | | | (NIS million) |
| Interest income from externals | 633 | 14 | 999 | 1,646 | - | 7 | 7 | 1,653 |
| Interest expenses for externals | - | - | 105 | 105 | - | 29 | 29 | 134 |
| Net interest income | | | | | | | | |
| - From externals | 633 | 14 | 894 | 1,541 | - | (22) | (22) | 1,519 |
| - Inter-segmental | (265) | (2) | (56) | (323) | - | 46 | 46 | (277) |
| Total net interest income | 368 | 12 | 838 | 1,218 | - | 24 | 24 | 1,242 |
| Non-interest income | 13 | 82 | 491 | 586 | 1 | 76 | 77 | 663 |
| Total income | 381 | 94 | 1,329 | 1,804 | 1 | 100 | 101 | 1,905 |
| Expenses from credit losses | 41 | - | 76 | 117 | - | 1 | 1 | 118 |
| Operating and other expenses | 172 | 48 | 1,175 | 1,395 | - | 67 | 67 | 1,462 |
| Profit before taxes | 168 | 46 | 78 | 292 | 1 | 32 | 33 | 325 |
| Provision for taxes on profit | 60 | 16 | 29 | 105 | - | 11 | 11 | 116 |
| Net profit: | | | | | | | | |
| Before attribution to non-controlling interests | 108 | 30 | 49 | 187 | 1 | 21 | 22 | 209 |
| Attributed to non-controlling interests | - | (2) | (24) | (26) | - | - | - | (26) |
| Net profit attributed to shareholders of the Bank | 108 | 28 | 25 | 161 | 1 | 21 | 22 | 183 |
| Average balance of assets(1) | 26,964 | 2,626 | 17,853 | 47,443 | 21 | 29 | 50 | 47,493 |
| Of which: average balance of credit to the public (1) | 26,964 | 2,626 | 17,853 | 47,443 | 21 | 29 | 50 | 47,493 |
| Balance of credit to the public at the end of the reported period | 28,336 | 3,462 | 17,889 | 49,687 | 31 | 39 | 70 | 49,757 |
| Balance of impaired debts | 36 | - | 154 | 190 | - | - | - | 190 |
| Balance of debts in arrears of more than 90 days | 156 | - | 18 | 174 | - | - | - | 174 |
| Average balance of liabilities(1) | 365 | 67 | 59,627 | 60,059 | 1 | 8,697 | 8,698 | 68,757 |
| Of which: average balance of deposit from the public (1) | - | - | 59,151 | 59,151 | - | 8,666 | 8,666 | 67,817 |
| Balance of deposits from the public at the end of the reported period | - | - | 63,338 | 63,338 | - | 9,097 | 9,097 | 72,435 |
| Average balance of risk-adjusted assets(1)(2) | 14,517 | 3,085 | 14,791 | 32,393 | 29 | 178 | 207 | 32,600 |
| Balance of risk-adjusted assets at the end of the reported period(2) | 15,187 | 3,729 | 14,044 | 32,960 | 37 | 177 | 214 | 33,174 |
| Average balance of assets under management(1)(3) | - | - | 32,799 | 32,799 | - | 17,287 | 17,287 | 50,086 |
| Segmentation of net interest income: | | | | | | | | |
| - Spread from credit granting activity | 374 | 12 | 687 | 1,073 | - | - | - | 1,073 |
| - Spread from deposit taking activity | - | - | 156 | 156 | - | 24 | 24 | 180 |
| - Other | (6) | - | (5) | (11) | - | - | - | (11) |
| Total net interest income | 368 | 12 | 838 | 1,218 | - | 24 | 24 | 1,242 |

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### C. Private individuals - household and private banking - activity in Israel

| Consolidated | For the year ended December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Households segment | | | | Private banking segment | | | |
| | Housing loans | Credit cards | other | Total | Credit cards | other | Total | Total |
| | | | | | | | | (NIS million) |
| Interest income from externals | 670 | 15 | 984 | 1,669 | - | 14 | 14 | 1,683 |
| Interest expenses for externals | - | - | 172 | 172 | - | 52 | 52 | 224 |
| Net interest income | | | | | | | | |
| - From externals | 670 | 15 | 812 | 1,497 | - | (38) | (38) | 1,459 |
| - Inter-segmental | (349) | (2) | 98 | (253) | - | 76 | 76 | (177) |
| Total net interest income | 321 | 13 | 910 | 1,244 | - | 38 | 38 | 1,282 |
| Non-interest income | 14 | 84 | 451 | 549 | 1 | 67 | 68 | 617 |
| Total income | 335 | 97 | 1,361 | 1,793 | 1 | 105 | 106 | 1,899 |
| Expenses from credit losses | 3 | - | 69 | 72 | - | - | - | 72 |
| Operating and other expenses | 156 | 57 | 1,230 | 1,443 | - | 65 | 65 | 1,508 |
| Profit before taxes | 176 | 40 | 62 | 278 | 1 | 40 | 41 | 319 |
| Provision for taxes on profit | 60 | 14 | 21 | 95 | - | 14 | 14 | 109 |
| Net profit: | | | | | | | | |
| Before attribution to non-controlling interests | 116 | 26 | 41 | 183 | 1 | 26 | 27 | 210 |
| Attributed to non-controlling interests | - | (1) | (23) | (24) | - | - | - | (24) |
| Net profit attributed to shareholders of the Bank | 116 | 25 | 18 | 159 | 1 | 26 | 27 | 186 |
| Average balance of assets(1) | 24,871 | 2,798 | 17,807 | 45,476 | 25 | 25 | 50 | 45,526 |
| Of which: average balance of credit to the public (1) | 24,871 | 2,798 | 17,807 | 45,476 | 25 | 25 | 50 | 45,526 |
| Balance of credit to the public at the end of the reported period | 25,583 | 3,639 | 18,196 | 47,418 | 34 | 33 | 67 | 47,485 |
| Balance of impaired debts | 10 | - | 146 | 156 | - | - | - | 156 |
| Balance of debts in arrears of more than 90 days | 186 | - | 26 | 212 | - | - | - | 212 |
| Average balance of liabilities(1) | 525 | 106 | 51,462 | 52,093 | 1 | 7,618 | 7,619 | 59,712 |
| Of which: average balance of deposit from the public (1) | - | - | 50,896 | 50,896 | - | 7,611 | 7,611 | 58,507 |
| Balance of deposits from the public at the end of the reported period | - | - | 51,572 | 51,572 | - | 7,734 | 7,734 | 59,306 |
| Average balance of risk-adjusted assets(1)(2) | 13,620 | 3,151 | 14,788 | 31,559 | 29 | 184 | 213 | 31,772 |
| Balance of risk-adjusted assets at the end of the reported period(2) | 14,056 | 3,805 | 14,251 | 32,112 | 38 | 180 | 218 | 32,330 |
| Average balance of assets under management(1)(3) | - | - | 35,493 | 35,493 | - | 17,337 | 17,337 | 52,830 |
| Segmentation of net interest income: | | | | | | | | |
| - Spread from credit granting activity | 330 | 13 | 703 | 1,046 | - | - | - | 1,046 |
| - Spread from deposit taking activity | - | - | 215 | 215 | - | 38 | 38 | 253 |
| - Other | (9) | - | (8) | (17) | - | - | - | (17) |
| Total net interest income | 321 | 13 | 910 | 1,244 | - | 38 | 38 | 1,282 |

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### C. Private individuals - household and private banking - activity in Israel

| Consolidated | For the year ended December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Households segment | | | | Private banking segment | | | |
| | Housing loans | Credit cards | other | Total | Credit cards | other | Total | Total |
| | | | | | | | | (NIS million) |
| Interest income from externals | 685 | 16 | 823 | 1,524 | - | 1 | 1 | 1,525 |
| Interest expenses for externals | - | - | 183 | 183 | - | 34 | 34 | 217 |
| Net interest income | | | | | | | | |
| - From externals | 685 | 16 | 640 | 1,341 | - | (33) | (33) | 1,308 |
| - Inter-segmental | (400) | (3) | 207 | (196) | - | 66 | 66 | (130) |
| Total net interest income | 285 | 13 | 847 | 1,145 | - | 33 | 33 | 1,178 |
| Non-interest income | 15 | 89 | 473 | 577 | 1 | 61 | 62 | 639 |
| Total income | 300 | 102 | 1,320 | 1,722 | 1 | 94 | 95 | 1,817 |
| Expenses from credit losses | 4 | - | 63 | 67 | - | - | - | 67 |
| Operating and other expenses | 140 | 60 | 1,345 | 1,545 | - | 63 | 63 | 1,608 |
| Profit (loss) before taxes | 156 | 42 | (88) | 110 | 1 | 31 | 32 | 142 |
| Provision for taxes (tax saving) on profit (loss) | 58 | 15 | (32) | 41 | - | 12 | 12 | 53 |
| Net profit (loss): | | | | | | | | |
| Before attribution to non-controlling interests | 98 | 27 | (56) | 69 | 1 | 19 | 20 | 89 |
| Attributed to non-controlling interests | - | (2) | (18) | (20) | - | - | - | (20) |
| Net profit (loss) attributed to shareholders of the Bank | 98 | 25 | (74) | 49 | 1 | 19 | 20 | 69 |
| Average balance of assets(1) | 23,625 | 2,921 | 17,256 | 43,802 | 31 | 20 | 51 | 43,853 |
| Of which: average balance of credit to the public (1) | 23,625 | 2,921 | 17,256 | 43,802 | 31 | 20 | 51 | 43,853 |
| Balance of credit to the public at the end of the reported period | 24,319 | 3,320 | 17,720 | 45,359 | 29 | 22 | 51 | 45,410 |
| Balance of impaired debts | 6 | - | 94 | 100 | - | - | - | 100 |
| Balance of debts in arrears of more than 90 days | 185 | - | 30 | 215 | - | - | - | 215 |
| Average balance of liabilities(1) | 695 | 70 | 48,041 | 48,806 | 1 | 7,675 | 7,676 | 56,482 |
| Of which: average balance of deposits from the public (1) | - | - | 47,682 | 47,682 | - | 7,667 | 7,667 | 55,349 |
| Balance of deposits from the public at the end of the reported period | - | - | 50,300 | 50,300 | - | 8,029 | 8,029 | 58,329 |
| Average balance of risk-adjusted assets(1)(2) | 12,753 | 2,940 | 14,465 | 30,158 | 26 | 163 | 189 | 30,347 |
| Balance of risk-adjusted assets at the end of the reported period(2) | 13,148 | 3,528 | 14,049 | 30,725 | 29 | 161 | 190 | 30,915 |
| Average balance of assets under management(1)(3) | - | - | 36,170 | 36,170 | - | 15,501 | 15,501 | 51,671 |
| Segmentation of net interest income: | | | | | | | | |
| - Spread from credit granting activity | 298 | 13 | 696 | 1,007 | - | - | - | 1,007 |
| - Spread from deposit taking activity | - | - | 159 | 159 | - | 33 | 33 | 192 |
| - Other | (13) | - | (8) | (21) | - | - | - | (21) |
| Total net interest income | 285 | 13 | 847 | 1,145 | - | 33 | 33 | 1,178 |

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### D. Small and minute, medium and large business - activity in Israel

| Consolidated | For the year ended December 31, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small and minute business segment | | | Medium business segment | | | Large business segment | | | |
| | Const. & real estate | other | Total | Const. & real estate | other | Total | Const. & real estate | other | Total | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from externals | 193 | 478 | 671 | 33 | 125 | 158 | 95 | 137 | 232 | 1,061 |
| Interest expenses for externals | - | 46 | 46 | - | 10 | 10 | - | 37 | 37 | 93 |
| Net interest income | | | | | | | | | | |
| - From externals | 193 | 432 | 625 | 33 | 115 | 148 | 95 | 100 | 195 | 968 |
| - Inter-segmental | (3) | 1 | (2) | (1) | 8 | 7 | (2) | 111 | 109 | 114 |
| Total net interest income | 190 | 433 | 623 | 32 | 123 | 155 | 93 | 211 | 304 | 1,082 |
| Non-interest income | 40 | 304 | 344 | 14 | 57 | 71 | 29 | 71 | 100 | 515 |
| of which: income from credit cards | - | 16 | 16 | - | 1 | 1 | - | 1 | 1 | 18 |
| Total income | 230 | 737 | 967 | 46 | 180 | 226 | 122 | 282 | 404 | 1,597 |
| Expenses (income) from credit losses | 14 | 148 | 162 | (1) | 85 | 84 | 13 | 85 | 98 | 344 |
| Operating and other expenses | 104 | 517 | 621 | 16 | 84 | 100 | 36 | 116 | 152 | 873 |
| Profit before taxes | 112 | 72 | 184 | 31 | 11 | 42 | 73 | 81 | 154 | 380 |
| Provision for taxes on profit | 35 | 23 | 58 | 8 | 3 | 11 | 21 | 23 | 44 | 113 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 77 | 49 | 126 | 23 | 8 | 31 | 52 | 58 | 110 | 267 |
| Attributed to non-controlling interests | (2) | (2) | (4) | (1) | (1) | (2) | - | (1) | (1) | (7) |
| Net profit attributed to shareholders of the Bank | 75 | 47 | 122 | 22 | 7 | 29 | 52 | 57 | 109 | 260 |
| Average balance of assets(1) | 6,339 | 11,488 | 17,827 | 964 | 4,628 | 5,592 | 3,484 | 13,941 | 17,425 | 40,844 |
| Of which: average balance of credit to the public (1) | 6,339 | 11,488 | 17,827 | 964 | 4,628 | 5,592 | 3,484 | 13,941 | 17,425 | 40,844 |
| Balance of credit to the public at the end of the reported period | 6,436 | 12,440 | 18,876 | 863 | 4,522 | 5,385 | 3,973 | 12,751 | 16,724 | 40,985 |
| Balance of impaired debts | 60 | 171 | 231 | - | 78 | 78 | 11 | 67 | 78 | 387 |
| Balance of debts in arrears of more than 90 days | 20 | 16 | 36 | - | - | - | 7 | - | 7 | 43 |
| Average balance of liabilities(1) | 3,496 | 18,759 | 22,255 | 994 | 4,595 | 5,589 | 2,699 | 10,463 | 13,162 | 41,006 |
| Of which: average balance of deposits from the public (1) | 3,334 | 18,425 | 21,759 | 960 | 4,453 | 5,413 | 2,573 | 9,744 | 12,317 | 39,489 |
| Balance of deposits from the public at the end of the reported period | 3,594 | 20,764 | 24,358 | 1,012 | 4,695 | 5,707 | 2,470 | 10,397 | 12,867 | 42,932 |
| Average balance of risk-adjusted assets(1)(2) | 7,249 | 10,192 | 17,441 | 1,512 | 5,052 | 6,564 | 5,260 | 12,501 | 17,761 | 41,766 |
| Balance of risk-adjusted assets at the end of the reported period(2) | 7,113 | 10,607 | 17,720 | 1,302 | 4,680 | 5,982 | 5,831 | 11,793 | 17,624 | 41,326 |
| Average balance of assets under management(1)(3) | 1,300 | 14,475 | 15,775 | 158 | 3,339 | 3,497 | 1,193 | 11,180 | 12,373 | 31,645 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Spread from credit granting activity | 186 | 396 | 582 | 31 | 117 | 148 | 93 | 203 | 296 | 1,026 |
| - Spread from deposit taking activity | 7 | 40 | 47 | 2 | 7 | 9 | 2 | 12 | 14 | 70 |
| - Other | (3) | (3) | (6) | (1) | (1) | (2) | (2) | (4) | (6) | (14) |
| Total net interest income | 190 | 433 | 623 | 32 | 123 | 155 | 93 | 211 | 304 | 1,082 |

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

## D. Small and minute, medium and large business - activity in Israel

| Consolidated | For the year ended December 31, 2019* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small and minute business segment | | | Medium business segment | | | Large business segment | | | |
| | Const. & real estate | other | Total | Const. & real estate | other | Total | Const. & real estate | other | Total | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from externals | 188 | 482 | 670 | 41 | 123 | 164 | 74 | 191 | 265 | 1,099 |
| Interest expenses for externals | - | 87 | 87 | - | 17 | 17 | - | 67 | 67 | 171 |
| Net interest income | | | | | | | | | | |
| - From externals | 188 | 395 | 583 | 41 | 106 | 147 | 74 | 124 | 198 | 928 |
| - Inter-segmental | (4) | 76 | 72 | (1) | 19 | 18 | (3) | 79 | 76 | 166 |
| Total net interest income | 184 | 471 | 655 | 40 | 125 | 165 | 71 | 203 | 274 | 1,094 |
| Non-interest income | 34 | 279 | 313 | 15 | 60 | 75 | 31 | 80 | 111 | 499 |
| of which: income from credit cards | - | 16 | 16 | - | 1 | 1 | - | - | - | 17 |
| Total income | 218 | 750 | 968 | 55 | 185 | 240 | 102 | 283 | 385 | 1,593 |
| Expenses (income) from credit losses | (11) | 46 | 35 | (1) | 13 | 12 | (15) | 33 | 18 | 65 |
| Operating and other expenses | 93 | 539 | 632 | 16 | 94 | 110 | 32 | 129 | 161 | 903 |
| Profit before taxes | 136 | 165 | 301 | 40 | 78 | 118 | 85 | 121 | 206 | 625 |
| Provision for taxes on profit | 47 | 56 | 103 | 15 | 29 | 44 | 38 | 52 | 90 | 237 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 89 | 109 | 198 | 25 | 49 | 74 | 47 | 69 | 116 | 388 |
| Attributed to non-controlling interests | (2) | (3) | (5) | (2) | (1) | (3) | - | - | - | (8) |
| Net profit attributed to shareholders of the Bank | 87 | 106 | 193 | 23 | 48 | 71 | 47 | 69 | 116 | 380 |
| Average balance of assets(1) | 5,899 | 10,754 | 16,653 | 1,077 | 4,546 | 5,623 | 2,591 | 14,008 | 16,599 | 38,875 |
| Of which: average balance of credit to the public (1) | 5,899 | 10,754 | 16,653 | 1,077 | 4,546 | 5,623 | 2,591 | 14,008 | 16,599 | 38,875 |
| Balance of credit to the public at the end of the reported period | 6,301 | 10,963 | 17,264 | 1,074 | 4,465 | 5,539 | 3,023 | 14,257 | 17,280 | 40,083 |
| Balance of impaired debts | 42 | 178 | 220 | 5 | 30 | 35 | 23 | 275 | 298 | 553 |
| Balance of debts in arrears of more than 90 days | 2 | 18 | 20 | - | 4 | 4 | 13 | - | 13 | 37 |
| Average balance of liabilities(1) | 3,170 | 16,062 | 19,232 | 1,041 | 4,184 | 5,225 | 2,019 | 8,508 | 10,527 | 34,984 |
| Of which: average balance of deposits from the public (1) | 2,963 | 15,697 | 18,660 | 961 | 4,007 | 4,968 | 1,848 | 8,013 | 9,861 | 33,489 |
| Balance of deposits from the public at the end of the reported period | 3,081 | 16,076 | 19,157 | 962 | 4,529 | 5,491 | 2,265 | 8,753 | 11,018 | 35,666 |
| Average balance of risk-adjusted assets(1)(2) | 6,910 | 9,570 | 16,480 | 1,700 | 4,954 | 6,654 | 4,383 | 12,033 | 16,416 | 39,550 |
| Balance of risk-adjusted assets at the end of the reported period(2) | 6,928 | 9,916 | 16,844 | 1,676 | 4,772 | 6,448 | 4,345 | 12,535 | 16,880 | 40,172 |
| Average balance of assets under management(1)(3) | 1,366 | 14,773 | 16,139 | 176 | 3,817 | 3,993 | 1,804 | 11,197 | 13,001 | 33,133 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Spread from credit granting activity | 179 | 396 | 575 | 38 | 111 | 149 | 72 | 193 | 265 | 989 |
| - Spread from deposit taking activity | 10 | 79 | 89 | 3 | 17 | 20 | 2 | 18 | 20 | 129 |
| - Other | (5) | (4) | (9) | (1) | (3) | (4) | (3) | (8) | (11) | (24) |
| Total net interest income | 184 | 471 | 655 | 40 | 125 | 165 | 71 | 203 | 274 | 1,094 |

* Reclassified. See item A in page 219.

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### D. Small and minute, medium and large business - activity in Israel

| Consolidated | For the year ended December 31, 2018* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small and minute business segment | | | Medium business segment | | | Large business segment | | | |
| | Const. & real estate | other | Total | Const. & real estate | other | Total | Const. & real estate | other | Total | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from externals | 166 | 511 | 677 | 55 | 136 | 191 | 76 | 282 | 358 | 1,226 |
| Interest expenses for externals | - | 106 | 106 | - | 34 | 34 | - | 65 | 65 | 205 |
| Net interest income | | | | | | | | | | |
| - From externals | 166 | 405 | 571 | 55 | 102 | 157 | 76 | 217 | 293 | 1,021 |
| - Inter-segmental | (10) | 58 | 48 | (5) | 25 | 20 | (5) | 9 | 4 | 72 |
| Total net interest income | 156 | 463 | 619 | 50 | 127 | 177 | 71 | 226 | 297 | 1,093 |
| Non-interest income | 40 | 281 | 321 | 20 | 61 | 81 | 31 | 88 | 119 | 521 |
| of which: income from credit cards | - | 16 | 16 | - | 1 | 1 | - | 1 | 1 | 18 |
| Total income | 196 | 744 | 940 | 70 | 188 | 258 | 102 | 314 | 416 | 1,614 |
| Expenses from credit losses | - | 55 | 55 | 1 | 7 | 8 | - | 35 | 35 | 98 |
| Operating and other expenses | 102 | 551 | 653 | 21 | 99 | 120 | 36 | 152 | 188 | 961 |
| Profit before taxes | 94 | 138 | 232 | 48 | 82 | 130 | 66 | 127 | 193 | 555 |
| Provision for taxes on profit | 35 | 52 | 87 | 18 | 31 | 49 | 25 | 47 | 72 | 208 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 59 | 86 | 145 | 30 | 51 | 81 | 41 | 80 | 121 | 347 |
| Attributed to non-controlling interests | (2) | (3) | (5) | (1) | (3) | (4) | - | - | - | (9) |
| Net profit attributed to shareholders of the Bank | 57 | 83 | 140 | 29 | 48 | 77 | 41 | 80 | 121 | 338 |
| Average balance of assets(1) | 5,026 | 10,400 | 15,426 | 1,332 | 4,407 | 5,739 | 2,717 | 15,138 | 17,855 | 39,020 |
| Of which: average balance of credit to the public (1) | 5,026 | 10,400 | 15,426 | 1,332 | 4,407 | 5,739 | 2,717 | 15,138 | 17,855 | 39,020 |
| Balance of credit to the public at the end of the reported period | 5,449 | 10,499 | 15,948 | 1,510 | 4,306 | 5,816 | 2,383 | 14,669 | 17,052 | 38,816 |
| Balance of impaired debts | 44 | 174 | 218 | 6 | 29 | 35 | 19 | 95 | 114 | 367 |
| Balance of debts in arrears of more than 90 days | 6 | 17 | 23 | - | 5 | 5 | - | - | - | 28 |
| Average balance of liabilities(1) | 3,005 | 14,843 | 17,848 | 1,007 | 4,223 | 5,230 | 1,887 | 9,155 | 11,042 | 34,120 |
| Of which: average balance of deposits from the public (1) | 2,768 | 14,359 | 17,127 | 878 | 4,029 | 4,907 | 1,642 | 8,339 | 9,981 | 32,015 |
| Balance of deposits from the public at the end of the reported period | 2,823 | 14,979 | 17,802 | 1,014 | 4,153 | 5,167 | 1,963 | 7,249 | 9,212 | 32,181 |
| Average balance of risk-adjusted assets(1)(2) | 5,366 | 9,740 | 15,106 | 2,778 | 4,148 | 6,926 | 4,894 | 12,963 | 17,857 | 39,889 |
| Balance of risk-adjusted assets at the end of the reported period(2) | 5,866 | 9,538 | 15,404 | 2,773 | 4,280 | 7,053 | 4,698 | 11,631 | 16,329 | 38,786 |
| Average balance of assets under management(1)(3) | 1,204 | 12,240 | 13,444 | 58 | 3,864 | 3,922 | 825 | 14,229 | 15,054 | 32,420 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Spread from credit granting activity | 153 | 407 | 560 | 51 | 113 | 164 | 74 | 218 | 292 | 1,016 |
| - Spread from deposit taking activity | 7 | 65 | 72 | 1 | 18 | 19 | 1 | 20 | 21 | 112 |
| - Other | (4) | (9) | (13) | (2) | (4) | (6) | (4) | (12) | (16) | (35) |
| Total net interest income | 156 | 463 | 619 | 50 | 127 | 177 | 71 | 226 | 297 | 1,093 |

* Reclassified. See item A in page 219.

(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 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

## E. Financial Mangement segment - activity in Israel

| Consolidated | For the year ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Trading activity | Assets and liabilities management activity | Real investment activity | Other | Total |
| | | | | | (NIS million) |
| Interest income from externals | - | 172 | - | - | 172 |
| Interest expenses for externals | 1 | (1) | - | - | - |
| Net interest income | | | | | |
| - From externals | (1) | 173 | - | - | 172 |
| - Inter-segmental | - | 102 | - | - | 102 |
| Total net interest income (expenses) | (1) | 275 | - | - | 274 |
| Non-interest income | 14 | 118 | 1 | - | 133 |
| Total income | 13 | 393 | 1 | - | 407 |
| Operating and other expenses | - | 60 | - | - | 60 |
| Profit before taxes | 13 | 333 | 1 | - | 347 |
| Provision for taxes on profit | 4 | 109 | - | - | 113 |
| Profit after taxes | 9 | 224 | 1 | - | 234 |
| Bank's share in operating profit of investee company after tax effect | - | - | 29 | - | 29 |
| Net profit: | | | | | |
| Before attribution to non-controlling interests | 9 | 224 | 30 | - | 263 |
| Attributed to non-controlling interests | - | (5) | - | - | (5) |
| Net profit attributed to shareholders of the Bank | 9 | 219 | 30 | - | 258 |
| Average balance of assets(1) | 228 | 61,304 | 906 | - | 62,438 |
| Of which: Investee company(1) | - | - | 617 | - | 617 |
| Average balance of liabilities(1) | 31 | 10,599 | - | - | 10,630 |
| Average balance of risk assets(1)(2) | 886 | 4,870 | 1,565 | - | 7,321 |
| Balance of risk assets(2) | 883 | 5,076 | 1,638 | - | 7,597 |
| Distribution of net interest income and non interest financing income: | | | | | |
| Exchange rate differences, net(3) | (21) | 67 | | | |
| CPI differences, net(3) | - | (17) | | | |
| Interest rate exposures, net(3) | 42 | 322 | | | |
| Exposures to shares, net(3) | (3) | - | | | |
| Total net interest and non-interest income, by accrual basis | 18 | 372 | | | |
| Profits or losses from sale or impairment that is not temporary of bonds | - | 24 | | | |
| Difference between fair value and accrual basis of derivatives, recorded in income statement | - | (3) | | | |
| Other non-interest expenses | (5) | - | | | |
| Total net interest income and non interest financing income | 13 | 393 | | | |

(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) Including in respect of securities and derivative instruments.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### E. Financial Mangement segment - activity in Israel

| Consolidated | For the year ended December 31, 2019[4] | | | | |
|---|---|---|---|---|---|
| | Trading activity | Assets and liabilities management activity | Real investment activity | Other | Total |
| | | | | | (NIS million) |
| Interest income from externals | 1 | 286 | - | - | 287 |
| Interest expenses for externals | 3 | 8 | - | - | 11 |
| Net interest income | | | | | |
| - From externals | (2) | 278 | - | - | 276 |
| - Inter-segmental | - | (125) | - | - | (125) |
| Total net interest income (expense) | (2) | 153 | - | - | 151 |
| Non-interest income (expense) | (19) | 159 | 71 | 3 | 214 |
| Total income (expense) | (21) | 312 | 71 | 3 | 365 |
| Operating and other expenses | - | 59 | - | - | 59 |
| Profit (loss) before taxes | (21) | 253 | 71 | 3 | 306 |
| Provision for taxes (tax savings) on profit (loss) | (8) | 88 | 24 | 1 | 105 |
| Operating profit (loss) after taxes | (13) | 165 | 47 | 2 | 201 |
| Bank's share in operating profit of investee company after tax effect | - | - | 51 | - | 51 |
| Net profit (loss): | | | | | |
| Before attribution to non-controlling interests | (13) | 165 | 98 | 2 | 252 |
| Attributed to non-controlling interests | - | (6) | - | - | (6) |
| Net profit (loss) attributed to shareholders of the Bank | (13) | 159 | 98 | 2 | 246 |
| Average balance of assets[1] | 222 | 49,765 | 878 | - | 50,865 |
| Of which: Investee company[1] | - | - | 605 | - | 605 |
| Average balance of liabilities[1] | 202 | 9,314 | - | - | 9,516 |
| Average balance of risk assets[1][2] | 748 | 5,356 | 1,523 | - | 7,627 |
| Balance of risk assets[2] | 875 | 5,131 | 1,582 | - | 7,588 |
| Distribution of net interest income and non interest financing income: | | | | | |
| Exchange rate differences, net[3] | (41) | 56 | | | |
| CPI differences, net[3] | - | (6) | | | |
| Interest rate exposures, net[3] | 7 | 242 | | | |
| Exposures to shares, net[3] | - | - | | | |
| Total net interest and non-interest income, by accrual basis | (34) | 292 | | | |
| Profits or losses from sale or impairment that is not temporary of bonds | - | 26 | | | |
| Difference between fair value and accrual basis of derivatives, recorded in income statement | - | (6) | | | |
| Other non-interest income | 13 | - | | | |
| Total net interest income and non interest financing income | (21) | 312 | | | |

(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) Including in respect of securities and derivative instruments.
(4) Starting with the year 2019, the Bank changed the way it is classifying derivative financial instruments between trading activities and assets and liabilities management activities.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### E. Financial Mangement segment - activity in Israel

| Consolidated | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Trading activity | Assets and liabilities management activity | Real investment activity | Other | Total |
| | | | | | (NIS million) |
| Interest income from externals | 4 | 232 | - | - | 236 |
| Interest expenses for externals | 3 | 31 | - | - | 34 |
| Net interest income | | | | | |
| - From externals | 1 | 201 | - | - | 202 |
| - Inter-segmental | - | (49) | - | - | (49) |
| Total net interest income | 1 | 152 | - | - | 153 |
| Non-interest income | 1 | 130 | 80 | 72 | 283 |
| Total income | 2 | 282 | 80 | 72 | 436 |
| Expenses from credit losses | - | - | - | - | - |
| Operating and other expenses | - | 72 | - | - | 72 |
| Profit before taxes | 2 | 210 | 80 | 72 | 364 |
| Provision for taxes on profit | 1 | 65 | 27 | 25 | 118 |
| Operating profit after taxes | 1 | 145 | 53 | 47 | 246 |
| Bank's share in operating profit of investee company after tax effect | - | - | 37 | - | 37 |
| Net profit: | | | | | |
| Before attribution to non-controlling interests | 1 | 145 | 90 | 47 | 283 |
| Attributed to non-controlling interests | - | (5) | - | - | (5) |
| Net profit attributed to shareholders of the Bank | 1 | 140 | 90 | 47 | 278 |
| Average balance of assets(1) | 433 | 50,433 | 809 | - | 51,675 |
| Of which: Investee company(1) | - | - | 585 | - | 585 |
| Average balance of liabilities(1) | 277 | 10,138 | - | - | 10,415 |
| Average balance of risk assets(1)(2) | 747 | 5,857 | 1,435 | - | 8,039 |
| Balance of risk assets(2) | 845 | 5,614 | 1,460 | - | 7,919 |
| Distribution of net interest income and non interest financing income: | | | | | |
| Exchange rate differences, net(3) | - | 11 | | | |
| CPI differences, net(3) | - | 4 | | | |
| Interest rate exposures, net(3) | 3 | 242 | | | |
| Exposures to shares, net(3) | (1) | - | | | |
| Total net interest and non-interest income, by accrual basis | 2 | 257 | | | |
| Profits or losses from sale or impairment that is not temporary of bonds | - | 7 | | | |
| Difference between fair value and accrual basis of derivatives, recorded in income statement | - | 18 | | | |
| Total net interest income and non interest financing income | 2 | 282 | | | |

(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) Including in respect of securities and derivative instruments.

## NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

### F. Geographical region information

(NIS million)

| Consolidated | Income(2) | | | Net profit | | | Total assets | |
|---|---|---|---|---|---|---|---|---|
| | Year ended December 31 | | | Year ended December 31 | | | at December 31 | |
| | **2020** | **2019** | **2018** | **2020** | **2019** | **2018** | **2020** | **2019** |
| Israel | **4,160** | 4,119 | 4,100 | **750** | 863 | 722 | **167,778** | 140,932 |
| Western Europe | **-** | 3 | 23 | **-** | 2 | 11 | **-** | 178 |
| Consolidated total | **4,160** | 4,122 | 4,123 | **750** | 865 | 733 | **167,778** | 141,110 |

(1) The distribution to geographical regions is based on the location of the assets.

(2) Net interest income and non-interest income.

## NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

### A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - **Banking Division - Private customers** – up to the year 2019, the segment included all activities of private banking customers and households' customers of the Banking Division branches. In addition, the segment included the customers of Pagi sub-division, with similar characteristics.
     Beginning with the year 2020, the private customer segment of the Banking Division was divided into two operating segments:
   - Households – which includes all operations of private customers, most of whom have financial assets portfolios with the Bank (including deposits, securities portfolios and other financial assets) in an amount under NIS 400 thousand.
   - Private banking - which includes all operations of private customers having a medium to high financial wealth, most of whom having a financial assets portfolio of NIS 400 thousand and above.
     The comparative data has been reclassified in accordance with the above.
   - **Banking Division - other** - the segment includes all activities of small businesses and commercial customers of the Banking Division branches. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, construction projects, factoring and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches of the corporate division, which are not under authority of the branches' managers. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits and the overall activities of institutional entities.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiary Massad Bank (comparison data for 2018 include Otsar Hahayal).

## NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division segments (except for mortgages) or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-other segment.
- The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division segments (except mortgages) or in any one of the Corporate Division segments.

  The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

  The adjustments column includes also the elimination of inter-company balances.

  For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 28.

## NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

| Consolidated | For the year ended December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Banking Division | | | | Corporate Division | | |
| | Housing loans | Households | Private banking | Other | Corporate customers | Commercial customers | Other |
| Net interest income | **376** | **551** | **181** | **416** | **458** | **260** | **40** |
| Non-interest income | **13** | **209** | **441** | **211** | **241** | **80** | **20** |
| Total income | **389** | **760** | **622** | **627** | **699** | **340** | **60** |
| Expenses from credit losses | **40** | **77** | **22** | **133** | **131** | **92** | **8** |
| Operating and other expenses | **178** | **683** | **541** | **442** | **311** | **170** | **27** |
| Operating profit before taxes | **171** | **-** | **59** | **52** | **257** | **78** | **25** |
| Provision for taxes on operating profit | **53** | **-** | **16** | **12** | **88** | **22** | **6** |
| Operating profit after taxes | **118** | **-** | **43** | **40** | **169** | **56** | **19** |
| Bank's share in operating profit of investee company | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net profit:** | | | | | | | |
| Before attribution to non-controlling interests | **118** | **-** | **43** | **40** | **169** | **56** | **19** |
| Attributed to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Attributed to shareholders of the Bank | **118** | **-** | **43** | **40** | **169** | **56** | **19** |
| Average balance of assets(1) | **26,758** | **14,661** | **3,939** | **9,851** | **24,233** | **9,242** | **1,024** |
| Balance of credit to the public at the end of the reported period | **28,121** | **14,882** | **4,190** | **10,946** | **24,431** | **9,284** | **620** |
| Balance of deposits from the public at the end of the reported period | **-** | **28,228** | **41,178** | **19,784** | **31,191** | **6,935** | **15,147** |

| Consolidated | For the year ended December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Banking Division | | | | Corporate Division | | |
| | Housing loans | Households | Private banking | Other | Corporate customers | Commercial customers | Other |
| Net interest income | 331 | 557 | 233 | 446 | 421 | 283 | 95 |
| Non-interest income | 14 | 204 | 387 | 210 | 194 | 80 | 35 |
| Total income | 345 | 781 | 620 | 656 | 615 | 363 | 130 |
| Expenses (income) from credit losses | 1 | 65 | 6 | 71 | (42) | 42 | 10 |
| Operating and other expenses | 163 | 747 | 544 | 459 | 263 | 182 | 50 |
| Operating profit (loss) before taxes | 181 | (31) | 70 | 126 | 394 | 139 | 70 |
| Provision for taxes (tax savings) on operating profit (loss) | 61 | (11) | 24 | 43 | 157 | 47 | 24 |
| Operating profit (loss) after taxes | 120 | (20) | 46 | 83 | 237 | 92 | 46 |
| Bank's share in operating profit of investee company | - | - | - | - | - | - | - |
| **Net profit (loss):** | | | | | | | |
| Before attribution to non-controlling interests | 120 | (20) | 46 | 83 | 237 | 92 | 46 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - |
| Attributed to shareholders of the Bank | 120 | (20) | 46 | 83 | 237 | 92 | 46 |
| Average balance of assets(1) | 25,255 | 14,347 | 3,950 | 9,806 | 21,952 | 9,242 | 1,415 |
| Balance of credit to the public at the end of the reported period | 25,422 | 15,022 | 4,304 | 10,325 | 23,006 | 9,352 | 1,383 |
| Balance of deposits from the public at the end of the reported period | - | 23,667 | 32,480 | 16,559 | 22,349 | 5,852 | 20,024 |

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

| Customer assets division | Financial Management | Subsidiaries | Adjustments | | Total |
|---|---|---|---|---|---|
| | | | Total | Of which: activity in capital market products | |
| 293 | 273 | 241 | (452) | (293) | 2,637 |
| 883 | 130 | 84 | (789) | (711) | 1,523 |
| 1,176 | 403 | 325 | (1,241) | (1,004) | 4,160 |
| 9 | - | 22 | (70) | (9) | 464 |
| 821 | 59 | 182 | (845) | (690) | 2,569 |
| 346 | 344 | 121 | (326) | (305) | 1,127 |
| 102 | 118 | 44 | (93) | (87) | 368 |
| 244 | 226 | 77 | (233) | (218) | 759 |
| - | 29 | - | - | - | 29 |
| 244 | 255 | 77 | (233) | (218) | 788 |
| - | - | (38) | - | - | (38) |
| 244 | 255 | 39 | (233) | (218) | 750 |
| 5,326 | 60,040 | 7,995 | (10,889) | (5,326) | 152,180 |
| 5,423 | - | 5,238 | (10,888) | (5,423) | 92,247 |
| 135,831 | - | 8,612 | (145,229) | (135,831) | 141,677 |

| Customer assets division | Financial Management | Subsidiaries | Adjustments | | Total |
|---|---|---|---|---|---|
| | | | Total | Of which: activity in capital market products | |
| 457 | 132 | 246 | (619) | (457) | 2,602 |
| 755 | 214 | 90 | (663) | (620) | 1,520 |
| 1,212 | 346 | 336 | (1,282) | (1,077) | 4,122 |
| (1) | - | 11 | (25) | 1 | 138 |
| 791 | 58 | 200 | (803) | (634) | 2,654 |
| 422 | 288 | 125 | (454) | (444) | 1,330 |
| 143 | 98 | 46 | (154) | (150) | 478 |
| 279 | 190 | 79 | (300) | (294) | 852 |
| - | 51 | - | - | - | 51 |
| 279 | 241 | 79 | (300) | (294) | 903 |
| - | - | (38) | - | - | (38) |
| 279 | 241 | 41 | (300) | (294) | 865 |
| 5,753 | 48,206 | 6,952 | (10,573) | (5,753) | 136,305 |
| 6,221 | - | 5,116 | (11,322) | (6,221) | 88,829 |
| 115,128 | - | 6,962 | (122,969) | (115,128) | 120,052 |

## NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

| Consolidated | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Banking Division | | Corporate Division | | |
| | Housing loans | Other | Corporate customers | Commercial customers | Other |
| Net interest income | 295 | 849 | 396 | 243 | 73 |
| Non-interest income | 15 | 650 | 211 | 77 | 31 |
| Total income | 310 | 1,499 | 607 | 320 | 104 |
| Expenses (income) from credit losses | 1 | 102 | 4 | 24 | - |
| Operating and other expenses | 125 | 1,382 | 260 | 166 | 47 |
| Operating profit before taxes | 184 | 15 | 343 | 130 | 57 |
| Provision for taxes on operating profit | 72 | 6 | 134 | 51 | 22 |
| Operating profit after taxes | 112 | 9 | 209 | 79 | 35 |
| Bank's share in operating profit of investee company | - | - | - | - | - |
| **Net profit:** | | | | | |
| Before attribution to non-controlling interests | 112 | 9 | 209 | 79 | 35 |
| Attributed to non-controlling interests | - | - | - | - | - |
| Attributed to shareholders of the Bank | 112 | 9 | 209 | 79 | 35 |
| Average balance of assets(1) | 23,674 | 16,795 | 21,014 | 7,802 | 1,189 |
| Balance of credit to the public at the end of the reported period | 24,301 | 17,285 | 20,905 | 8,060 | 1,194 |
| Balance of deposits from the public at the end of the reported period | - | 53,436 | 18,818 | 5,088 | 15,095 |

Following are restatement of the income, assets and liabilities data for 2018 according to the attribution of the customers of former subsidiary (which was merged with and into the Bank at the beginning of 2019), in respect of the organizational structure after the said merger in 2019. The data in respect of the expenses were not restated since it is not practical to do so.

| Consolidated | For the year ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Banking Division | | | Corporate Division | | |
| | Housing loans | Private customers | Other | Corporate customers | Commercial customers | Other |
| Net interest income | 295 | 757 | 435 | 439 | 280 | 73 |
| Non-interest income | 15 | 597 | 228 | 215 | 87 | 31 |
| Total income | 310 | 1,354 | 663 | 654 | 367 | 104 |
| Average balance of assets(1) | 24,002 | 17,427 | 9,792 | 22,413 | 8,958 | 1,189 |
| Balance of credit to the public at the end of the reported period | 24,673 | 17,846 | 10,123 | 22,290 | 9,240 | 1,194 |
| Balance of deposits from the public at the end of the reported period | - | 56,184 | 16,113 | 18,991 | 5,520 | 15,095 |

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

| | Customer assets division | Financial Management | Subsidiaries | Adjustments Total | Of which: activity in capital market products | Total |
|---|---|---|---|---|---|---|
| | 318 | 100 | 685 | (473) | (318) | 2,486 |
| | 673 | 195 | 416 | (631) | (521) | 1,637 |
| | 991 | 295 | 1,101 | (1,104) | (839) | 4,123 |
| | (1) | - | 49 | (13) | 3 | 166 |
| | 728 | 49 | 808 | (746) | (582) | 2,819 |
| | 264 | 246 | 244 | (345) | (260) | 1,138 |
| | 103 | 79 | 84 | (143) | (109) | 408 |
| | 161 | 167 | 160 | (202) | (151) | 730 |
| | - | 37 | - | - | - | 37 |
| | 161 | 204 | 160 | (202) | (151) | 767 |
| | - | - | (34) | - | - | (34) |
| | 161 | 204 | 126 | (202) | (151) | 733 |
| | 5,725 | 43,598 | 25,933 | (10,418) | (5,725) | 135,312 |
| | 6,121 | - | 18,316 | (11,022) | (6,121) | 85,160 |
| | 87,150 | - | 26,139 | (94,029) | (87,150) | 111,697 |

| | Customer assets division | Financial Management | Subsidiaries | Adjustments Total | Of which: activity in capital market products | Total |
|---|---|---|---|---|---|---|
| | 371 | 114 | 223 | (501) | (371) | 2,486 |
| | 771 | 254 | 118 | (679) | (619) | 1,637 |
| | 1,142 | 368 | 341 | (1,180) | (990) | 4,123 |
| | 5,738 | 49,832 | 6,392 | (10,431) | (5,738) | 135,312 |
| | 6,134 | - | 4,696 | (11,036) | (6,134) | 85,160 |
| | 106,626 | - | 6,673 | (113,505) | (106,626) | 111,697 |

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

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

Provision for credit loses

#### 1. Change in provision for credit losses

| Consolidated | For the year ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 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 year | **545** | **121** | **264** | **930** | **-** | **930** |
| Expenses from credit losses | **320** | **41** | **74** | **435** | **-** | **435** |
| - Accounting write-offs | **(143)** | **-** | **(122)** | **(265)** | **-** | **(265)** |
| - Collection of debts written off in accounting in previous years | **87** | **2** | **88** | **177** | **-** | **177** |
| Net accounting write-offs | **(56)** | **2** | **(34)** | **(88)** | **-** | **(88)** |
| Provision for credit losses at end of year | **809** | **164** | **304** | **1,277** | **-** | **1,277** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of year | **46** | **-** | **11** | **57** | **-** | **57** |
| Increase in the provision | **26** | **-** | **3** | **29** | **-** | **29** |
| Provision in respect of off-balance sheet credit instruments at end of year | **72** | **-** | **14** | **86** | **-** | **86** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **881** | **164** | **318** | **1,363** | **-** | **1,363** |

| Consolidated | For the year ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 year | 489 | 119 | 260 | 868 | - | 868 |
| Expenses from credit losses | 73 | 3 | 69 | 145 | - | 145 |
| - Accounting write-offs | (185) | (2) | (138) | (325) | - | (325) |
| - Collection of debts written off in accounting in previous years | 168 | 1 | 73 | 242 | - | 242 |
| Net accounting write-offs | (17) | (1) | (65) | (83) | - | (83) |
| Provision for credit losses at end of year | 545 | 121 | 264 | 930 | - | 930 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of year | 53 | - | 11 | 64 | - | 64 |
| Decrease in the provision | (7) | - | - | (7) | - | (7) |
| Provision in respect of off-balance sheet credit instruments at end of year | 46 | - | 11 | 57 | - | 57 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 591 | 121 | 275 | 987 | - | 987 |

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

| Consolidated | For the year ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 year | 471 | 115 | 252 | 838 | - | 838 |
| Expenses from credit losses | 94 | 4 | 65 | 163 | - | 163 |
| - Accounting write-offs | (188) | (3) | (127) | (318) | - | (318) |
| - Collection of debts written off in accounting in previous years | 112 | 3 | 70 | 185 | - | 185 |
| Net accounting write-offs | (76) | - | (57) | (133) | - | (133) |
| Provision for credit losses at end of year | 489 | 119 | 260 | 868 | - | 868 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of year | 48 | - | 13 | 61 | - | 61 |
| Increase (decrease) in the provision | 5 | - | (2) | 3 | - | 3 |
| Provision in respect of off-balance sheet credit instruments at end of year | 53 | - | 11 | 64 | - | 64 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 542 | 119 | 271 | 932 | - | 932 |

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

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

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

| Consolidated | For the year ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance of debts(1)** | | | | | | |
| Examined on an individual basis | **36,595** | **-** | **390** | **36,985** | **3,623** | **40,608** |
| Examined on a collective basis | **5,983** | **28,336** | **20,943** | **55,262** | **-** | **55,262** |
| Of which: provision for which was calculated according to the extent of arrears | **88** | **28,320** | **-** | **28,408** | **-** | **28,408** |
| Total debts | **42,578** | **28,336** | **21,333** | **92,247** | **3,623** | **95,870** |
| **Provision for credit losses in respect of debts(1)** | | | | | | |
| Examined on an individual basis | **693** | **-** | **40** | **733** | **-** | **733** |
| Examined on a collective basis | **116** | **164** | **264** | **544** | **-** | **544** |
| Of which: provision for which was calculated according to the extent of arrears | **1** | (2)**164** | **-** | **165** | **-** | **165** |
| Total provision for credit losses | **809** | **164** | **304** | **1,277** | **-** | **1,277** |

| Consolidated | For the year ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance of debts(1)** | | | | | | |
| Examined on an individual basis | 36,094 | - | 340 | 36,434 | 3,173 | 39,607 |
| Examined on a collective basis | 5,483 | 25,583 | 21,329 | 52,395 | - | 52,395 |
| Of which: provision for which was calculated according to the extent of arrears | 233 | 25,566 | - | 25,799 | - | 25,799 |
| Total debts | 41,577 | 25,583 | 21,669 | 88,829 | 3,173 | 92,002 |
| **Provision for credit losses in respect of debts(1)** | | | | | | |
| Examined on an individual basis | 485 | - | 38 | 523 | - | 523 |
| Examined on a collective basis | 60 | 121 | 226 | 407 | - | 407 |
| Of which: provision for which was calculated according to the extent of arrears | 2 | (2)121 | - | 123 | - | 123 |
| Total provision for credit losses | 545 | 121 | 264 | 930 | - | 930 |

(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 NIS 124 million (31.12.19 - NIS 89 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 3,009 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.19 - NIS 2,718 million).

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

#### Provision for credit loses (Cont.)

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

| The Bank | For the year ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 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 year | **531** | **121** | **219** | **871** | **-** | **871** |
| Expenses from credit losses | **315** | **41** | **59** | **415** | **-** | **415** |
| - Accounting write-offs | **(140)** | **-** | **(107)** | **(247)** | **-** | **(247)** |
| - Collection of debts written off in accounting in previous years | **85** | **2** | **78** | **165** | **-** | **165** |
| Net accounting write-offs | **(55)** | **2** | **(29)** | **(82)** | **-** | **(82)** |
| Provision for credit losses at end of year | **791** | **164** | **249** | **1,204** | **-** | **1,204** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of year | **47** | **-** | **8** | **55** | **-** | **55** |
| Increase in the provision | **26** | **-** | **2** | **28** | **-** | **28** |
| Provision in respect of off-balance sheet credit instruments at end of year | **73** | **-** | **10** | **83** | **-** | **83** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **864** | **164** | **259** | **1,287** | **-** | **1,287** |

| The Bank | For the year ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 year | 390 | 116 | 148 | 654 | - | 654 |
| Merging a subsidiary | 87 | 3 | 70 | 160 | - | 160 |
| Expenses from credit losses | 71 | 3 | 60 | 134 | - | 134 |
| - Accounting write-offs | (183) | (2) | (125) | (310) | - | (310) |
| - Collection of debts written off in accounting in previous years | 166 | 1 | 66 | 233 | - | 233 |
| Net accounting write-offs | (17) | (1) | (59) | (77) | - | (77) |
| Provision for credit losses at end of year | 531 | 121 | 219 | 871 | - | 871 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of year | 50 | - | 7 | 57 | - | 57 |
| Merging a subsidiary | 4 | - | 1 | 5 | - | 5 |
| Decrease in the provision | (7) | - | - | (7) | - | (7) |
| Provision in respect of off-balance sheet credit instruments at end of year | 47 | - | 8 | 55 | - | 55 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 578 | 121 | 227 | 926 | - | 926 |

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

### Provision for credit loses (Cont.)

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

| **The Bank** | **For the year ended December 31, 2018** | | | | | |
|---|---|---|---|---|---|---|
| | **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 year | 356 | 112 | 139 | 607 | - | 607 |
| Expenses in respect of credit losses | 60 | 4 | 50 | 114 | - | 114 |
| - Accounting write-offs | (107) | (2) | (79) | (188) | - | (188) |
| - Collection of debts written off in accounting in previous years | 81 | 2 | 38 | 121 | - | 121 |
| Net accounting write-offs | (26) | - | (41) | (67) | - | (67) |
| Provision for credit losses at end of year | 390 | 116 | 148 | 654 | - | 654 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of year | 46 | - | 8 | 54 | - | 54 |
| Increase (decrease) in the provision | 4 | - | (1) | 3 | - | 3 |
| Provision in respect of off-balance sheet credit instruments at end of year | 50 | - | 7 | 57 | - | 57 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 440 | 116 | 155 | 711 | - | 711 |

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

# NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

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

| The Bank | For the year ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial [3] | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance of debts**[1] | | | | | | |
| Examined on an individual basis | **35,739** | **-** | **350** | **36,089** | **3,182** | **39,271** |
| Examined on a collective basis | **5,884** | **28,336** | **16,700** | **50,920** | **-** | **50,920** |
| Of which: provision for which was calculated according to the extent of arrears | **88** | **28,320** | **-** | **28,408** | **-** | **28,408** |
| Total debts | **41,623** | **28,336** | **17,050** | **87,009** | **3,182** | **90,191** |
| **Provision for credit losses in respect of debts**[1] | | | | | | |
| Examined on an individual basis | **675** | **-** | **32** | **707** | **-** | **707** |
| Examined on a collective basis | **116** | **164** | **217** | **497** | **-** | **497** |
| Of which: provision for which was calculated according to the extent of arrears | **1** | [2]**164** | **-** | **165** | **-** | **165** |
| Total provision for credit losses | **791** | **164** | **249** | **1,204** | **-** | **1,204** |

| The Bank | For the year ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial [3] | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance of debts**[1] | | | | | | |
| Examined on an individual basis | 35,225 | - | 308 | 35,533 | 2,769 | 38,302 |
| Examined on a collective basis | 5,371 | 25,583 | 17,226 | 48,180 | - | 48,180 |
| Of which: provision for which was calculated according to the extent of arrears | 233 | 25,566 | - | 25,799 | - | 25,799 |
| Total debts | 40,596 | 25,583 | 17,534 | 83,713 | 2,769 | 86,482 |
| **Provision for credit losses in respect of debts**[1] | | | | | | |
| Examined on an individual basis | 472 | - | 33 | 505 | - | 505 |
| Examined on a collective basis | 59 | 121 | 186 | 366 | - | 366 |
| Of which: provision for which was calculated according to the extent of arrears | 2 | [2]121 | - | 123 | - | 123 |
| Total provision for credit losses | 531 | 121 | 219 | 871 | - | 871 |

(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 NIS 124 million (31.12.19 - NIS 89 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,866 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.19 - NIS 2,838 million).

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

### B. Debts(1)

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

| Consolidated | | | | | | December 31, 2020 |
|---|---|---|---|---|---|---|
| | | Problematic(2) | | | Unimpaired debts - additional information | |
| **Borrower activity in Israel** | Non-problematic | Unimpaired | Impaired (3) | Total | In arrears of 90 days or more(4) | In arrears of 30 to 89 days(5) |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **5,751** | **39** | **44** | **5,834** | **7** | **1** |
| Construction and real estate - real estate activities | **5,432** | **53** | **27** | **5,512** | **20** | **11** |
| Financial services | **7,358** | **6** | **7** | **7,371** | **-** | **1** |
| Commercial - other | **21,884** | **888** | **309** | **23,081** | **16** | **26** |
| **Total commercial** | **40,425** | **986** | **387** | **41,798** | **43** | **39** |
| Private individuals - housing loans | **28,049** | (6)**251** | **36** | **28,336** | **156** | **138** |
| Private individuals - others | **21,004** | **175** | **154** | **21,333** | **18** | **39** |
| **Total public - activity in Israel** | **89,478** | **1,412** | **577** | **91,467** | **217** | **216** |
| Banks in Israel | **1,108** | **-** | **-** | **1,108** | **-** | **-** |
| Israeli government | **656** | **-** | **-** | **656** | **-** | **-** |
| **Total activity in Israel** | **91,242** | **1,412** | **577** | **93,231** | **217** | **216** |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **16** | **-** | **-** | **16** | **-** | **-** |
| Other commercial | **764** | **-** | **-** | **764** | **-** | **-** |
| **Total commercial** | **780** | **-** | **-** | **780** | **-** | **-** |
| Private individuals | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total public - activity abroad** | **780** | **-** | **-** | **780** | **-** | **-** |
| Banks abroad | **1,859** | **-** | **-** | **1,859** | **-** | **-** |
| Governments abroad | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total activity abroad** | **2,639** | **-** | **-** | **2,639** | **-** | **-** |
| **Total public** | **90,258** | **1,412** | **577** | **92,247** | **217** | **216** |
| **Total banks** | **2,967** | **-** | **-** | **2,967** | **-** | **-** |
| **Total governments** | **656** | **-** | **-** | **656** | **-** | **-** |
| **Total** | **93,881** | **1,412** | **577** | **95,870** | **217** | **216** |

(1) Credit to the public, credit to governments, 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 problematic debt restructuring, see Note 29.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 NIS 83 million (31.12.19 - NIS 135 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of NIS 16 million (31.12.19 - NIS 19 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 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

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

| Consolidated | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic(2) | | | Unimpaired debts - additional information | |
| Borrower activity in Israel | Non-problematic | Unimpaired | Impaired (3) | Total | In arrears of 90 days or more(4) | In arrears of 30 to 89 days(5) |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | 5,240 | 29 | 41 | 5,310 | 14 | 15 |
| Construction and real estate - real estate activities | 5,273 | 14 | 21 | 5,308 | 1 | 4 |
| Financial services | 7,985 | 6 | 3 | 7,994 | - | 25 |
| Commercial - other | 21,692 | 506 | 480 | 22,678 | 22 | 34 |
| **Total commercial** | 40,190 | 555 | 545 | 41,290 | 37 | 78 |
| Private individuals - housing loans | 25,355 | (6)218 | 10 | 25,583 | 186 | 218 |
| Private individuals - others | 21,354 | 169 | 146 | 21,669 | 26 | 57 |
| **Total public - activity in Israel** | 86,899 | 942 | 701 | 88,542 | 249 | 353 |
| Banks in Israel | 964 | - | - | 964 | - | - |
| Israeli government | 1,039 | - | - | 1,039 | - | - |
| **Total activity in Israel** | 88,902 | 942 | 701 | 90,545 | 249 | 353 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | 14 | - | 8 | 22 | - | - |
| Other commercial | 265 | - | - | 265 | - | - |
| **Total commercial** | 279 | - | 8 | 287 | - | - |
| Private individuals | - | - | - | - | - | - |
| **Total public - activity abroad** | 279 | - | 8 | 287 | - | - |
| Banks abroad | 1,170 | - | - | 1,170 | - | - |
| Governments abroad | - | - | - | - | - | - |
| **Total activity abroad** | 1,449 | - | 8 | 1,457 | - | - |
| **Total public** | 87,178 | 942 | 709 | 88,829 | 249 | 353 |
| **Total banks** | 2,134 | - | - | 2,134 | - | - |
| **Total governments** | 1,039 | - | - | 1,039 | - | - |
| **Total** | 90,351 | 942 | 709 | 92,002 | 249 | 353 |

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

### 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. It is noted, that in light of Bank of Israel instructions dated April 21, 2020 and as part of the efforts to assist borrowers in difficulties, debt arrangements which were made as a result of the Corona event and in order to stabilize borrowers which are not in arrears, in which the terms of the debt were changed, specifically the original repayment dates were postponed, were not taken into account when determining the default status or the classification of the debts.

For additional information regarding the balance of the actual postponed repayments, see note 1.f in respect of the effects of the spreading of the Coronavirus.

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

### 2. Additional information regarding impaired debts

| Consolidated | | | | | December 31, 2020 |
|---|---|---|---|---|---|
| A Impaired debts and the individual provision | Balance(2) of impaired debts for which an individual provision exists(3) | Balance of 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 | 38 | 10 | 6 | 44 | 898 |
| Construction and real estate - real estate activities | 12 | 2 | 15 | 27 | 960 |
| Financial services | 7 | 2 | - | 7 | 1,200 |
| Commercial - other | 266 | 130 | 43 | 309 | 2,029 |
| **Total commercial** | 323 | 144 | 64 | 387 | 5,087 |
| Private individuals - housing loans | - | - | 36 | 36 | 38 |
| Private individuals - others | 140 | 37 | 14 | 154 | 276 |
| **Total public - activity in Israel** | 463 | 181 | 114 | 577 | 5,401 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 463 | 181 | 114 | 577 | 5,401 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | - | - | - | - | 14 |
| **Total commercial** | - | - | - | - | 14 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | - | - | 14 |
| Banks abroad | - | - | - | - | - |
| Governments abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | - | - | 14 |
| **Total public** | 463 | 181 | 114 | 577 | 5,415 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 463 | 181 | 114 | 577 | 5,415 |
| Of which: | | | | | |
| Measured at the present value of cash flows | 457 | 180 | 58 | 515 | |
| Debts in problematic debt restructuring | 184 | 51 | 43 | 227 | |

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

(NIS millions)

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

### 2. Additional information regarding impaired debts (Cont'd)

| Consolidated | | | | | December 31, 2019 |
|---|---|---|---|---|---|
| A Impaired debts and the individual provision | Balance(2) of impaired debts for which an individual provision exists(3) | Balance of 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 | 30 | 10 | 11 | 41 | 901 |
| Construction and real estate - real estate activities | 8 | 2 | 13 | 21 | 809 |
| Financial services | 3 | 1 | - | 3 | 1,023 |
| Commercial - other | 449 | 156 | 31 | 480 | 2,108 |
| **Total commercial** | 490 | 169 | 55 | 545 | 4,841 |
| Private individuals - housing loans | - | - | 10 | 10 | 11 |
| Private individuals - others | 132 | 35 | 14 | 146 | 252 |
| **Total public - activity in Israel** | 622 | 204 | 79 | 701 | 5,104 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 622 | 204 | 79 | 701 | 5,104 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | 8 | 8 | 8 |
| Other commercial | - | - | - | - | 15 |
| **Total commercial** | - | - | 8 | 8 | 23 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | 8 | 8 | 23 |
| Banks abroad | - | - | - | - | - |
| Governments abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | 8 | 8 | 23 |
| **Total public** | 622 | 204 | 87 | 709 | 5,127 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 622 | 204 | 87 | 709 | 5,127 |
| Of which: | | | | | |
| Measured at the present value of cash flows | 614 | 204 | 40 | 654 | |
| Debts in problematic debt restructuring | 217 | 42 | 31 | 248 | |

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

### 2. Additional information regarding impaired debts (Cont'd)

| Consolidated | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | | 2018 | | |
| **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 | 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 | **35** | **-** | **-** | 38 | - | - | 47 | - | - |
| Construction and real estate - real estate activities | **33** | **-** | **-** | 22 | - | - | 36 | 1 | 1 |
| Financial services | **6** | **-** | **-** | 2 | - | - | 2 | - | - |
| Commercial - other | **452** | **1** | **-** | 396 | 2 | 1 | 324 | 3 | 2 |
| **Total commercial** | **526** | **1** | **-** | 458 | 2 | 1 | 409 | 4 | 3 |
| Private individuals - housing loans | **13** | **-** | **-** | 9 | - | - | 7 | - | - |
| Private individuals - others | **157** | **1** | **-** | 112 | 2 | - | 89 | 3 | 1 |
| **Total public - activity in Israel** | **696** | **2** | **-** | 579 | 4 | 1 | 505 | 7 | 4 |
| **Borrower activity abroad** | | | | | | | | | |
| **Public - commercial** | | | | | | | | | |
| Construction and real estate | **6** | **-** | **-** | 8 | - | - | 8 | - | - |
| Other commercial | **-** | **-** | **-** | - | - | - | - | - | - |
| **Total commercial** | **6** | **-** | **-** | 8 | - | - | 8 | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - | - | - | - |
| **Total public - activity abroad** | **6** | **-** | **-** | 8 | - | - | 8 | - | - |
| **Total** | **702** | (4)**2** | **-** | 587 | (4)4 | 1 | 513 | (4)7 | 4 |

(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 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 33 million was recorded in the year ended December 31, 2020 (2019 - NIS 30 million, 2018 - NIS 36 million).

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

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

### 2. Additional information regarding impaired debts (Cont'd)

| Consolidated | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| C. Problematic 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 | 12 | - | - | 1 | 13 |
| Construction and real estate - real estate activities | 4 | - | - | 3 | 7 |
| Financial services | 1 | - | - | - | 1 |
| Commercial - other | 78 | - | - | 15 | 93 |
| **Total commercial** | 95 | - | - | 19 | 114 |
| Private individuals - others | 79 | - | - | 34 | 113 |
| **Total public - activity in Israel** | 174 | - | - | 53 | 227 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | - | - | - | - | - |
| **Total commercial** | - | - | - | - | - |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | - | - | - |
| **Total** | 174 | - | - | 53 | 227 |

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

(NIS millions)

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

#### 2. Additional information regarding impaired debts (Cont'd)

| Consolidated | | | | | December 31, 2019 |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| C. Problematic 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 | 8 | - | - | 4 | 12 |
| Construction and real estate - real estate activities | 3 | - | - | 4 | 7 |
| Financial services | 2 | - | - | - | 2 |
| Commercial - other | 89 | - | - | 22 | 111 |
| **Total commercial** | 102 | - | - | 30 | 132 |
| Private individuals - others | 79 | - | - | 29 | 108 |
| **Total public - activity in Israel** | 181 | - | - | 59 | 240 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | 8 | - | - | - | 8 |
| Other commercial | - | - | - | - | - |
| **Total commercial** | 8 | - | - | - | 8 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | 8 | - | - | - | 8 |
| **Total** | 189 | - | - | 59 | 248 |

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

(NIS millions)

### B. Debts Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| Consolidated | Restructuring made | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | For the year ended December 31, | | | | | | | | |
| | 2020 | | | 2019 | | | 2018 | | |
| C. Problematic debt restructuring | Number of contracts | Debt balance before restructuring | Debt balance after restructuring | 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 | **31** | **9** | **8** | 37 | 10 | 10 | 30 | 6 | 6 |
| Construction and real estate - real estate activities | **19** | **13** | **13** | 5 | 1 | 1 | 3 | - | - |
| Financial services | **5** | **2** | **2** | 5 | 3 | 3 | 6 | 1 | 1 |
| Commercial - other | **325** | **73** | **73** | 339 | 71 | 71 | 301 | 71 | 70 |
| **Total commercial** | **380** | **97** | **96** | 386 | 85 | 85 | 340 | 78 | 77 |
| Private individuals - others | **1,406** | **62** | **60** | 1,528 | 74 | 71 | 1,284 | 56 | 54 |
| **Total public - activity in Israel** | **1,786** | **159** | **156** | 1,914 | 159 | 156 | 1,624 | 134 | 131 |

| Consolidated | Restructuring failed (2) | | | | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31, | | | | | |
| | 2020 | | 2019 | | 2018 | |
| C. Problematic debt restructuring | Number of contracts | Balance of debt recorded | 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 | **18** | **3** | 15 | 2 | 18 | 1 |
| Construction and real estate - real estate activities | **1** | **-** | 1 | 1 | 3 | - |
| Financial services | **3** | **-** | 2 | - | 1 | 1 |
| Commercial - other | **164** | **12** | 165 | 18 | 141 | 16 |
| **Total commercial** | **186** | **15** | 183 | 21 | 163 | 18 |
| Private individuals - others | **623** | **15** | 561 | 16 | 547 | 13 |
| **Total public - activity in Israel** | **809** | **30** | 744 | 37 | 710 | 31 |

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

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

### B. Debts (Cont'd)

### 3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | |
| | **Total** | **Of which: bullet and balloon** | **OF which: floating interest rate** | **Total Off-balance sheet credit risk** |
| First lien financing rate | | | | |
| LTV - Up to 60% | **19,603** | **216** | **11,537** | **1,800** |
| LTV - Over 60% | **8,250** | **84** | **5,038** | **1,149** |
| Secondary lien or no lien | **483** | **116** | **402** | **-** |
| Total | **28,336** | **416** | **16,977** | **2,949** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | |
| | **Total** | **Of which: bullet and balloon** | **OF which: floating interest rate** | **Total Off-balance sheet credit risk** |
| First lien financing rate | | | | |
| LTV - Up to 60% | 17,495 | 235 | 10,516 | 1,481 |
| LTV - Over 60% | 7,625 | 71 | 4,705 | 738 |
| Secondary lien or no lien | 463 | 127 | 368 | 1 |
| Total | 25,583 | 433 | 15,589 | 2,220 |

* 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 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

### B. Debts (Cont'd)

### 4. Syndication and participation in the syndication of loans

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Syndication transactions initiated by the Bank(1) | | | | Syndication transactions initiated by others | |
| | | | | | Balance at end of year | |
| | Share of the Bank | | Share of others | | Share of the Bank | |
| | Credit to the public | Off-balance sheet credit risk (2) | Credit to the public | Off-balance sheet credit risk (2) | Credit to the public | Off-balance sheet credit risk (2) |
| Mining and excavation | **-** | **-** | **-** | **-** | **218** | **49** |
| Industry | **48** | **-** | **48** | **-** | **178** | **78** |
| Electricity supply | **-** | **-** | **-** | **-** | **914** | **5** |
| Construction and real estate | **18** | **-** | **18** | **-** | **354** | **955** |
| Financial services | **1** | **-** | **1** | **-** | **39** | **-** |
| Commercial - other | **169** | **-** | **169** | **-** | **187** | **101** |
| Total commercial | **236** | **-** | **236** | **-** | **1,890** | **1,188** |
| Private individuals - housing loans | **-** | **-** | **-** | **-** | **-** | **-** |
| Private individuals - others | **-** | **-** | **-** | **-** | **-** | **-** |
| Total | **236** | **-** | **236** | **-** | **1,890** | **1,188** |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Syndication transactions initiated by the Bank(1) | | | | Syndication transactions initiated by others | |
| | | | | | Balance at end of year | |
| | Share of the Bank | | Share of others | | Share of the Bank | |
| | Credit to the public | Off-balance sheet credit risk (2) | Credit to the public | Off-balance sheet credit risk (2) | Credit to the public | Off-balance sheet credit risk (2) |
| Mining and excavation | - | - | - | - | 169 | 90 |
| Industry | 55 | - | 55 | - | 189 | 91 |
| Electricity supply | - | - | - | - | 386 | - |
| Construction and real estate | 20 | - | 20 | - | 176 | 488 |
| Financial services | 1 | - | 1 | - | 58 | - |
| Commercial - other | 189 | - | 189 | - | 129 | 164 |
| Total commercial | 265 | - | 265 | - | 1,107 | 833 |
| Private individuals - housing loans | - | - | - | - | - | - |
| Private individuals - others | - | - | - | - | - | - |
| Total | 265 | - | 265 | - | 1,107 | 833 |

(1) Including where the Bank has provided material service in the syndication transaction.
(2) Credit risk relating to off-balance sheet financial instruments, as computed for the purpose of restrictions on indebtedness of a single borrower, excluding in respect of derivative instruments.

### 5. Purchase of credit to the public

Commercial credit to the public that was purchased during 2020 amounts to NIS 3,422 million (2019 - NIS 3,546 million), of which: problematic credit in the amout of NIS 9 million (2019 - NIS 9 million).

## NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

### C. Classification of Credit and Credit Risk of Off-Balance Sheet Items by Size of Borrowers

| Consolidated | | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|---|
| Size of credit per borrower | | Number of borrowers(4) | Credit(1)(2) | Off-balance sheet credit risk (1)(3) | Number of borrowers (5) | Credit(1)(2) | Off-balance sheet credit risk (1)(3) |
| NIS thousands | | | | NIS million | | | NIS million |
| | Up to 10 | **195,159** | **275** | **649** | 195,556 | 283 | 616 |
| From 10 | to 20 | **78,342** | **394** | **862** | 77,281 | 415 | 844 |
| From 20 | to 40 | **101,066** | **1,137** | **2,001** | 98,123 | 1,177 | 1,879 |
| From 40 | to 80 | **105,601** | **2,965** | **3,330** | 105,484 | 3,182 | 3,102 |
| From 80 | to 150 | **82,699** | **5,951** | **3,349** | 83,259 | 6,233 | 3,101 |
| From 150 | to 300 | **53,351** | **8,563** | **2,601** | 53,630 | 8,726 | 2,485 |
| From 300 | to 600 | **28,869** | **10,676** | **1,731** | 28,006 | 10,414 | 1,666 |
| From 600 | to 1,200 | **23,759** | **17,104** | **2,815** | 21,265 | 15,309 | 2,485 |
| From 1,200 | to 2,000 | **5,822** | **6,974** | **1,607** | 4,733 | 5,766 | 1,288 |
| From 2,000 | to 4,000 | **2,112** | **4,325** | **1,368** | 1,826 | 3,876 | 1,096 |
| From 4,000 | to 8,000 | **915** | **3,768** | **1,322** | 942 | 3,828 | 1,478 |
| From 8,000 | to 20,000 | **700** | **6,394** | **2,446** | 660 | 6,216 | 2,045 |
| From 20,000 | to 40,000 | **270** | **5,438** | **2,083** | 243 | 4,823 | 1,995 |
| From 40,000 | to 200,000 | **210** | **13,138** | **5,341** | 227 | 13,785 | 5,412 |
| From 200,000 | to 400,000 | **21** | **3,827** | **1,712** | 20 | 3,307 | 2,144 |
| From 400,000 | to 800,000 | **6** | **2,343** | **1,044** | 4 | 2,057 | 670 |
| From 800,000 | to 1,200,000 | **2** | **798** | **1,109** | 2 | 1,705 | 279 |
| Total | | **678,904** | **94,070** | **35,370** | 671,261 | 91,102 | 32,585 |

(1) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.

(2) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 92,247 million, NIS 646 million and NIS 1,177 million, respectively (31.12.2019 - NIS 88,829 million, NIS 1,628 million and NIS 645 million, respectively).

(3) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.

(4) The number of borrowers according to the total credit and off-balance sheet credit risk.

# NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

## D. Off-balance sheet financial instruments

| | Consolidated | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance of contracts(1) | | Balance of provision for credit losses | | Balance of contracts(1) | | Balance of provision for credit losses | |
| | December 31 | | | | December 31 | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Transactions the balance of which represents credit risk:** | | | | | | | | |
| Documentary credit | **177** | 135 | **1** | - | **174** | 133 | **1** | - |
| Guarantees securing credit | **891** | 914 | **14** | 6 | **633** | 633 | **12** | 6 |
| Guarantees to home purchasers | **2,132** | 2,325 | **4** | 5 | **2,061** | 2,292 | **4** | 4 |
| Guarantees and letters of indemnity to subsidiaries to secure credit granted by them | **-** | - | **-** | - | **3** | 2 | **-** | - |
| Guarantees and other liabilities | **3,840** | 4,140 | **27** | 20 | **3,729** | 4,015 | **27** | 19 |
| Unutilized credit lines for derivatives instruments | **2,364** | 2,268 | **-** | - | **2,363** | 2,267 | **-** | - |
| Unutilized revolving credit and other on-call credit facilities | **10,683** | 9,463 | **21** | 13 | **9,810** | 8,694 | **20** | 13 |
| Irrevocable commitments to grant credit, not yet executed | **6,217** | 5,197 | **7** | 4 | **6,196** | 5,140 | **7** | 4 |
| Unutilized credit lines for credit card facilities | **8,451** | 7,923 | **6** | 4 | **7,481** | 6,999 | **6** | 4 |
| Facilities for the lending of securities | **267** | 277 | **-** | - | **267** | 277 | **-** | - |
| Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25(D,E)). | **300** | 172 | **-** | - | **300** | 172 | **-** | - |
| Commitments to issue guarantees | **1,580** | 1,511 | **6** | 5 | **1,564** | 1,473 | **6** | 5 |

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

(NIS millions)

### E. Guaranties

The Bank provides to its customers a large variety of guaranties and letters of indemnity in order to improve their credit ability and allow them to consummate different types of transactions. In the case of certain contracts that match the definition of guaranty, the Bank recognizes at the initial recognition date, a liability in the amount of the fair value of the obligation in respect of the guarantee on date of issue thereof. The maximum amount of the future potential payments is determined in accordance with the stated amount of the guaranty, without taking into account possible repayments or held or pledged collateral.

On December 31, 2020, the total written down cost of the liabilities in respect of guaranties, as detailed in the Tables below, amounts to NIS 31 million (as of December 31, 2019 - NIS 33 million). The written down cost of financial and execution guaranties is included in the item "other liabilities".

#### 1. General

| | Maximum amount of future potential payments | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | December 31, 2020 | | | | | December 31, 2019 | | | | |
| | Expiry in one year or less | Expiry from one to three years | Expiry over three and up to five years | Total amount | Outstanding book balance | Expiry in one year or less | Expiry from one to three years | Expiry over three and up to five years | Total amount | Outstanding book balance |
| | | | | | NIS million | | | | | NIS million |
| Guaranties securing credit | **666** | **205** | **20** | **891** | **5** | 666 | 232 | 16 | 914 | 5 |
| Guaranties to home purchasers | **673** | **1,384** | **75** | **2,132** | **8** | 2,097 | 191 | 37 | 2,325 | 9 |
| Other guarantees and obligations | **3,314** | **705** | **298** | **4,317** | **18** | 3,328 | 726 | 393 | 4,447 | 19 |
| Commitments to issue guaranties | **453** | **1,115** | **12** | **1,580** | **-** | 586 | 482 | 443 | 1,511 | - |
| Total guaranties | **5,106** | **3,409** | **405** | **8,920** | **31** | 6,677 | 1,631 | 889 | 9,197 | 33 |

#### 2. Guaranty risk assessment

| | Maximum amount of future potential payments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2020 | | | | December 31, 2019 | | | |
| | Rated in accordance with investment rating | Rated not in accordance with investment rating | Not rated | Total amount | Rated in accordance with investment rating | Rated not in accordance with investment rating | Not rated | Total amount |
| | | | | NIS million | | | | NIS million |
| Guaranties securing credit | **834** | **49** | **8** | **891** | 880 | 28 | 6 | 914 |
| Guaranties to home purchasers | **2,120** | **12** | **-** | **2,132** | 2,262 | 63 | - | 2,325 |
| Other guarantees and obligations | **4,170** | **118** | **29** | **4,317** | 4,300 | 83 | 64 | 4,447 |
| Commitments to issue guaranties | **1,567** | **-** | **13** | **1,580** | 1,434 | 25 | 52 | 1,511 |
| Total guaranties | **8,691** | **179** | **50** | **8,920** | 8,876 | 199 | 122 | 9,197 |

# NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

| Consolidated | | | | | | | December 31, 2020 |
|---|---|---|---|---|---|---|---|
| | 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 | 54,952 | - | 2,518 | 102 | 230 | - | 57,802 |
| Securities | 6,719 | 285 | 4,183 | 1,611 | - | 307 | 13,105 |
| Securities which were borrowed | 11 | - | - | - | - | - | 11 |
| Credit to the public, net(3) | 75,077 | 11,185 | 3,070 | 1,010 | 63 | 565 | 90,970 |
| Credit to the government | 36 | 620 | - | - | - | - | 656 |
| Investee company | - | - | - | - | - | 636 | 636 |
| Premises and equipment | - | - | - | - | - | 965 | 965 |
| Intangible assets | - | - | - | - | - | 272 | 272 |
| Assets in respect of derivative instruments | 785 | 46 | 140 | 102 | 33 | 791 | 1,897 |
| Other assets | 822 | 6 | 69 | - | - | 567 | 1,464 |
| Total assets | 138,402 | 12,142 | 9,980 | 2,825 | 326 | 4,103 | 167,778 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 112,861 | 5,365 | 18,609 | 3,086 | 1,190 | 566 | 141,677 |
| Deposits from banks | 2,579 | - | 358 | 16 | 39 | - | 2,992 |
| Deposits from the Government | 321 | - | 136 | 1 | 1 | - | 459 |
| Bonds and subordinated capital notes | 241 | 4,153 | - | - | - | - | 4,394 |
| Liabilities in respect of derivative instruments | 956 | 11 | 303 | 220 | 34 | 790 | 2,314 |
| Other liabilities | 6,020 | 71 | 89 | 3 | 1 | 223 | 6,407 |
| Total liabilities | 122,978 | 9,600 | 19,495 | 3,326 | 1,265 | 1,579 | 158,243 |
| Difference | 15,424 | 2,542 | (9,515) | (501) | (939) | 2,524 | 9,535 |
| **Non-hedging derivatives** | | | | | | | |
| Derivative instruments (not including options) | (10,623) | (319) | 9,554 | 458 | 930 | - | - |
| Options in the money, net (in terms of underlying asset) | 240 | - | (268) | 28 | - | - | - |
| Options out of the money, net (in terms of underlying asset) | (14) | - | (16) | 30 | - | - | - |
| Total | 5,027 | 2,223 | (245) | 15 | (9) | 2,524 | 9,535 |
| Options in the money, net (present value of stated amount) | 32 | - | (42) | 10 | - | - | - |
| Options out of the money, net (present value of stated amount) | (622) | - | 374 | 244 | 4 | - | - |

(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 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| Consolidated | | | | | | | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| | 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 | 36,131 | - | 1,067 | 175 | 157 | - | 37,530 |
| Securities | 3,634 | 349 | 4,975 | 1,698 | - | 339 | 10,995 |
| Securities which were borrowed | 9 | - | - | - | - | - | 9 |
| Credit to the public, net[3] | 73,316 | 10,273 | 2,968 | 607 | 89 | 646 | 87,899 |
| Credit to the government | 415 | 624 | - | - | - | - | 1,039 |
| Investee companies | - | - | - | - | - | 605 | 605 |
| Premises and equipment | - | - | - | - | - | 996 | 996 |
| Intangible assets | - | - | - | - | - | 248 | 248 |
| Assets in respect of derivative instruments | 425 | 50 | 107 | 40 | 18 | 451 | 1,091 |
| Other assets | 649 | 4 | 10 | 1 | - | 34 | 698 |
| Total assets | 114,579 | 11,300 | 9,127 | 2,521 | 264 | 3,319 | 141,110 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 94,780 | 5,315 | 15,124 | 3,059 | 1,126 | 648 | 120,052 |
| Deposits from banks | 885 | - | 225 | 18 | 9 | - | 1,137 |
| Deposits from the Government | 308 | 1 | 42 | 1 | 1 | - | 353 |
| Bonds and subordinated capital notes | 476 | 3,198 | - | - | - | - | 3,674 |
| Liabilities in respect of derivative instruments | 499 | 12 | 174 | 102 | 11 | 449 | 1,247 |
| Other liabilities | 5,536 | 75 | 32 | 4 | 1 | 75 | 5,723 |
| Total liabilities | 102,484 | 8,601 | 15,597 | 3,184 | 1,148 | 1,172 | 132,186 |
| Difference | 12,095 | 2,699 | (6,470) | (663) | (884) | 2,147 | 8,924 |
| **Non-hedging derivatives:** | | | | | | | |
| Derivative instruments (not including options) | (8,182) | 81 | 6,346 | 842 | 913 | - | - |
| Options in the money, net (in terms of underlying asset) | 144 | - | (7) | (137) | - | - | - |
| Options out of the money, net (in terms of underlying asset) | (98) | - | 114 | (16) | - | - | - |
| Total | 3,959 | 2,780 | (17) | 26 | 29 | 2,147 | 8,924 |
| Options in the money, net (present value of stated amount) | 255 | - | (32) | (223) | - | - | - |
| Options out of the money, net (present value of stated amount) | (1,103) | - | 704 | 399 | - | - | - |

## NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| The bank | | | | | | | December 31, 2020 |
|---|---|---|---|---|---|---|---|
| | 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 | 53,709 | 200 | 2,517 | 101 | 230 | - | 56,757 |
| Securities | 6,235 | 280 | 4,153 | 1,505 | - | 307 | 12,480 |
| Securities which were borrowed | 11 | - | - | - | - | - | 11 |
| Credit to the public, net[3] | 70,061 | 11,052 | 3,062 | 1,001 | 64 | 565 | 85,805 |
| Credit to the government | 35 | - | - | - | - | - | 35 |
| Investee companies | - | - | - | - | - | 1,198 | 1,198 |
| Premises and equipment | - | - | - | - | - | 936 | 936 |
| Intangible assets | - | - | - | - | - | 264 | 264 |
| Assets in respect of derivative instruments | 785 | 46 | 142 | 107 | 33 | 791 | 1,904 |
| Other assets | 790 | 4 | 69 | - | - | 526 | 1,389 |
| Total assets | 131,626 | 11,582 | 9,943 | 2,714 | 327 | 4,587 | 160,779 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 105,631 | 6,877 | 18,344 | 2,932 | 1,177 | 566 | 135,527 |
| Deposits from banks | 4,515 | 290 | 592 | 61 | 53 | - | 5,511 |
| Deposits from the Government | 321 | - | 136 | 1 | 1 | - | 459 |
| Bonds and subordinated capital notes | 9 | 2,077 | - | - | - | - | 2,086 |
| Liabilities in respect of derivative instruments | 957 | 11 | 302 | 220 | 34 | 790 | 2,314 |
| Other liabilities | 5,358 | 67 | 89 | 3 | 1 | 223 | 5,741 |
| Total liabilities | 116,791 | 9,322 | 19,463 | 3,217 | 1,266 | 1,579 | 151,638 |
| Difference | 14,835 | 2,260 | (9,520) | (503) | (939) | 3,008 | 9,141 |
| **Non-hedging derivatives:** | | | | | | | |
| Derivative instruments (not including options) | (10,623) | (319) | 9,554 | 458 | 930 | - | - |
| Options in the money, net (in terms of underlying asset) | 240 | - | (268) | 28 | - | - | - |
| Options out of the money, net (in terms of underlying asset) | (14) | - | (16) | 30 | - | - | - |
| Total | 4,438 | 1,941 | (250) | 13 | (9) | 3,008 | 9,141 |
| Options in the money, net (present value of stated amount) | 32 | - | (42) | 10 | - | - | - |
| Options out of the money, net (present value of stated amount) | (622) | - | 374 | 244 | 4 | - | - |

(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 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| The bank | | | | | | | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| | 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 | 34,889 | 297 | 1,066 | 174 | 102 | - | 36,528 |
| Securities | 3,511 | 332 | 4,961 | 1,593 | - | 339 | 10,736 |
| Securities which were borrowed | 9 | - | - | - | - | - | 9 |
| Credit to the public, net[3] | 68,414 | 10,134 | 2,960 | 599 | 89 | 646 | 82,842 |
| Credit to the Government | 415 | - | - | - | - | - | 415 |
| Investee companies | - | - | - | - | - | 1,278 | 1,278 |
| Premises and equipment | - | - | - | - | - | 964 | 964 |
| Intangible assets and goodwill | - | - | - | - | - | 238 | 238 |
| Assets in respect of derivative instruments | 426 | 50 | 107 | 44 | 18 | 451 | 1,096 |
| Other assets | 621 | 2 | 10 | - | - | 34 | 667 |
| Total assets | 108,285 | 10,815 | 9,104 | 2,410 | 209 | 3,950 | 134,773 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 89,389 | 5,881 | 14,877 | 2,926 | 1,115 | 648 | 114,836 |
| Deposits from banks | 1,822 | 187 | 454 | 33 | 144 | - | 2,640 |
| Deposits from the Government | 308 | 1 | 42 | 1 | 1 | - | 353 |
| Bonds and subordinated capital notes | 11 | 2,044 | - | - | - | - | 2,055 |
| Liabilities in respect of derivative instruments | 499 | 12 | 174 | 102 | 11 | 449 | 1,247 |
| Other liabilities | 4,892 | 72 | 31 | 4 | - | 75 | 5,074 |
| Total liabilities | 96,921 | 8,197 | 15,578 | 3,066 | 1,271 | 1,172 | 126,205 |
| Difference | 11,364 | 2,618 | (6,474) | (656) | (1,062) | 2,778 | 8,568 |
| **Non-hedging derivatives:** | | | | | | | |
| Derivative instruments (not including options) | (8,174) | 81 | 6,346 | 834 | 913 | - | - |
| Options in the money, net (in terms of underlying asset) | 144 | - | (7) | (137) | - | - | - |
| Options out of the money, net (in terms of underlying asset) | (98) | - | 114 | (16) | - | - | - |
| Total | 3,236 | 2,699 | (21) | 25 | (149) | 2,778 | 8,568 |
| Options in the money, net (present value of stated amount) | 255 | - | (32) | (223) | - | - | - |
| Options out of the money, net (present value of stated amount) | (1,103) | - | 704 | 399 | - | - | - |

# NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1)

| Consolidated | Future expected cash flows | | | | |
|---|---|---|---|---|---|
| | December 31, 2020 | | | | |
| | On demand and up to one month | One to three months | Three months to one year | One to two years | Two to three years |
| | NIS million | | | | |
| **Israeli currency (including linked to foreign currency)** | | | | | |
| Assets | **67,713** | **5,138** | **17,588** | **11,755** | **10,738** |
| Liabilities | **99,415** | **13,072** | **8,429** | **2,108** | **3,222** |
| Difference | **(31,702)** | **(7,934)** | **9,159** | **9,647** | **7,516** |
| Derivative instruments (except options) | **(7,597)** | **(3,181)** | **(286)** | **42** | **(1)** |
| Options (in terms of underlying assets) | **131** | **76** | **(57)** | **6** | **-** |
| Difference after effect of derivative instruments | **(39,168)** | **(11,039)** | **8,816** | **9,695** | **7,515** |
| **Foreign currency** | | | | | |
| Assets | **3,559** | **1,252** | **2,574** | **886** | **854** |
| Liabilities | **21,050** | **1,724** | **839** | **74** | **66** |
| Difference | **(17,491)** | **(472)** | **1,735** | **812** | **788** |
| Of which: Difference in U.S. dollar | **(13,865)** | **(576)** | **1,667** | **706** | **696** |
| Derivative instruments (except options) | **7,597** | **3,181** | **286** | **(42)** | **1** |
| Options (in terms of underlying assets) | **(131)** | **(76)** | **57** | **(6)** | **-** |
| Difference after effect of derivative instruments | **(10,025)** | **2,633** | **2,078** | **764** | **789** |
| **Total** | | | | | |
| Assets* | **71,272** | **6,390** | **20,162** | **12,641** | **11,592** |
| Liabilities** | **120,465** | **14,796** | **9,268** | **2,182** | **3,288** |
| Difference | **(49,193)** | **(8,406)** | **10,894** | **10,459** | **8,304** |
| * Of which: Credit to the public | **15,306** | **5,739** | **16,343** | **11,175** | **8,442** |
| ** Of which: Deposits from the public | **116,683** | **13,407** | **7,102** | **1,270** | **520** |

| | December 31, 2019* | | | | |
|---|---|---|---|---|---|
| | On demand and up to one month | One to three months | Three months to one year | One to two years | Two to three years |
| | NIS million | | | | |
| Assets | 55,547 | 6,239 | 19,976 | 11,034 | 9,227 |
| Liabilities | 99,751 | 13,940 | 8,287 | 2,197 | 1,406 |
| Difference | (44,204) | (7,701) | 11,689 | 8,837 | 7,821 |

* Reclassified.

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 173 million (31.12.19 - NIS 276 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,701 million (31.12.2019 - NIS 4,649 million). Credit in excess of credit facility in the amount NIS 127 million, classified without maturity date (31.12.2019 - NIS 215 million).

| Three to four years | Four to five years | Five to ten years | Ten to twenty years | Over twenty years | Total cash flows(5) | Balance-sheet balance (3) Without maturity date(2)(5) | Total | Contractual return rate(4) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | NIS million | Percent |
| **8,003** | **6,791** | **17,878** | **13,166** | **3,377** | **162,147** | **166** | **150,752** | **2.59** |
| **1,751** | **2,240** | **2,334** | **706** | **116** | **133,393** | **17** | **132,705** | **0.92** |
| **6,252** | **4,551** | **15,544** | **12,460** | **3,261** | **28,754** | **149** | **18,047** | |
| **-** | **-** | **-** | **-** | **-** | **(11,023)** | **-** | **(10,942)** | |
| **-** | **-** | **-** | **-** | **-** | **156** | **-** | **226** | |
| **6,252** | **4,551** | **15,544** | **12,460** | **3,261** | **17,887** | **149** | **7,331** | |
| **1,394** | **249** | **2,288** | **151** | **-** | **13,207** | **26** | **12,923** | **1.26** |
| **56** | **44** | **94** | **-** | **-** | **23,947** | **1** | **23,959** | **1.14** |
| **1,338** | **205** | **2,194** | **151** | **-** | **(10,740)** | **25** | **(11,036)** | |
| **211** | **144** | **1,647** | **3** | **-** | **(9,367)** | **15** | **(9,589)** | |
| **-** | **-** | **-** | **-** | **-** | **11,023** | **-** | **10,942** | |
| **-** | **-** | **-** | **-** | **-** | **(156)** | **-** | **(226)** | |
| **1,338** | **205** | **2,194** | **151** | **-** | **127** | **25** | **(320)** | |
| **9,397** | **7,040** | **20,166** | **13,317** | **3,377** | **175,354** | **192** | **163,675** | **2.50** |
| **1,807** | **2,284** | **2,428** | **706** | **116** | **157,340** | **18** | **156,664** | **0.92** |
| **7,590** | **4,756** | **17,738** | **12,611** | **3,261** | **18,014** | **174** | **7,011** | |
| **6,838** | **5,456** | **16,077** | **13,154** | **2,972** | **101,502** | **173** | **90,405** | **2.75** |
| **1,187** | **541** | **433** | **87** | **-** | **141,230** | **1** | **141,111** | **0.46** |

| Three to four years | Four to five years | Five to ten years | Ten to twenty years | Over twenty years | Total cash flows(5) | Without maturity date(2)(5) | Total | Contractual return rate(4) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | NIS million | Percent |
| 8,022 | 6,700 | 17,930 | 11,623 | 2,829 | 149,127 | 290 | 137,791 | 2.76 |
| 970 | 1,260 | 3,688 | 341 | 107 | 131,947 | 38 | 131,014 | 1.24 |
| 7,052 | 5,440 | 14,242 | 11,282 | 2,722 | 17,180 | 252 | 6,777 | |

## NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) (CONT'D)

| The bank | Future expected cash flows | | | | |
|---|---|---|---|---|---|
| | December 31, 2020 | | | | |
| | On demand and up to one month | One to three months | Three months to one year | One to two years | Two to three years |
| | NIS million | | | | |
| **Israeli currency (including linked to foreign currency)** | | | | | |
| Assets | **68,166** | **4,585** | **14,958** | **10,415** | **9,130** |
| Liabilities | **94,371** | **12,512** | **7,743** | **2,078** | **3,193** |
| Difference | **(26,205)** | **(7,927)** | **7,215** | **8,337** | **5,937** |
| Derivative instruments (except options) | **(7,597)** | **(3,181)** | **(286)** | **42** | **(1)** |
| Options (in terms of underlying assets) | **131** | **76** | **(57)** | **6** | **-** |
| Difference after effect of derivative instruments | **(33,671)** | **(11,032)** | **6,872** | **8,385** | **5,936** |
| **Foreign currency** | | | | | |
| Assets | **3,728** | **1,224** | **2,421** | **877** | **851** |
| Liabilities | **20,919** | **1,722** | **833** | **75** | **67** |
| Difference | **(17,191)** | **(498)** | **1,588** | **802** | **784** |
| Of which: Difference in U.S. dollar | **(13,669)** | **(602)** | **1,524** | **699** | **696** |
| Derivative instruments (except options) | **7,597** | **3,181** | **286** | **(42)** | **1** |
| Options (in terms of underlying assets) | **(131)** | **(76)** | **57** | **(6)** | **-** |
| Difference after effect of derivative instruments | **(9,725)** | **2,607** | **1,931** | **754** | **785** |
| **Total** | | | | | |
| Assets* | **71,894** | **5,809** | **17,379** | **11,292** | **9,981** |
| Liabilities** | **115,290** | **14,234** | **8,576** | **2,153** | **3,260** |
| Difference | **(43,396)** | **(8,425)** | **8,803** | **9,139** | **6,721** |
| * Of which: Credit to the public | **14,669** | **5,361** | **15,083** | **10,239** | **7,687** |
| ** Of which: Deposits from the public | **109,457** | **13,158** | **6,699** | **1,377** | **616** |

| | Future expected cash flows | | | | |
|---|---|---|---|---|---|
| | December 31, 2019* | | | | |
| | On demand and up to one month | One to three months | Three months to one year | One to two years | Two to three years |
| | NIS million | | | | |
| Assets | 54,995 | 5,810 | 17,542 | 10,034 | 8,260 |
| Liabilities | 95,155 | 13,375 | 7,501 | 2,148 | 1,398 |
| Difference | (40,160) | (7,565) | 10,041 | 7,886 | 6,862 |

* Reclassified.

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 167 million (31.12.19 - NIS 264 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,382 million (31.12.2019 - NIS 4,237 million). Credit in excess of credit facility in the amount NIS 121 million, classified without maturity date (31.12.2019 - NIS 203 million).

| Three to four years | Four to five years | Five to ten years | Ten to twenty years | Over twenty years | Total cash flows(5) | Balance-sheet balance (3) Without maturity date(2)(5) | Total | Contractual return rate(4) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | NIS million | Percent |
| **7,175** | **6,194** | **17,087** | **13,134** | **3,377** | **154,221** | **160** | **143,411** | **2.54** |
| **1,714** | **2,225** | **2,293** | **681** | **116** | **126,926** | **17** | **126,241** | **0.94** |
| **5,461** | **3,969** | **14,794** | **12,453** | **3,261** | **27,295** | **143** | **17,170** | |
| **-** | **-** | **-** | **-** | **-** | **(11,023)** | **-** | **(10,942)** | |
| **-** | **-** | **-** | **-** | **-** | **156** | **-** | **226** | |
| **5,461** | **3,969** | **14,794** | **12,453** | **3,261** | **16,428** | **143** | **6,454** | |
| **1,334** | **250** | **2,225** | **151** | **-** | **13,061** | **26** | **12,781** | **1.27** |
| **54** | **46** | **92** | **-** | **-** | **23,808** | **1** | **23,818** | **1.15** |
| **1,280** | **204** | **2,133** | **151** | **-** | **(10,747)** | **25** | **(11,037)** | |
| **210** | **143** | **1,624** | **3** | **-** | **(9,372)** | **15** | **(9,591)** | |
| **-** | **-** | **-** | **-** | **-** | **11,023** | **-** | **10,942** | |
| **-** | **-** | **-** | **-** | **-** | **(156)** | **-** | **(226)** | |
| **1,280** | **204** | **2,133** | **151** | **-** | **120** | **25** | **(321)** | |
| **8,509** | **6,444** | **19,312** | **13,285** | **3,377** | **167,282** | **186** | **156,192** | **2.46** |
| **1,768** | **2,271** | **2,385** | **681** | **116** | **150,734** | **18** | **150,059** | **0.95** |
| **6,741** | **4,173** | **16,927** | **12,604** | **3,261** | **16,548** | **168** | **6,133** | |
| **6,263** | **5,040** | **15,345** | **13,121** | **2,972** | **95,780** | **167** | **85,240** | **2.68** |
| **1,272** | **2,043** | **408** | **63** | **-** | **135,093** | **1** | **134,961** | **0.48** |

| Three to four years | Four to five years | Five to ten years | Ten to twenty years | Over twenty years | Total cash flows(5) | Balance-sheet balance (3) Without maturity date(2)(5) | Total | Contractual return rate(4) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | NIS million | Percent |
| 7,075 | 6,184 | 17,126 | 11,584 | 2,829 | 141,439 | 278 | 130,823 | 2.70 |
| 953 | 1,237 | 3,671 | 321 | 107 | 125,866 | 38 | 125,033 | 1.29 |
| 6,122 | 4,947 | 13,455 | 11,263 | 2,722 | 15,573 | 240 | 5,790 | |

## NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

| | | | | | Consolidated |
|---|---|---|---|---|---|
| | | | | | December 31, 2020 |
| | Stated in the | | | | Fair value[1] |
| | Balance Sheet | (1) | (2) | (3) | Total |
| **Financial assets** | | | | | |
| Cash and deposits with banks | **57,802** | **679** | **57,120** | **4** | **57,803** |
| Securities[2] | **13,105** | **7,163** | **5,978** | **90** | **13,231** |
| Securities which were borrowed | **11** | **-** | **11** | **-** | **11** |
| Credit to the public, net | **90,970** | **3,260** | **332** | **88,229** | **91,821** |
| Credit to the government | **656** | **-** | **35** | **620** | **655** |
| Assets in respect of derivative instruments | **1,897** | **909** | **612** | **376** | **1,897** |
| Other financial assets | **388** | **247** | **-** | **141** | **388** |
| Total financial assets | **[3]164,829** | **12,258** | **64,088** | **89,460** | **165,806** |
| **Financial liabilities** | | | | | |
| Deposits from the public | **141,677** | **3,434** | **103,076** | **35,020** | **141,530** |
| Deposits from Banks | **2,992** | **-** | **1,230** | **1,755** | **2,985** |
| Deposits from the Government | **459** | **-** | **422** | **44** | **466** |
| Bonds and non-convertible subordinated capital notes | **4,394** | **4,345** | **-** | **102** | **4,447** |
| Liabilities in respect of derivative instruments | **2,314** | **909** | **1,392** | **13** | **2,314** |
| Other financing liabilities | **4,929** | **258** | **517** | **4,153** | **4,928** |
| Total financial liabilities | **[3]156,765** | **8,946** | **106,637** | **41,087** | **156,670** |
| **Off balance sheet financial instruments** | | | | | |
| Transactions were the balance represents credit risk | **31** | **-** | **-** | **31** | **31** |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay[4]** | **960** | **-** | **-** | **960** | **960** |

(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 12, "Securities".

(3) Of which: assets of NIS 15,875 and liabilities of NIS 6,007, 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 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

## NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

| | | | | | Consolidated |
|---|---|---|---|---|---|
| | | | | | December 31, 2019 |
| | Stated in the Balance Sheet | | | | Fair value(1) |
| | | (1) | (2) | (3) | Total |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 37,530 | 682 | 36,843 | 4 | 37,529 |
| Securities(2) | 10,995 | 4,249 | 6,768 | 102 | 11,119 |
| Securities which were borrowed | 9 | - | 9 | - | 9 |
| Credit to the public, net | 87,899 | 3,379 | 327 | 84,926 | 88,632 |
| Credit to the government | 1,039 | - | 35 | 1,001 | 1,036 |
| Assets in respect of derivative instruments | 1,091 | 539 | 359 | 193 | 1,091 |
| Other financial assets | 178 | 42 | - | 136 | 178 |
| Total financial assets | (3)138,741 | 8,891 | 44,341 | 86,362 | 139,594 |
| **Financial liabilities** | | | | | |
| Deposits from the public | 120,052 | 4,032 | 84,362 | 31,463 | 119,857 |
| Deposits from Banks | 1,137 | - | 1,136 | 4 | 1,140 |
| Deposits from the Government | 353 | - | 306 | 55 | 361 |
| Bonds and non-convertible subordinated capital notes | 3,674 | 3,597 | - | 149 | 3,746 |
| Liabilities in respect of derivative instruments | 1,247 | 540 | 695 | 12 | 1,247 |
| Other financing liabilities | 4,315 | 47 | 471 | 3,794 | 4,312 |
| Total financial liabilities | (3)130,778 | 8,216 | 86,970 | 35,477 | 130,663 |
| **Off balance sheet financial instruments** | | | | | |
| Transactions were the balance represents credit risk | 33 | - | - | 33 | 33 |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay(4)** | 927 | - | - | 927 | 927 |

(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 12, "Securities".

(3) Of which: assets of NIS 13,330 and liabilities of NIS 5,328 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 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

## NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

### 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.

## NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

### B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

**Marketable securities** – fair value was estimated 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 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.

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. In the third quarter of 2020 an update to the model was performed, which caused a decrease in the fair value in the amount of NIS 17 million. Comparative data were not restated.

**Deposits and subordinate capital notes** – fair value was estimated by discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) 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 on traders' quotations regarding a similar liability traded as an asset on an active market.

Cashflows with respect to demand deposits (current accounts) were distributed based on statistical model for forecasting stable balances. In the third quarter of 2020 an update to the model was performed, which caused an increase in the fair value in the amount of NIS 46 million. Comparative data were not restated.

Cashflows in respect of deposits from the public were estimated according to premature repayment forecast, which is based on a statistical model. The update increased the fair value in the amount of NIS 11 million. Comparative data were not restated.

**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 32B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

### A. Items measured at fair value on a recurrent basis

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | 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 | **4,354** | **5,724** | **-** | **-** | **10,078** |
| Shares not for trading | **187** | **-** | **-** | **-** | **187** |
| Trading Securities | **206** | **-** | **-** | **-** | **206** |
| Assets in respect of derivative instruments | **909** | **612** | **376** | **-** | **1,897** |
| Others | **3,507** | **-** | **-** | **-** | **3,507** |
| Total assets | **9,163** | **6,336** | **376** | **-** | **15,875** |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | **909** | **1,393** | **13** | **-** | **2,315** |
| Others | **3,692** | **-** | **-** | **-** | **3,692** |
| Total liabilities | **4,601** | **1,393** | **13** | **-** | **6,007** |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | 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 | 2,033 | 6,470 | - | - | 8,503 |
| Shares not for trading | 210 | - | - | - | 210 |
| Trading Securities | 105 | - | - | - | 105 |
| Assets in respect of derivative instruments | 539 | 359 | 193 | - | 1,091 |
| Others | 3,421 | - | - | - | 3,421 |
| Total assets | 6,308 | 6,829 | 193 | - | 13,330 |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | 540 | 697 | 12 | - | 1,249 |
| Others | 4,079 | - | - | - | 4,079 |
| Total liabilities | 4,619 | 697 | 12 | - | 5,328 |

# NOTE 32B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

## B. Items measured at fair value on a nonrecurrent basis

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Profit in respect of value changes for the year ended |
| Investment in shares | **-** | **30** | **-** | **30** | **2** |
| Impaired credit the collection of which is contingent on collateral | **-** | **-** | **20** | **20** | **-** |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Profit in respect of value changes for the year ended |
| Investment in shares | - | 27 | - | 27 | 2 |
| Impaired credit the collection of which is contingent on collateral | - | - | 35 | 35 | - |

# NOTE 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

| | For the year ended 31, December 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value as at December 31, 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 December 31, 2020 | Unrealized profits (losses) in respect of instruments held as at December 31, 2020 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | **193** | **1,857** | **58** | **(1,732)** | **-** | **-** | **376** | **301** |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | **12** | **(7)** | **-** | **(6)** | **-** | **-** | **13** | **(3)** |

| | For the year ended 31, December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 December 31, 2019 | Unrealized profits in respect of instruments held as at December 31, 2019 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | 252 | 766 | 68 | (893) | - | - | 193 | 75 |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | 13 | (1) | - | (2) | - | - | 12 | - |

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

# NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

| | as of December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | **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 | **3** | **0.10** | **(0.41)-0.31** |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | **8** | **1.65** | **1.40-1.75** |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | **47** | **(0.36)** | **(1.28)-(0.18)** |
| | | 2. Counter-party credit risk | **318** | **1.44** | **1.00-4.60** |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | **2** | **0.22** | **(0.41)-0.48** |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | **11** | **(0.96)** | **(1.28)-(0.64)** |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | **20** | | |

| | as of December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | **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 | (1.06) | (1.13)-(0.85) |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | 16 | 1.44 | 1.30-1.55 |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | 50 | (1.16) | (1.49)-(0.60) |
| | | 2. Counter-party credit risk | 126 | 1.45 | 0.90-5.00 |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | - | (1.06) | (1.13)-(0.86) |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | 12 | (1.29) | (1.49)-(1.14) |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | 35 | | |

Qualitative information regarding items measured at fair value at level 3:

- Interest linked to the CPI - A change in the forecasted inflation rate would affect the fair value of CPI linked transactions, such that a rise (decline) in the inflationary forecast would lead to an increase (decrease) in fair value in accordance with the CPI linkage position of the Bank.
- Credit risk of a counterparty - A change in the credit risk of a counterparty to a transaction, such that in as much as the credit risk of a counterparty to a transaction would be higher/lower, the value of the transaction would also be higher/lower.

## NOTE 33 - INTERESTED AND RELATED PARTIES

(NIS million)

### A. Balances

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Interest parties(1) | | | |
| | Shareholders | | | |
| | Controlling shareholders(2) | | Others(3) | |
| | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) |
| Credit to the public | - | - | - | - |
| Investment in equity-basis investees(9) | - | - | - | - |
| Other assets | - | - | - | - |
| Deposits from the public | 2 | 3 | - | - |
| Other liabilities | - | - | - | - |
| Shares (included in shareholders' equity)(10) | 4,428 | 4,428 | - | - |
| Credit risk in off- balance sheet financial instrument(9)(11) | - | - | - | - |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Interest parties(1) | | | |
| | Shareholders | | | |
| | Controlling shareholders(2) | | Others(3) | |
| | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) |
| Credit to the public | - | - | - | - |
| Investment in equity-basis investees(9) | - | - | - | - |
| Other assets | - | - | - | - |
| Deposits from the public | 2 | 11 | 22 | 24 |
| Other liabilities | - | - | - | - |
| Shares (included in shareholders' equity)(10) | 4,139 | 4,139 | - | - |
| Credit risk in off- balance sheet financial instrument(9)(11) | - | - | - | - |

### B. Condensed results of transactions with related and interested parties

| | Interest parties (1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders | | | | | | | | |
| | Controlling shareholders(2) | | | Others(3) | | | Office-holders (4) | | |
| | For the year ended December 31 | | | For the year ended December 31 | | | For the year ended December 31 | | |
| **Statement of income items** | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Net interest income* | - | - | - | - | - | - | - | - | - |
| Non-interest income | - | - | - | - | 8 | 8 | - | - | - |
| Operating and other expenses** | - | - | - | - | - | - | 29 | 37 | 33 |
| Total | - | - | - | - | 8 | 8 | (29) | (37) | (33) |

* Details are provided in D below.

** Details are provided in C below.

Note: For notes to the table see page 278.

| | Interest parties(1) | | | | | | Related parties held by the Bank(1) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Office-holders(4) | | Others(6) | | Whoever was an interested party at the time of the transaction | | Equity basis investees(7) | | others(8) | |
| | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) |
| | 10 | 11 | - | - | 3 | 4 | 500 | 601 | 6 | 6 |
| | - | - | - | - | - | - | 636 | 636 | - | - |
| | - | - | - | - | - | - | 1 | 1 | - | - |
| | 13 | 25 | 24 | 34 | | | 7 | 9 | 80 | 91 |
| | 28 | 28 | - | - | | | - | - | - | - |
| | - | - | - | - | | | - | - | - | - |
| | 3 | 4 | 1 | 1 | 1 | 1 | 5 | 7 | - | - |

| | Interest parties(1) | | | | | | Related parties held by the Bank(1) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Office-holders(4) | | Others(6) | | Whoever was an interested party at the time of the transaction | | Equity basis investees(7) | | others(8) | |
| | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) | Year-end balance | Highest balance during the year (5) |
| | 14 | 15 | - | - | 5 | 10 | 600 | 911 | - | 8 |
| | - | - | - | - | - | - | 605 | 617 | - | - |
| | - | - | - | - | 3 | 4 | 1 | 1 | - | - |
| | 12 | 17 | 23 | 33 | | | 6 | 16 | 63 | 105 |
| | 36 | 36 | - | - | | | - | - | - | - |
| | - | - | - | - | | | - | - | - | - |
| | 3 | 4 | - | - | 55 | 63 | 7 | 7 | - | 2 |

| | Interest parties | | | Related parties held by the Bank (1) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Others (6) | | | Equity basis investees (7) | | | Others (8) | | |
| | For the year ended December 31 | | | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| | - | - | - | 3 | 4 | 5 | - | - | - |
| | - | - | - | (2) | 2 | (2) | - | - | - |
| | 6 | 5 | 4 | - | - | - | - | - | - |
| | (6) | (5) | (4) | 1 | 6 | 3 | - | - | - |

## NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

(NIS million)

### C. Benefits to interested parties (by the Bank and its invetees)

| | Salaries to interested parties (by the Bank and its investees)* | | | | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31, 2020 | | For the year ended December 31, 2019 | | For the year ended December 31, 2018 | |
| | Office-holders(4) | | Office-holders(4) | | Office-holders(4) | |
| | Total benefits | Number of Recipients | Total benefits | Number of Recipients | Total benefits | Number of Recipients |
| An interested party employed by the Bank | ****25** | **16** | **33 | 17 | **29 | 17 |
| Directors not employed by the Bank | **4** | **12** | 4 | 11 | 4 | 11 |

* Not including VAT on salary.

** Of which: employee benefits for short term - NIS 24 million (2019 - NIS 30 million, 2018 - NIS 27 million), other benefits after termination of employment - NIS 1 million (2019 - NIS 3 million, 2018 - NIS 2 million).

Notes:

(1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.
(2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.
(3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.
(4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.
(5) On the basis of the outstanding balance at month-end.
(6) In accordance with Section 80(d)(4) of the public reporting instructions- in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.
(7) Equity based investees or investees under joint control - in accordance with Section 80(d)(7) of the public reporting instructions.
(8) In accordance with Section 80(d)(8) of the public reporting instructions.
(9) Details of these items are included also in the following Notes: Note 12 - Securities, Note 15 - Investee companies and Note 26 - Guaranties.
(10) Holdings by interested and related parties in the equity of a banking corporation.
(11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.

### D. Net interest income in respect of transactions with interested and related parties*

| | Consolidated | | | of which: investee companies | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31 | | | For the year ended December 31 | | |
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| **In respect of assets** | | | | | | |
| From credit to the public | **3** | 4 | 5 | **3** | 4 | 5 |
| Total net interest income | **3** | 4 | 5 | **3** | 4 | 5 |

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

For notes to the table see page 278.

## NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

### E. Aquisition of control of the Bank

On September 19, 2003, the control of FIBI Holding Ltd. (hereinafter - “FIBI”), the parent company of the Bank, was transferrd to Binohon Ltd. and the Australian Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs Barry Liebrman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement.
The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.
The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

In accordance with amendments to the permit from time to time, and in accordance with reports by FIBI:
Since 2015 Mr. Zadik Bino and his children, Messrs Gil Bino, Hadar Bino Shmueli and Daphna Bino Or hold in equal parts the means of control in Binohon (each of them holding 25%).
On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), all the holdings of Instanz Holdings in FIBI. Instanz 2 is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entities). Upon the transfer of the shares, Instanz 2 joined as a party the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2.
According to FIBI's report, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 28.54%, Instanz number 2 Ltd.- 11.68% and Dolphin Energies Ltd.- 11.68% of the equity of FIBI (the holdings of all the controlling shareholders in FIBI comprise the core control therein, in accordance with the control permit granted by Bank of Israel).

**F.** (1) The employment agreement of the CEO, Mrs. Smadar Berber-Tsadik, was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance. Following the publication of the Compensation of Officers of Financial Corporations (Special permit and the nondeducibility tax wise of exceptional compensation) Act, 2016 (hereinafter - "the Compensation Act"), the General Meeting of Shareholders approved on November 20, 2016 the terms of employment of the CEO of the Bank, Mrs. Smadar Berber-Tsadik. These terms apply as from October 12, 2016 (hereinafter - "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter - "the terms of employment"), with nothing in the employment terms detracting from the rights of the CEO accumulated prior to the beginning date. In accordance with the employment terms, the maximum annual fixed compensation of the CEO of the Bank shall equal the maximum amount stated in Section 2(a) of the Compensation Act (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions, as detailed in the terms of employment). To the extent that the permissible maximum amount in accordance with the Compensation Act (including in accordance with Section 2(b) of the Act) allows, the component of fixed compensation of the CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 salaries per year. In respect of the additional fixed compensation component, the Bank shall provide for payments and allowances in respect of severance compensation and pension in accordance with statutory provisions. Accordingly, the annual fixed compensation in respect of 2020 is the maximum permissible amount stated in section 2(b) of the compensation act in respect of the year 2020.

The salary of the CEO is linked to the CPI in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her employment terms. The CEO is entitled to a company car. The CEO is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum compensation (as defined in the employment terms).

In accordance with the employment terms, the Bank or the CEO are entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving a prior notice of three months. During the period of the prior notice, if the CEO continues in office, she would be entitled to a monthly salary and related benefits. The cost of the monthly salary and of the related benefits during the period of advance notice, has been provided in full in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, if the Bank decides not to continue the employment of the CEO during the period of advance notice.

The terms of employment define a non-competition period of three months with full pay, the cost of which as part of the previous employment terms of the CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment.

The Compensation Committee and the Board of Directors are entitled to grant to the CEO an annual award not exceeding the amount of two monthly salaries, if in their opinion justifiable reasons exist, and subject to the maximum amount permitted by Section 2(b) of the Compensation Act.

In respect of her period of employment as from the beginning date, the CEO would be entitled to severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employer/employee relations, or to the funds and right accumulated to her credit under the pension arrangements in respect of the allowances for severance compensation during the period following the beginning date, the higher of the two. The CEO is entitled to severance compensation in accordance with statutory provisions and to enlarged severance compensation for the period of her employment up to the beginning date, which had been provided on a current basis in the financial statements of the Bank until the beginning date, had been deposited to her credit with appropriate Funds and would be released in her favor at date of termination of employment relations.

The expense regarding the payroll cost of the CEO, which is borne by the Bank in the tax year, exceeds the "maximum amount payable" as defined in Section 4 of the Compensation Act. Accordingly, a part of the compensation payable to the CEO would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

(2) Terms of engagement of the Chairman of the Board of Directors:

A. Mrs. Irit Izakson served as a direcor and Chairperson of the Board of Director from January 1, 2017 until February 23, 2020.

The maximum amount of the fixed annual compensation of the Chairperson was NIS 2.3 million (excluding payments and allowances in respect of severance compensation and pension in accordance with statutory provisions and excluding an allowance in respect of the non-competition period, as detailed in the engagement terms).

The salary of the Mrs. Izakson was linked to the Consumer Price Index in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. Mrs. Izakson was entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her engagement terms. Mrs. Izakson was entitled to a company car. Mrs. Izakson was entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum fixed compensation (as defined in the engagement terms).

B. Mr. Yaacov Sitt officiated as Acting Chairman of the Board on March 8, 2020 until September 15, 2020. In view of the amount of time required to fulfill his duties as Acting Chairman of the Board (estimated at 50% of his time), the general meeting of shareholders held on July 15, 2020, following approvals by the Compensation Committee and by the Board of Directors, approved the terms of office of Mr. Sitt as Acting Chairman of the Board, so that since the beginning of his office as Acting Chairman of the Board (on March 8, 2020) Mr. Sitt was entitled to a fixed monthly remuneration of NIS 90,000, with the addition of VAT, so long as he officiated as Acting Chairman of the Board, this also instead of the Director remuneration, so that he would not be entitled to the annual remuneration or remuneration per Board meeting payable to Directors of the Bank, during the period of his office as Acting Chairman of the Board. The said monthly remuneration amount was currently linked in full to the rise in the Consumer Price Index. The monthly remuneration was payable against a VAT invoice issued to the Bank by the Acting Chairman of the Board or by a company owned by him. With the entry into office of Mr. Ron Levkovich as Chairman of the Board of the Bank, the office of Mr. Sitt as Acting Chairman of the Board of the Bank came to an end and he continues to act as Director of the Bank.

B. Mr. Ron Levkovich was appointed Director and Chairman of the Board of Directors of the Bank on September 15, 2020. His appointment as Director, approved also by the general meeting of shareholders of the Bank held on November 5, 2020, is for a period of up to three years from date of approval by the meeting. The terms of office of the Chairman of the Board are for an unspecified period, and each party to the agreement may terminate it by a prior notice in writing of three months. The maximum fixed amount of remuneration of the Chairman of the Board is NIS 2,834 thousand per annum (including payment and provisions for severance pay and pension in accordance with the law and a provision in respect of a non-competition period, as stated in the terms of engagement). The maximum amount of the fixed remuneration is linked to the Consumer Price Index.

The Chairman of the Board is entitled to contributions to a managers' insurance fund or to a provident fund, to a further education fund, to convalescence pay, refund of expenses incurred in fulfilling his duties, to annual vacation and to sick leave in accordance with his terms of engagement. The Chairman of the Board is also entitled to a company car and to its maintenance expenses. The Chairman of the Board has the right to apply for changes in his monthly remuneration and/or in the related benefits, subject to parallel changes and adjustments, and subject to any law and to the maximum fixed amount of remuneration (as defined by the terms of engagement).

The terms of engagement of the Chairman of the Board define a graduate non-competition period with full remuneration (not including related benefits except for the company car and its maintenance expenses). The non-competition period would be one month in case his office is terminated during the first year of engagement, two months in case his office is terminated during the second year of engagement, and three months in case his office is terminated during the third year of engagement or thereafter. The Board of Directors has the right to waive the period of non-competition or a part thereof, and in such a case, the Chairman of the Board would not be entitled to the remuneration as stated above.

## LIST OF TABLES - CORPORATE GOVERNANCE

# Corporate Governance, Additional Information and Appendices to the Annual Report

## CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

**Mr. Ron Levkovich**, Chairman of the Board

**Mr. Zadik Bino**

**Mr. David Assia**

**Mrs. Pnina Biterman-Cohen** (since 15.11.2020)

**Mr. Gil Bino**

**Mr. Dov Goldfriend**

**Dr. Ronen Harel**

**Mr. Zvi Levron** (since 10.11.2020)

**Mr. Jacob Sitt**

**Mr. Ilan (Eilon) Aish**

**Mrs. Irit Izakson, Chairperson of the Board** (until 23.2.2020)

**Mr. Joseph Horowitz** (until 15.11.2020)

**Mr. Daniel Furman** (until 30.10.2020)

**Mr. Menachem Inbar** (until 30.6.2020)

For further details on the members of the Board of Directors of the Bank, see Article 26 “Board of Directors of the Bank” in the Bank’s periodic report for 2020, which is published on the Securities Authority’s magna site.

## REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the external directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, most directors currently serving on the Board of Directors (including two directors from the public) have accounting and financial expertise.

Set out below are details of the present members of the Bank's Board of Directors having accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. **Mr. Ron Levkovich**, Chairman of the Board (since September 15, 2020), Bachelor of Economics (expanded) from the Tel Aviv University and graduate of the Advanced Management Program of the Harward University Business School. Owner and director of family investment companies. Serves as director of Nimbio Company Ltd. and as member of the Advisory Committee of Rambam Hospital Medatech.
2. **Mr. Zadik Bino**, served as Chairman of the Board of Directors and as CEO of the First International Bank of Israel Ltd. and as CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Director of companies. Serves as Director of: BIM Holdings Ltd.; GHD Investments (2006) Ltd.; Bigro Commodities Ltd.; Binohon Ltd; DADA Management Ltd.
3. **Mr. David Assia**, (External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks) Bachelor of Economics and Social Science and Master of Business Administration from the Tel Aviv University. Serves as Chairman of iAngels Crowd Ltd. Director at: Yeda R&D Co. Ltd.; Nadir Investments Ltd.; Nadir Holdings Millennium Ltd.; S.M. Patentech Ltd.; Enformia Software Ltd.; Advancement of Education in Israel Funded by Iraqi Jews Educational Fund in Israel Ltd (CC); Kismet Investments Ltd; DB Maestro Ltd.; Landing Express Ltd.; Way 2 Vat Ltd.; Director at Impact Foundation, and member of Weizmann Institute of Science Board of Governors.
4. **Mrs. Pnina Bitternam-Cohen**, (External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks, Chairperson of the Audit Committee). Attorney-at-Law, Bachelor of Law from the Tel Aviv University, serves as Director at private companies. Had also served for nine years in the past as External Director at the First International Bank of Israel Ltd.
5. **Mr. Gil Bino**. Attorney-at-Law, Bachelor of Law and Business Administration Master of Business Administration (EMBA). Serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd.; of GHD Investments (2006) Ltd.; Director at Alden Hotel AG.
6. **Mr. Dov Goldfiend**, (External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks; member of the Audit Committee); CPA, Bachelor of Economic and Accounting and Master of Business Management from the Tel Aviv University. Serves as CEO at A.T.R.N. Management and Consulting Ltd. Serves as Director at The Mediterranean Coastal Cliffs Preservation Government Company Ltd. Serves as Chairman of the Audit Committee of Emanuel Association - Guardianship for Autism Patients Founded by Allot (AR). Served as External Director at: Rishon LeZion Economic Company Ltd.; Rishon Initiative – The Municipal Company Ltd.; Leumi Card Ltd.; Scorpio Real Estate Ltd. Served as the CEO of Poaley Agudat Israel Bank Ltd, as VP and Chief Accounting Officer and member of Management at The First International Bank of Israel Ltd., and as Director of companies in the First International Bank Group.
7. **Dr. Ronen Harel** (External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks and member of the Audit Committee). Bachelor of Economics and Master of Business Administration specializing in finance from Tel-Aviv university. Ph.D. in Management Science specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Served as External

Director in Ubank Ltd. Serves as External Director in the companies: Tikun Olam - Cannbit Pharmaceuticals Ltd;. Ch. Mer Industries Ltd.; Kerur Holdings Ltd.; One Software Technologies Ltd.

8. **Mr. Jacob Sitt**, Attorney-at-Law, Bachelor of Law, Bachelor of Economics from Tel Aviv University, and Master of Business Administration (Financing) from the Inter Disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as Director of companies. Served as CEO and Director at: FIBI Investment House Ltd. Served as Joint CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd..
9. **Mr. Ilan (Eilon) Aish**, (External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks; member of the Audit Committee); CPA, Bachelor of Economics and Accounting from the University of Tel Aviv. Serves as Chairman and Joint CEO of Harvest Capital Markets Ltd. Serves as External Director in ISSTA Lines Student Travel Company in Israel Ltd. Served as External Director (under Proper Conduct of Banking Business Directive) at Israel Discount Bank Ltd.
10. **Mrs. Irit Izakson** (served until February 23, 2020), Bachelor of Economics (Expanded) from the Tel Aviv university and Master of Business Administration with specialization in Operations Research from the School of Business Administration of the Tel Aviv University. Serves as member of the board of trustees of the Ben-Gurion University of the Negev. Served as Chairperson of the Board at: Isracard Ltd.; Europay (Eurocard) Israel Ltd.; Aminut Ltd.; Poalim Express Ltd. Served as Director at: Bank Hapoalim Ltd.; Arison Holdings (1999) Ltd.; Arison Investments Ltd.; Shikun & Binui Ltd.; Serves as a member of the Executive Board of Azrieli Fundation and other public companies. Served as member of the Board of Trustees of Van Leer Institute in Jerusalem.
11. **Mr. Joseph Horowitz** (Served until November 15, 2020 as External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks and as Chairman of the Audit Committee), Attorney-at-Law, Bachelor of Law from the Hebrew University of Jerusalem (Tel Aviv branch). Serves as Director at Yad Vashem World Holocaust Remembrance Center; served for 15 years as Chief Internal Auditor and member of of Management of Bank Leumi Le-Israel B.M., and previously served in senior positions at Bank Leumi.
12. **Mr. Daniel Furman**, (Served until October 30, 2020 as External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks) Bachelor of Economics and Statistics from the Hebrew University of Jerusalem and Master of Business Administration from INSEAD France. Serves as Chairman of the Board: Gemmacert Ltd.; Arba Capital Markets Ltd. Director and General Manager of ARBA Finance Company Ltd. Serves as Joint Managing Director of Palais De La Promenade SARL. Member of the Executive Board and Chairman of the Endowment Funds Committee of The Hebrew University of Jerusalem.
13. **Mr. Menachem Inbar**, (Served until June 30, 2020 as External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks), Bachelor of Social Sciences and Master of Law Graduate from Bar Ilan University. Served as CEO: Arkin Holdings Ltd.; Leumi and Co. Ltd. and Bank Leumi (Canda). Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.

The Bank's Board of Directors held 33 meetings in plenary session and 61 meetings of its various Board Committees.

In accordance with the amendment to Proper Conduct of Banking Business Directive No. 301, the Board of Directors of the Bank adopted at the beginning of 2018, a policy according to which, the maximum period of office of the Chairman of the Board of the Bank would be twelve years, unless, in the opinion of the Board, existing circumstances indicate that the termination of office at the prescribed date, might be harmful to essential interests of the Bank.

## APPOINTMENTS AND RETIREMENTS

### Members of Management of the Bank

- Mr. Ilan Batzri, Deputy President and Head of the Corporate Division retired from office on January 1, 2021.
- Mr. Bentzi Adiri, VP, who had served as Head of the Resources Division, was appointed Head of the Corporate Division on January 1, 2021, replacing Mr. Batzri.
- Mrs. Ella Golan, VP, who had served as Head of the Banking Division, was appointed Head of the Resources Division on January 1, 2021, replacing Mr. Bentzi Adiri.
- Mr. Ron Grissaro, who had served as General Manager of MATAF – Financial IT and Operations Ltd (a wholly owned subsidiary of the Bank), was appointed VP and Head of the Banking Division on January 1, 2021, replacing Mrs. Ella Golan.
- Mrs. Haviva Dahan, Advocate, Head of the Legal Consulting department, was also appointed on November 10, 2020, VP and member of Management of the Bank.

### Members of the Board of Directors of the Bank

- The office of Mr. Menachem Inbar as External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks and as Independent Director terminated on June 30, 2020. The Board of Directors thanks Mr. Inbar for his contribution to the work of the Board and its committees.
- The office of Mr. Jacob Sitt as Acting Chairman of the Board terminated on September 14, 2020. Mr. Sitt continues in office as member of the Board of Directors of the Bank.

  Mr. Ron Levkovich was appointed on September 15, 2020, as Director and Chairman of the Board of Directors of the Bank.

  The Board of Directors thanks Mr. Sitt for his office as Acting Chairman of the Bank and wishes success to Mr. Levkovich, the incoming Chairman of the Board.
- The office of Mr. Daniel Furman as External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks and as Independent Director terminated on October 30, 2020. The Board of Directors thanks Mr. Furman for his contribution to the work of the Board and its committees.
- Mr. Zvi Levron was appointed on November 10, 2020, as Director at the Bank.
- The office of Mr. Joseph Horowitz as External Director under the Companies Act and as Independent Director terminated on November 15, 2020. The Board of Directors thanks Mr. Horovitz for his contribution to the work of the Board and its committees.
- Mrs. Pnina Bitterman-Cohen was appointed on November 15, 2020, as External Director at the Bank under the Companies Act and as an Independent Director.

## MEMBERS OF SENIOR MANAGEMENT

| | |
|---|---|
| **Mrs. Smadar Barber-Tsadik** | President and Chief Executive Officer |
| **Mr. Yoram Sirkis** | Executive Vice President, Head of Client Asset Management Division |
| **Mr. Nachman Nitzan** | Executive Vice President, Head of Chief Accountant Division |
| **Mr. Benzi Adiri** | Executive Vice President, Head of Corporate Division (as from January 1, 2021)<br>Executive Vice President, Head of Resuarces Division (until December 31, 2020) |
| **Mrs. Yael Ronen** | Executive Vice President, Chief Internal Auditor |
| **Mrs. Ella Golan** | Executive Vice President, Head of Resources Division (as from January 1, 2021)<br>Executive Vice President, Head of Banking Division (until December 31, 2020) |
| **Mr. Eli Cohen** | Executive Vice President, CRO and Head of the Risk Management Division |
| **Mr.Ron Grissaro** | Executive Vice President, Head of Banking Division (as from January 1, 2021) |
| **Mr. Yinnon Shveka** | Executive Vice President, Head of PAGI department |
| **Mrs. Haviva Dahan** | Executive Vice President, Head of Legal Consulting department |
| **Mr. Ilan Batzri** | Executive Vice President, Head of Corporate Division (until December 31, 2020) |

| | |
|---|---|
| **Corporate Secretary** | Mr. Aviad Biller, Adv. |
| **The Bank's independent auditors** | KPMG Somekh Chaikin, Certified Public Accountants (ISR)<br>(in office since 1972) |

* For further details on the senior manager members, see Article 26A “Senior Office Holders at the Bank” in the Bank’s periodic report for 2020, which is published on the Securities Authority’s magna site.

## THE GROUP'S INTERNAL AUDITING

### Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA seves as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group. At the non-banking subsidiaries, the managers from the Internal Audit department were appointed as the internal auditors.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv and masters degree in law in the academic track of the College of Management. In her previous positions, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor's Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

### Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairman of the Board of Directors.

### The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 years multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

### Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 43 posts in 2020.

The number of employee posts is derived from the multi-year work program and includes outsourcing.

### Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.

Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles.

The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.
The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.

**Access to information**

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries.

**Reporting by the Chief Internal Auditor**

The Internal Audit reports, including periodic reports, are submitted in writing.
The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.
In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee. Also significant audit reports are presented for discussion in the Board of Directors and/or the Risk Management Committee after consultation with the Chairman of the Board or the committee, according to the relevance.
The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report.
The monthly report is submitted to the CEO and to the members of the Management of the Bank, to the Chairman and members of the Audit Committee, and to the Chairman of the Board of Directors.
The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control. The Internal Audit's reports for 2019 were discussed by the Bank's Audit Committee on March 17, 2020. The Internal Audit's reports for the first half of 2020 were discussed by the Bank's Audit Committee on September 15, 2020. The Internal Audit's reports for 2020 will be discussed during April 2021.
The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.
In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors.

**The Board of Directors' appraisal of the Chief Internal Auditor's activity**

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor's activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

### Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

| | Year | |
|---|---|---|
| | **2020** | **2019** |
| Salary and bonuses | **1,063** | 1,303 |
| Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits | **335** | 312 |
| Value of benefits | **73** | 74 |
| Total salary and included expenses | **1,471** | 1,689 |

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

## DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.

In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditors meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.

Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.

The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial expertise must serve on the Board of Directors and on the Audit Committee. Currently, most members of the Board of Directors and most members of the Audit Committee have accounting and financial expertise. The Audit Committee consists of five directors:

1. **Mrs. Pnina Bitterman-Cohen**, Chairperson of the Audit Committee (since November 11, 2020). Serves as External Director under the Companies Act, 1999 (and as External Director under Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks), and with qualification as an Independent Director. Has accounting and financial expertise and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: served for over thirty years as a senior officer of a public company, the securities of which are traded on the Tel Aviv Stock Exchange; served for over thirty years as director of companies engaged in diverse field of activity; had participated in study courses on subjects of financial statements analysis and risk management.
2. **Mr. Dov Goldfriend** a member of the Audit Committee. Serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, Bachelor of Economic and Accounting and Master of Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd.; as VP and Chief Accounting Officer and member of Management at The First International Bank of Israel Ltd. and as Director of companies.
3. **Dr. Ronen Harel**, a member of the Audit Committee. Serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: Bachelor of Economics, Master of Business Administration specializing in finance from Tel-Aviv university. Ph.D. in Management Sciences specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Served as External Director in Ubank Ltd. Serves as External Director in the companies: Tikun Olam - Cannbit Pharmaceuticals Ltd;. Ch. Mer Industries Ltd.; Kerur Holdings Ltd.; One Software Technologies Ltd.

4. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, Bachelor of Economic and Accounting from the University of Tel Aviv. Served as External Director in Israel Discount Bank Ltd. Serves as Director and joint CEO at Harvest Capital Markets Ltd.
5. **Mr. Zvi Levron**, a member of the Audit Committee, does not serve as External Director and is not classified as Independent Director. Does not have accounting and financial expertise. Serves as Director having the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this), in view of the following: serves as director of companies.
6. **Mr. Joseph Horowitz**, Chairman of the Audit Committee (until November 11, 2020). Served as External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks, qualified as Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: served for 15 years as Chief Internal Auditor and member of Management of Bank Leumi Le-Israel B.M., and previously served in senior positions at Bank Leumi.

As in each quarter, the Board of Directors' Audit Committee at its meeting on March 2, 2021, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on March 10, 2021, the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on March 10, 2021, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues, to the extent encountered, in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations and directives of the Supervisor of Banks.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

Within the framework of the process of approval of the financial statements by the Audit Committee and the Board of Directors, drafts of the financial statements and of the Board of Directors Report are submitted for perusal and comments by the Directors several days before the date of the meeting that is set for the discussion of the financial statements.

The Board of Directors is the ultimate control authority at the Bank.

The Board of Directors, at its meeting on March 16, 2021, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on March 10, 2021, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairman of the Board of Directors, the Pesident and CEO and the Chief Accounting Officer to sign the financial statements.

## AUDITORS' REMUNERATION (1)(2)(3)

(NIS thousands)

| | Consolidated | | The Bank | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **For audit work(4):** | | | | |
| Auditors of the Bank | **6,580** | 6,896 | **5,297** | 5,608 |
| Another auditor | **-** | 90 | **-** | - |
| Total | **6,580** | 6,986 | **5,297** | 5,608 |
| **For additional Auditing related services(5):** | | | | |
| Auditors of the Bank | **62** | - | **-** | - |
| **For tax services:** | | | | |
| Auditors of the Bank | **617** | 1,465 | **617** | 1,465 |
| **Other services:** | | | | |
| Auditors of the Bank | **2,213** | 1,363 | **2,213** | 1,193 |
| Total | **2,892** | 2,828 | **2,830** | 2,658 |
| Total auditors' remuneration | **9,472** | 9,814 | **8,127** | 8,266 |

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.

(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.

(3) Includes remuneration paid and accrued.

(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

## REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

| | | | | | | 2020 |
|---|---|---|---|---|---|---|
| **Name** | **Title** | **Position** | **Holdings in the Bank's equity** | **Salary** | **Bonus** | **benefits[2]** |
| Ron Levkovich | Chairmann of the Board of Directors[7] | **100%** | **0.02%** | **637** | **-** | **19** |
| Irit Izakson | Chairperson of the Board of Directors[7] | **100%** | **-** | **268** | **-** | **21** |
| Smadar Barber-Tsadik | Chief Executive Officer | **100%** | **-** | **2,799** | **-** | **113** |
| Ron Grisaro | MATAF Chief Executive Officer[8] | **100%** | **-** | **1,255** | **-** | **76** |
| Yoram Sirkis | Executive Vice President, Head of Client Assets Management Division | **100%** | **-** | **1,356** | **-** | **74** |
| Ella Golan | Executive Vice President, Head of the Banking division[9] | | | **1,293** | **-** | **75** |
| Benzi Adiri | Executive Vice President, Head of Resources Division[10] | **100%** | **-** | **1,183** | **-** | **75** |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| **Name** | **Title** | **Position** | **Holdings in the Bank's equity** | **Salary** | **Bonus** | **benefits[2]** |
| Irit Izakson | Chairperson of the Board of Directors[7] | 100% | - | 2,128 | - | 136 |
| Smadar Barber-Tsadik | Chief Executive Officer | 100% | - | 2,767 | 98 | 119 |
| Ella Golan | Executive Vice President, Head of the Banking division[9] | 100% | - | 1,289 | 335 | 76 |
| Yossi Levy | Executive Vice President, Head of Resources Division[11] | 100% | - | 1,403 | 310 | 79 |
| Yoram Sirkis | Executive Vice President, Head of Client Assets Management Division | 100% | - | 1,352 | 350 | 76 |
| Ilan Batzri | Deputy Chief Executive Officer, Head of Corporate Division[12] | 100% | - | 1,331 | 310 | 76 |

(1) Not including VAT on salaries.
(2) Value of benefits (including: car benefit, cellular phone, rental value, health insurance, etc.).
(3) Including loss (gain) in respect of updated actuarial calculations in respect of the liability of the Bank.
(4) Excluding deposits and provisions for provident funds and severance compensation (including loss of work ability) in accordance with the law, which are not included in the definition of "compensation" for the purpose of computing the amount of engagement in Section 2(a) of the Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of an expense in respect of exceptional compensation), 2016".
(5) Loans and mortgages granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.
(6) Actuarial loss (gain) in respect of changes in the discounting interest rate of the liabilities of the Bank for severance pay and post-retirement benefits.
(7) Mrs. Irit Izakson - until February 23, 2020.
Mr. Yaacov Sitt- served as acting Chairman of the Board of Directors in the period from March 8, 2020 until September 15, 2020.For terms of the engagement of Mr. Yaacov Sitt- see note 33.F.(2) to the financial statements.
Mr. Ron Levkovich - from September 15, 2020.
(8) Head of the Banking division - from 1.1.2021.
(9) Head of the Resources division - from 1.1.2021.
(10) Head of Corporate Division - from 1.1.2021.
(11) Until December 31, 2019.
(12) Until December 31, 2020.

| Employer payments and provisions | Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year | Actuarial loss in respect of change in the discounting interest rate (6) | Total payroll and related expenses (1)(3) | Total payroll and related expenses according to remuneration law (1)(4) | Loans granted under ordinary market terms (5) |
|---|---|---|---|---|---|
| **234** | **-** | **-** | **890** | **795** | **-** |
| **533** | **-** | **-** | **822** | **337** | **-** |
| **493** | **-** | **5** | **3,410** | **2,968** | **-** |
| **364** | **12** | **1** | **1,708** | **1,524** | **193** |
| **249** | **-** | **11** | **1,690** | **1,588** | **-** |
| **278** | **-** | **4** | **1,650** | **1,539** | **162** |
| **328** | **14** | **6** | **1,605** | **1,434** | **2,546** |

| Employer payments and provisions | Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year | Actuarial loss in respect of change in the discounting interest rate (6) | Total payroll and related expenses (1)(3) | Total payroll and related expenses according to remuneration law (1)(4) | Loans granted under ordinary market terms (5) |
|---|---|---|---|---|---|
| 438 | - | - | 2,702 | 2,509 | - |
| 491 | - | 16 | 3,491 | 3,051 | - |
| 327 | 250 | 379 | 2,656 | 1,925 | 295 |
| 850 | - | 12 | 2,654 | 2,179 | 2,675 |
| 326 | 63 | 356 | 2,523 | 1,889 | - |
| 345 | - | 33 | 2,095 | 1,911 | - |

Notes:

A. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.

B. For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated February 26, 2020, see immediate report of the Bank dated January 21, 2020 (reference no. 2020-02-008841).

**Mr. Ron Levkovich** - was appointed Chairman of the Board of Directors of the Bank as from September 15, 2020.
For details of the engagement agreement with Mr. Levkovich – see Note 33F(2) to the financial statements.

**Mrs. Irit Izakson -** was appointed Chairperson of the Board of Directors of the Bank on January 1, 2017 and terminated her office on February 23, 2020.
For details of the engagement agreement with Mrs. Irit Izakson - see Note 33F(2) to the financial statements.

**Mrs. Smadar Barber-Tsadik** - has been employed by the Bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007.
For description of the engagement agreement with Mrs. Smadar Berber-Tsadik- see Note 33F(1) to the financial statements.

**Mr. Yoram Sirkis -** has been employed at the Bank since February 9, 1993, under a collective agreement and since March 20, 2007 under a personal agreement, for a specified period until Mars 20, 2010. Following that date, the agreement will continue for an unspecified period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with the terms of the employment agreement. On termination of his employment Mr. Sirkis is eligible to severance compensation at a level of 100% of his last monthly salary, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher. The redemplion value of the severance compensation amounts, contributed by the Bank to a pensiom fund in his favor, will be deducted from these amounts.
In accordance with the compensation policy for officers of the Bank, to the extent that the termination of his engagement would not be initiated by the Bank, the amount resulting from multiplication between: (a) 200% of the most recent salary prior to the signing of the personal agreement and 100% of his most recent salary, to the extent that it is a positive amount; and (b) the number of years of employment with the Bank since January 1, 2017 and until the date of termination of his employment - shall be considered compensation in respect of termination of employment, classified as variable compensation, the entitlement thereto and the spreading of the payment thereof would be in accordance with the provisions stated in the compensation policy.
The non-competition period is six month from the date of termination of his employment at the Bank of which three months with payment.
Mr. Sirkis's salary is linked to the rise in the consumer price index.
For details of determination of the annual award for 2020 and later years, among others, to Mr. Sirkis, see immediate report of the Bank dated January 21, 2020, mentioned above.

**Mr**. **Ron Grissaro** - has been engaed by MATAF since June 4, 2017, according to a personal agreement for a specified prtiod of three years. Thereafter, the agreement remains in effect for an additional unspecified period, in which each of the parties thereto are entitled to terminate the agreement, for whatever reason at any time, giving a prior notice in writing of three months in accordance with the terms of the employment agreement.
Upon termination of his employment, Mr. Grissaro is entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act.
The non-competition period is six month from the date of termination of his employment at MATAF or at the Bank, of which three months with payment.
Mr. Grissaro's salary if linked to the rise in the consumer price index.
The compensation policy of the Bank has applied to Mr. Grissaro also in his position as CEO of MATAF.
For details of determination of the annual award for 2020 and later years, among others, to Mr. Grissaro, see immediate report of the Bank dated January 21, 2020, mentioned above.

**Mrs. Ella Golan -** employed at the Bank since January 16, 1994 under collective agreement, and since December 1, 2013, under a personal agreement for an unspecified period, in which each of the parties thereto are entitled to terminate the agreement, for whatever reason at any time, giving a prior notice in writing of six months in accordance with the terms of the employment agreement.

On termination of her employment Mrs. Golan is eligible to an ordinary severance payment at a level of 100% of her last monthly salary, for the period of her employment in the Bank up to January 1, 2018, while for the period after that date, Mrs. Golan will be entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act. The redemplion value of the severance compensation amounts contributed by the Bank to a pension fund in her favor, will be deducted from these amounts.
The non-competition period is six month from the date of termination of her employment at the Bank of which three months are with payment.
Mrs. Golan's salary is linked to the rise in the consumer price index.
For details of determination of the annual award for 2020 and later years, among others, to Mrs. Golan, see immediate report of the Bank dated January, 21, 2020, mentioned above.

**Mr. Benzi Adiri** - has been employed at the Bank since January 2, 2012, under a personal employment agreement for a specified period of two years, following which, the agreement continues in effect for an additional unspecified period, in which each pf the parties thereto is entitled to terminate the agreement, at any time and for whatever reason, giving a prior notice in writing of three months, in accordance with the terms of the employment agreement.
Upon termination of his employment, Mr. Adiri is eligible to severance compensation in accordance with Section 14 of the Severance Compensation Act.
A non-competition period of six months applies from date of termination of his employment, of which three months are with payment.
The salary of Mr. Adiri is linked to the rise in the Consumer Price Index.
For details of determination of the annual award for 2020 and later years, among others, to Mr. Adiri, see immediate report of the Bank dated January, 21, 2020, mentioned above.

**Mr. Ilan Batzri** - had been employed at the Bank since October 4, 1978, under a collective agreement, and as from October 1, 2000, under a personal agreement for an unspecified period.
The employment of Mr. Batzri at the Bank was terminated on January 1, 2021, upon reaching retirement age. Mr. Batzri continues to serve as Chairman of the Board of Massad Bank Ltd.
On termination of his employment at the Bank, Mr. Batzri was eligible to an ordinary severance compensation at a level of 100% of his last monthly salary. The redemption value of the severance compensation amounts contributed by the Bank to a pension fund in his favor, was deducted from the above amount.
A non-competition period of six months applies from the date of termination of his employment at the Bank, of which three months are with payment.
For details of determination of the annual award for 2020, among others, to Mr. Batzri, see immediate report of the Bank dated January 21, 2020, mentioned above.

**Mr. Yossi Levy** - Mr. Levy had a personal employment agreement with MATAF and has been seconded to the Bank.
Mr. Levy commenced his employment at MATAF on April 1, 1979, and his personal employment agreement was in effect from September 1, 1980. On January 1, 2020 Mr. Levi's employment was terminated upon reaching retirement age.
On termination of his employment, Mr. Levy was eligible to an ordinary severance compensation at a level of 100% of the last monthly salary. The redemption value of the severance compensation amounts contributed by MATAF in his favor to a Managers Insurance Policy were deducted from the above amounts (in 2019, a certain supplement to the severence compensation of Mr. Levi was approved in respect of a period of 18 months in which he was employed by the Bank prior to his employment in MATAF).
A paid non-competition period of three months applied in respect of Mr. Levi.

## TRANSACTIONS WITH INTERESTED PARTIES

**a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.**

No changes have taken place during the reported period in the rules regarding the reporting of transactions with controlling shareholders, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

**b. Determination of criteria for the purpose of the Bank's transactions with interested parties**

No changes have taken place during the reported period in the criteria, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

**c. Transactions with controlling owners or in which a controlling owner has an interest, approved in the reported year in accordance with Section 270(4) and/or Section 267A of the Companies Act (including framework transactions still valid at the reporting date and transactions approved in accordance with the Companies Regulations (Relief regarding Transactions with Interested Parties), 2000 (hereinafter: "the Relief Regulations")**

1. On December 20, 2018, and towards the termination of a framework transaction of June 2014, and after obtaining the approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved the following resolutions concerning insurance for directors and officers:
   - Engagement of the Bank in a “directors and officers liability” insurance policy for a period of eighteen months beginning on January 1, 2019 and ended on June 30, 2020 (“the insurance period”) issued by Menora Mivtachim Insurance Ltd. for the Bank and for the Bank Group, including subsidiaries of the Bank and the controlling owner, FIBI Holdings Ltd. (hereinafter - "Group companies"), which had applied to officers serving at the Bank and/or at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.
   - Prior approval, for the purchase by the Bank of an insurance policy, as stated above, covering the Bank and Group companies following the termination of the insurance period, and up to a period of six years from the beginning date of the insurance period, namely until December 31, 2024, including by way of extension of the original policies and/or by way of the purchase of new policies, which will apply with respect to officers who may serve at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

   The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations (hereinafter – "the existing framework decision") as well as a resolution under Section 267A of the Companies Act, amending Section 8.2 of the compensation policy regarding officers of the Bank in the matter of the mechanism for renewal of the insurance during the period in which the compensation policy of the Bank remained in effect, and which ended on February 22, 2020, details of which were published in an immediate report by the Bank dated February 14, 2017, Ref. No. 016098-01-2017, as stated in item 1B(1) of the Relief Regulations, which would permit the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their kin, as well as with respect to the President and CEO, also in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations. The mechanism for the renewal of the insurance coverage had also been approved within the framework of the new compensation policy, approved by the general meeting of shareholders of the Bank held on February 26, 2020, the details of which were reported in an immediate report dated January 21, 2020 (Ref. No. 008841-01-2020) (hereinafter – "the updated compensation policy"), so that it allows the renewal of the insurance policy also with respect to directors and officers, who hold a controlling interest in the Bank and/or their next of kin, in accordance with Regulation 1B(1) of the Relief Regulations.

- Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from January 1, 2019 for six years. The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations.

The framework for the terms of the policy for the insurance period as well as the terms for the renewal of the policy after the end of the insurance period within the existing framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, were described in an immediate report of the Bank regarding the approval of the existing framework transaction dated November 6, 2018 (Ref. No. 104838-01-2018), and the contents of this report is presented herein by way of reference.

On background of the considerable increase in insurance fees and the growth in amounts of insurance deductibles regarding directors and officers liability insurance policies, the general meeting of shareholders of the Bank, following approvals by the Audit Committee, the Compensation Committee and the Board of Directors, approved on July 15, 2020, updates of the existing framework transaction, which entered into effect immediately following the termination of the insurance period, namely, as from July 1, 2020,regarding everything relating to the limits of the liability, the scope of the insurance fees, the terms for renewal of the policy within the framework transaction, and the amounts of insurance deductibles (to be paid by the Group and not by the officers), all other terms of the framework transaction remaining unchanged (also during the period of the existing framework transaction, which shall end on December 31, 2024). For details regarding the updates relating to the existing framework transaction, see the immediate report by the Bank dated June 9, 2020 (Ref. No. 01-051931-2020), which is presented herein by way of reference.

The above resolution comprises an update of the existing framework transaction, as well as a resolution under Section 267A of the Companies Act, as an amendment of Section 8.2 of the updated compensation policy, for the period in which the updated compensation policy remains in effect, which would allow the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their next kin, and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest, as well as with respect to the President and CEO, this in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations.

Allocation of the insurance fees among the Group companies shall be made in accordance with criteria determined and approved within the framework of the existing framework transaction, including with respect to FIBI Holdings, and no changes apply to them.

Upon approval by the General Meeting of Shareholders dated July 15, 2020, approval by the Compensation Committee, the Audit Committee and the Board of Directors for engagement of the Bank in an insurance policy covering Directors and Officers liability had taken effect for the insurance period beginning on July 1, 2020 and ending on June 30, 2021 (hereinafter – "the present insurance period"), this in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations, including its application also to the President and CEO of the Bank and to Officers who are controlling shareholders of the Bank and/or their next kin, and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. For additional details regarding the policy for the present insurance period, see the immediate report by the Bank dated June 30, 2020 (Ref. No. 061486- 01-2020), which is presented herein by way of reference.

2. The General Meeting of Shareholders of the Bank approved on July 15, 2020, the terms of office of the acting Chairman of the Board of Directors, Mr. Jacob Sitt. The said office had been in effect as from March 8, 2020 and until September 15, 2020, date of appointment of Mr. Levkovich as permanent Chairman of the Board. Mr. Sitt continues in office as Director at the Bank. Whereas Mr. Sitt serves also as President and CEO of FIBI Holdings Ltd., the controlling shareholder of the Bank, and for reasons of care, the Audit Committee has approved his terms of office as transaction that is not

exceptional, in which a controlling shareholder might have an interest. For details regarding the terms of office of Mr. Sitt, see Note 33 to the financial statements.

3. On September 15, 2020, after obtaining the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs regarding transactions with Interested Parties), 2000, the Board of Directors of the Bank ratified the continuation of payment of remuneration to Directors from among the controlling shareholders of the Bank, as paid to them prior to the said ratification, for a period of three additional years, all as detailed in the immediate report of the Bank dated September 15, 2020 (Ref. No. 092554-01-2020) included herein by way of reference. The said remuneration agrees with the compensation policy for officers of the Bank, as approved by the general meeting of shareholders of the Bank held on February 26, 2020, the details of which, regarding compensation to all directors (excluding the Chairman of the Board) are stated in Section 7 of the Appendix "A" to the immediate report of the Bank dated January 21, 2020 (Ref No. 008841-01-2020) included herein by way of reference.
4. Commitment for the indemnification of directors and officers of the Bank (including renewal of the indemnification of directors from among the controlling shareholders of the Bank dated July 15, 2020, as described in Note 25C to the financial statements).

## d. Additional information on transactions with interested parties

1. For details of the balances and condensed results of transactions with interested parties and related parties, see also Note 33 to the financial statements.
2. The Group, including FIBI Holdings and its subsidiaries, jointly purchases insurance policies, including liability insurance for directors and officers (including directors who are controlling owners and their relatives).
3. Granting exemption from responsibility to acting directors and officers and to those who would act at the Bank from time to time, in accordance with the approval of the general meeting of shareholders of 2004 and as detailed in Note 25C to the financial statements.

   It is noted that the Bank has not tabled for reapproval by the general meeting of shareholders, of exemption letters granted in 2004 to directors who are controlling shareholders.
4. In addition, the Bank and its subsidiaries conduct from time to time transactions with interested parties in the Bank in the ordinary course of business and at market terms.
5. 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 (NIS thousand):

| | 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) | | | | | | | | | |
| December 31, 2020 | **97** | **-** | **-** | **97** | **633** | **-** | **-** | **-** | **730** |
| December 31, 2019 | 127 | - | - | 127 | 533 | - | - | - | 660 |

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | 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) | **5,168** | **5,904** | 2,421 | 22,157 |

(1) Relatives of controlling shareholders of the Bank, according to the definition of a "relative" in the Banking Act (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. (hereinafter – "FIBI"), a public company the shares of which are traded on the Stock Exchange, holds 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the core of control according to the control permit issued by Bank of Israel). The holders of control of FIBI are Mr. Zadik Bino and his children – Gill Bino, Hadar Bino-Shmueli and Daphna Bino-Or (herinafter – "the Bino family"), Messrs. Michael and Helen Abeles, and Messrs. Barry Lieberman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the groups by way of corporations under their full control: Binohon Ltd., Instanz No.2 Ltd. and Dolphin Energies Ltd.). For details regarding the different arrangements existing among the control holders with respect to their holdings in FIBI, and indirectly in the Bank, and with respect to the terms of the control permit dated September 19, 2003, that had been granted to the control holders by Bank of Israel, as amended from time to time, see "Details regarding the owners of control in the Bank" in the Chapter "Corporate Governance" in the financial statements for 2019.

In accordance with the reports of FIBI, as of date of publication of the financial statements, the holdings of the controlling shareholders in FIBI (in equity and voting) are as follows: Binohon Ltd. – 28.54%, Instanz No. 2 Ltd. – 11.68%, and Dolphin Energies Ltd. – 11.38 (the holdings of all the controlling shareholders of FIBI comprise its core of control, in accordance with the control permit issued by Bank of Israel).

## INVOLVEMENT AND CONTRIBUTION TO THE COMMUNITY

The Bank continues to act within the framework of the flag plan "Believing-in-you" with the aim of establishing involvement and cooperation by means of voluntary activity of its employees, while creating a joint way having added value.

The Bank has acted and is acting during the spreading period of the Coronavirus to make the necessary modifications for the continuation of the consecutive voluntary activity, under existing limitations and in view of guidelines of the authorized factors.

- Children and youth in risk situation - activity focuses on youth in risk situations from the geographic and social periphery, and who were expelled from different programs, with a view of enabling them to receive the tools required to change direction towards a normative life in the Israeli society. As part of the program, youth are being integrated into business ventures under the different programs that combine study with work and promotion of business entrepreneurship with the help of development of qualifications and skills, while creating social involvement with added value, such as enterprises maintained by the Bank with different associations and diverse activities of employees with youths in risk situation:

  Unistream - Activity and training of young persons for integration into the business and entrepreneurship world alongside social responsibility, leadership and empowerment of youth. The program also uses tools belonging to the financial education world. The Bank adopts a number of groups and in parallel participates in events and activities of the Association all over the country.

  Fidel - An enterprise for the education and social integration of youth belonging to the Ethiopian community. The program provides educational and social tools for strengthening the feeling of identity and relationship and the learning excellence and leadership capabilities.

  Fathers and sons on the field - father and sons teams creating a joint, exciting and significant meeting by means of a football game, in order to strengthen the bond and communication between them, for the creation of solidness and prevention of risky behavior, encouragement of sport activities and a healthy way of life.
- Female business entrepreneurship - involvement and accompaniment of learning groups for business entrepreneurship for women, while concentrating on enrichment and provision of tools in various subjects, such as: financial awareness, business entrepreneurship, management and excellence skills, and through personal support, tutoring and adoption of groups in various frames. The bank operates with several associations in this field, including in study and enrichment meetings.

- Specific activity among special populations and sectors - the Bank encourages and supports volunteers from among Bank employees, interested in taking part in these projects and contribute from their time, experience and expertise, in favor of needy populations and additional sectors. In this framework, the Bank and its subsidiary companies contribute to different associations and organizations in favor of assistance to those populations by cooperating in joint study, experience yielding involvement, digital financial education, volunteering, assistance regarding food packages, language studies and rehabilitating social activity.

The total amount of involvement and contribution to the community of the Bank Group amounted in 2020 to NIS 3 million.

# ADDITIONAL INFORMATION

## PRINCIPAL HOLDING STRUCTURE CHART

| BANK MASSAD LTD | UBANK TRUST COMPANY LTD | FIRST INTERNATIONAL ISSUES LTD | THE INTERNATIONAL UNIQUE INVESTMENT MANAGEMENT LTD | ISRAEL CREDIT CARDS LTD. |
|---|---|---|---|---|
| (E. 51%, V. 51%) | (E. 100%, V. 100%) | (E. 100%, V. 100%) | (E. 100%, V. 100%) | (E. 28.2%, V. 21%) |

V - Bank's Voting Right
E - Bank's Share in Equity

## FIXED ASSETS

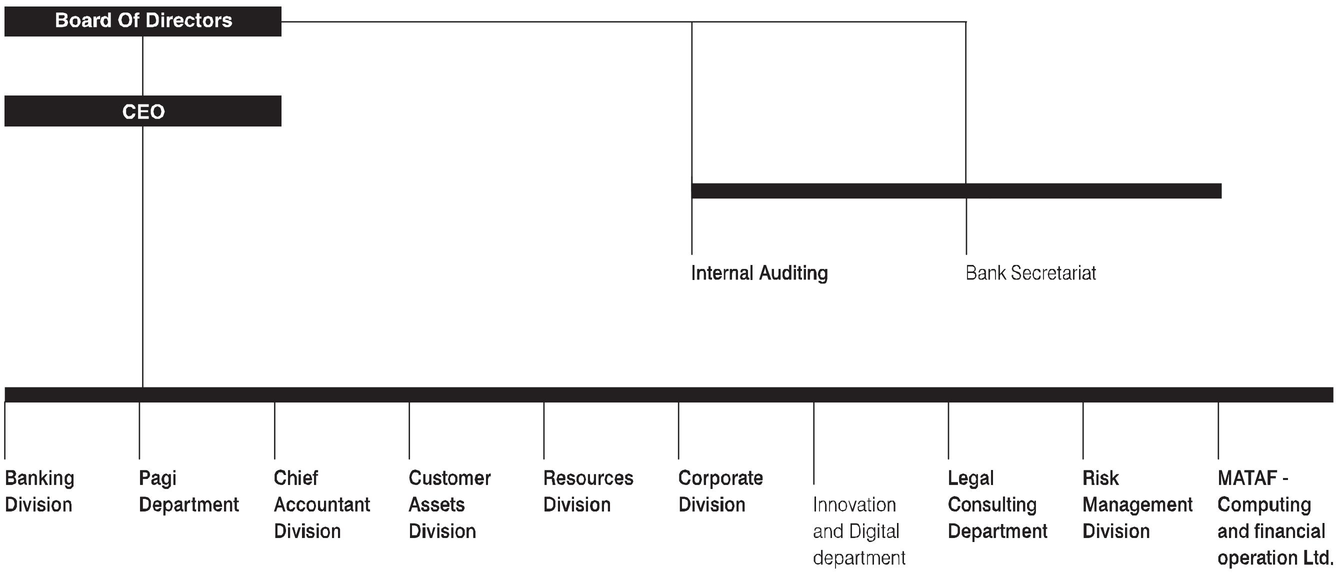
| | As of December 31 | | | |
|---|---|---|---|---|
| | 2020 | | | 2019 |
| | Cost | Accumulated depreciation | Balance | Balance |
| | | | | NIS million |
| Buildings and land (including installations and improvements to rented properties) | **1,438** | **571** | **867** | 887 |
| Equipment (including computers, furniture and vehicles) | **580** | **482** | **98** | 109 |
| Total | **2,018** | **1,053** | **965** | 996 |

As of December 31, 2020 and December 31, 2019, the Bank Group owned or leased a total area of 56 thousand square meters in 47 properties. In addition, the Group rents in Israel a total area of 40 thousand square meters in 117 properties throughout the country (December 31, 2019 - 41 thousand square meters in 120 properties). The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.

See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

# HUMAN CAPITAL

### The organizational structure of the Bank




Upon the retirement of the head of the logistic department and as part of the efficiency measures, the logistic department was subjected to the Head of the Resource division, at the end of 2019.
As of December 31, 2020, the Bank Group operated via 145 branches and sub-branches (122 branches and sub-branches at the Bank and 23 branches and sub-branches in Massad). The Group examines on a current basis the developments in the profitability and business activity of the branches, relative to the target populations for which they were ment to serve, the targets set in the working plans of the banks in the Group and the ability to utilize to the fullness the potential in the geographical area in which each branch operates. In this framework the compatability of the branches distribution to the business environment is examined on a current basis, as well as to the changes in the areas comprising potential business development in the target population of each bank in the Group.

## Human Resources Strategy

The Bank promotes a culture of professional development, excellence and an up to date professional qualification to face future challenges by means of training and qualification programs that provide knowledge and skills in a range of operating fields reflecting aspects of regulation, technology work procedures and more.
In the course of 2020, the Bank performed a comprehensive examination of the future labor world. In consequence thereof, training and development programs have been formulated in order to prepare the human capital to the challenges of the future in areas relating to employee skills, management tracks, adaptation of diagnosis processes and formulation of training programs.
In the learning processes, different expression and emphasis are given to central principles: initiating service, the banker as a financial expert, digital transformation, as well as a "skills basket" of the future labor market. Among the skills are: data management, interpersonal skills, subject presentation, innovation, change leadership, etc.
Management study courses are held for different employee grades, the aim of which is to intensify the management and leadership expertise of manager while preparing for the future challenges.

## Personnel

The following are details of manpower in the Bank Group in terms of positions[(1)]

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Annual average | Balance at end of the year | Annual average | Balance at end of year |
| The Bank | **3,583** | **3,487** | 3,763 | 3,681 |
| Subsidiaries | **312** | **304** | 323 | 324 |
| Total at the Bank Group | **3,895** | **3,791** | 4,086 | 4,005 |

(1) Number of positions include translation of overtime to position, with addition of external manpower which are not bank employees, that provide work services.

The number of positions in the Group, as of December 31, 2020, declined by 214 positions (5.3%)' compared with the end of 2019. The main decrease derived from the voluntary retirement plans. In the framework of the efficiency measures, carried out at the Bank on current basis, the Bank completed during the years 2019- 2020 several voluntary retirement plans.

The following are details of the annual average (in terms of positions) of the Group's manpower according to supervisory segments of activity:

The positions presented according to segments of activity include position of employees directly employed in the segment and positions of head-office employees at different levels, which the cost of their employment was allocated to the segment. The computation of the said positions is based on the model of cost allocation which the Bank uses.

| | Year 2020 | Year 2019 |
|---|---|---|
| Large business segment | **215** | 226 |
| Medium business segment | **152** | 171 |
| Small and minute business segment | **995** | 1,037 |
| Household segment | **2,140** | 2,243 |
| Private banking segment | **84** | 85 |
| Institutional entities | **243** | 261 |
| Financial management segment | **66** | 63 |
| Total | **3,895** | 4,086 |

Details of cost and salary of employee position at the Bank (in NIS thousands)

| | Year 2020 | Year 2019 |
|---|---|---|
| Cost of employee position (excluding bonus) | **392.6** | 376.1 |
| Cost of employee position (including bonus) | **398.7** | 395.1 |
| Salary of employee position (excluding bonus) | **261.5** | 252.6 |
| Salary of employee position (including bonus) | **266.4** | 267.9 |

## Human resource characteristics

The average seniority of the Bank’s employees amounted to 18.1 years compared with 17.5 years in 2019. The average age of the Bank's employees was 47.2 compared with 46.4 in 2019.

## Employee mobility

In order to reduce as far as possible the risk and dependency on different office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility within the Bank and on rotation in office of employees. For this purpose, the Bank regularly moves employees in sensitive functions reaching the end of the period in office determined by procedures of the Bank and in accordance with a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the labor agreements at the Bank.

**Human resource quality and managerial quality**

The enhancement of human resources continued in 2020 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments and management development.

**Management cadres and management development plans**

The Bank's management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.

The proportion of graduate employees at the Bank amounted to 63% at the end of 2020.

**Code of Ethics**

The Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees. The Bank's Code of Ethics was updated during 2020. During the year, an assimilation process took place, to all employees and managers of the Bank, as part of the comprehensive assimilation of the subject.

**Intra-organizational communication**

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

**Professional instruction and training**

In 2020, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.

The instruction plan is including all the employees' needs- instruction in banking knowledge, according to areas of profession, managerial instruction according to rank and instruction in areas which are suitable platform for the extraction of employees' ability. In addition, great emphasis is placed on instruction of regulstion subjects, as an additional layer of proffesionalizm and excellence, specifically and as part of the current professional contents, in order to provide fully to the requirement of the regulation. In addition, the instruction in respect of the digital subjects, was broadened (internet website, cellular application and new products and services) in order to offer customers full support and awareness of all the Bank services.

The number of days of instruction at the Bank Group totaled 12,174 in 2020, compare with 17,003 days of instruction in 2019. The decrease in the number of days of instruction derived as a result of the spread of the Coronavirus and the need to maintain social distancing, which resulted in decreasing instructions, and from efficiency of transfering instruction to the digital.

## LABOR RELATIONS

Two employee organizations exist at the Bank: the Union of Managers and Signatories and the Union of Clerks. Collective labor agreements 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 Union of Bank Leumi Employees.

Furthermore, Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees and are entitled to their rights in acordance to agreements that had been in effect at that bank, until such time when a new collective labor agreement, regulating their integration into the labor agreements in effect at the Bank, is signed.

Existing also at the Bank Group are employee unions that represent employees of Massad Bank and of MATAF.

In December 2019, the Bank signed with the Union of Managers and Signatories and the Union of Clerks a special collective labor agreement for the years 2019-2022. This agreement, which is based on an agreement signed by Bank Leumi in July 2019, comprises a forward looking agreement, enabling the Bank to prepare for future challenges in the labor world, generally, and in the banking sector in particular.

The agreement allows for the recruitment of employees to technological positions under designated agreements, increasing the number of employees that the Bank may recruit under personal professional agreements, and establishes support by the employees committees of efficiency measures anticipated by the Bank in the coming years.

Following a demand presented in 2017 by the Union of Managers and Signatories, a dispute regarding efficiency measures is pending at the Regional Labor Tribunal in Tel Aviv. The original demand of the Union was to stop the organizational changes, which the Bank is introducing, until negotiations are held between the parties and a collective agreement in the matter is signed. On the basis of the negotiations that had been held between the parties, agreement to stay the hearing of the case until March 15, 2021, has been reached. On March 16 2021, the parties signed an agreement for the termination of the said dispute, and with joint consent a motion has been submitted for the removal of the action. This motion is expected to be automatically admitted By the Tribunal.

A special collective labor agreement was signed in December 2019 with the Union of MATAF Employees, which terminates the labor dispute declared in September 2019. A special collective labor agreement was signed in December 2020, regarding the extension of the validity of the said agreement for a period of two additional years, until December 31, 2022.

# COMPENSATION POLICY IN A BANKING CORPORATION

### The compensation policy for officers of the Bank

The General Meeting of Shareholders of the Bank approved on February 26, 2020, a compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act and with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive") and with in consideration to the Compensation of Officers of Financial Corporation Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016 (hereinafter - "the Compensation Act").

For additional details, see the immediate report by the Bank dated January 21, 2020 (ref. No. 008841-01-2020). The content of this report is included herewith by way of reference. The new compensation policy for officers of the Bank contains provisions considering the Directive, as amended from time to time, and the Compensation Act.

### Employee compensation policy

In accordance with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"), in June 2020, the Bank approved, after the passing of three years from the previous approval, an updated compensation policy for all Bank employees, including central employees, as well as principles for the compensation policy of the Group, the compensation policy for officers, as approved on February 26, 2020 by the General meeting of Shareholders, forming a part thereof. The compensation policy for employees determines rules for the compensation of employees and of central employees, including in accordance with the Directive as amended from time to time, as well as instructions regarding the allocation of responsibility among the relevant functions at the Bank engaged in the compensation mechanism. Moreover, within the framework of the compensation policy of the Group principles were determined regarding the fixed compensation and the variable compensation for officers of the controlled companies, considering also the principles of the compensation policy to the office holders in the Bank.

For further disclosure in the matter of compensation, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk", available for perusal on the Internet.

## MATERIAL AGREEMENTS

Apart from the agreements in the ordinary course of business, the agreements detailed below, which were signed in 2020 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the ordinary course of business:

1. Collective Labor Agreements:

   There are two employees' organizations at the Bank - the clerks' organization, and the managers and authorized signatories' organization.

   The following is a summary of the principal agreements signed with the two employees' organizations:

   - A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

     Apart from these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.
   - A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

   The Bank's employees, which formerly were Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees until such time when a new collective labor agreement, regulating their integration into the labor agreements in effect at the Bank, is signed.

   Existing also at the Bank Group are employee unions that represent employees of Massad Bank and of MATAF.
2. Indemnification and exemption for officers of the Bank and its subsidiaries - see Note 25C to the financial statements.
3. Deeds of trust and guarantees relating to the issue of bonds, subordinated debt notes and subordinated capital notes.

   First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated debt notes and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.

   Agreements were signed between First International Issues and the Bank, according to which, concerning issues whose proceeds are placed in deposits or subordinated deposits with the Bank at terms identical to the terms of the debt notes, part of which with the addition of a commission, the Bank is committed to bear all payments due to the holders of the debt notes, including the repayment of principal and payments of interest.

   The total revaluated value of the debt notes that were issued under the said deeds of trust, whose proceeds were deposited at the Bank, and which are held by the public, amounted to NIS 4,304 million on December 31, 2020 (including linkage increments, accrued interest, issue expenses, discounting and premium).
4. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.
5. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.
6. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.
7. Mutual guarantee for the MAOF Risk Fund and a risk fund that was established by the stock exchange - see Note 25.D and 25.E to the financial statements.
8. Agreements for joint issuance of debit cards with the credit cards companies- see note 25.L to the financial statements.

## LEGISLATION AND REGULATORY INITIATIVES

Following are summarized details of the provisions of laws and regulatory initiatives, which were published and/or entered into effect during the reported period, and which materially affect or might affect the operations of the Bank. The Bank is studying the overall significance of the said provisions and initiatives regarding the income and expenses of the Bank, as well as the long-term business and operating implications.
A part of the initiatives may have an adverse effect on the income of the Bank and/or its expenses. This effect cannot be quantified at this stage, due to dependence of different factors, including customer behavior, competitors' activity and additional regulatory changes, and with respect to legislation not yet finalized, it is also not possible to assess whether it would be in fact be enacted and what would be its final content.
There is nothing in this Chapter that derogates the contents of the other chapters and items of this Report, where additional reference is made to provisions of the law and to regulatory initiatives described below or to any other.

## A PERIOD OF EMERGENCY – THE CORONAVIRUS CRISIS

### Proper Conduct of Banking Business Directive No 250 – modifications to Proper Conduct of Banking Business Directives for the purpose of confronting the Coronavirus crisis (Provisional instructions)

The instruction was first published on March 19, 2020 (since updated several times) on background of the outbreak of the Coronavirus. It includes a series of mitigating instructions the aim of which was to allow banking corporations the required business flexibility in this period and provide assistance to households and businesses in the evolving exceptional circumstances. The Directive is in force until September 30, 2020, and the Supervisor of Banks, with approval of the Governor, may extend its validity for an additional period not to exceed six months ("the period of the provisional instruction"). The validity of the period of the provisional instruction was extended on September 16, 2020, for an additional period of six months, until March 31, 2021, with the exception of a number of mitigating instructions, which had not been extended over and above the period of the provisional instruction, or which had been extended for a shorter period of time. On March 7, 2021, Bank of Israel published a draft amendment to the instruction, according to which, the period of the provisional instruction would be extended, in respect of most of the reliefs, by an additional period of six months, until September 30, 2021
In addition to that, specific relief has been granted regarding different matters, inter alia, with regards to certain reporting duties to the Supervisor in this period, to deferral of certain dates stated in Proper Conduct of Banking Business Directives, and to the deferral of dates of entry into effect of different instructions.
The modifications and proposed changes cover a considerable variety of subjects, which had changed and are changing frequently in accordance with needs arising from the confrontation with the crisis and its implications.
Presented hereunder are some of the principal mitigating instructions determined by the Provisional Instruction and/or by specific guidelines of the Supervisor of Banks:

- Reduced regulatory capital requirements applying to banks by one percentage point for the period of the Provisional Instructions and thereafter for a period of two additional years under specified conditions (for details regarding this matter, see Note 24B.A(1) to the financial statements).
- Banking corporations have been instructed to review their dividend distribution policy and that for the acquisition of their own shares (for details regarding this matter, see Note 24A.B to the financial statements).
- Mitigation of the leverage ratio by one-half of a percent relating to a banking corporation, such as the Bank, the total stated assets of which, on a consolidated basis, amounts to up to 24% of the total stated assets of the banking sector, is in effect as from November 15, 2020 and until March 31, 2021, thereafter for two additional years under determined conditions (details for this matter are presented in Note 24 B.B. to the financial statements).
- Permitting banks to use electronic communication means for the holding of board of directors' meetings instead of personal attendance of members, as well as allowing the chairmen of the boards and their committees to determine

dates and frequencies of meetings for discussion of required subjects at their discretion and taking into consideration developing risks, while mitigating the requirements for the minimum number of meetings stated in the instruction as well as the dates for approval and distribution of draft minutes of meetings.

- The maximum amount of the credit facilities allocated to the construction and real estate sector (including indebtedness in respect of national infrastructure) has been increased from 24% to 26% of total indebtedness of the public, and the said maximum rate, net of indebtedness in respect of national infrastructure, has been increased from 20% to 22% of total indebtedness of the public. This mitigation remains in effect until the end of twenty-four months from December 31, 2025, provided that during the said 24 months the rate of indebtedness should not exceed the rate existing on December 31, 2025, or the rate of the segmental limitation existing prior to the mitigation, whichever is higher.
- It has been determined that the rate of branches open for business shall not be lower than the rate stated in the Instruction, and that the services provided by them would be cash withdrawals and the deposit of cash and checks only. Other services would be provided by appointment only and subject to their availability at the branch. The said rate has been updated from time to time, starting with 15% and reaching 50%, until the announcement of Bank of Israel on May 10, 2020, that all branches of the banking system would be open for business by May 13, 2020, providing all services that had been provided by them prior to the Corona crisis. On June 1, 2020, Bank of Israel announced that a banking corporation may determine that, as a general rule, service would be provided at the branches subject to prior appointment, and the banking corporation has to advertise on its website the classes of customers and the cases in respect of which service would be provided without prior appointment. On background of the different restrictions imposed on the market, Bank of Israel announced on September 22, 2020, that banks may reduce the activity of their branch network, on condition that the ratio of branches open to business would not be below 80%, and that the services provided by them would, at least, include those services that are not available on the online banking channels.
- Relief has been granted in the matter of management of credit facilities in current accounts and the field of action of banks in treatment of deviations from such facilities has been widened, on background of expected cash flow difficulties of customers.
- Banks have been granted the possibility of approving residential loans not intended for the purchase of rights in real estate up to a financing level of 70%, subject to the declaration of the borrower that the loan is not intended to serve the purchase of an additional apartment, certain mitigating terms have been set at different dates with respect to the granting of residential loans (issue of letters of intension, settlement confirmations and notice of purchased on behalf of the bank in cases where the insurance policy presented does not agree with the requirements of the bank), mitigating terms have been set with respect to the ratio of repayment to income limitation, allowing banks to take into consideration, for the purpose of assessing income, subject to certain conditions, the average amount of income of the borrower in the three months prior to his being suspended on unpaid leave or being downgraded to a part-time employment, the bank having to determine a total limit regarding the volume of credit extended under these mitigating terms. It has been further determined that the additional capital requirement at the rate of one percentage point, shall not apply to residential loans approved as from March 19, 2020 and until the end of the provisional Instruction period.
- An extension was granted for submitting financial statements required of the extension of credit to borrowers in accordance with Proper Conduct of Banking Business Directive No. 311.
- The documentation requirements upon a change in terms of an existing loan have been mitigated.
- Banks have been given the possibility to induce customers to join the online banking services by means of the online approach, as well as using the online banking channels to inform customers, who do not own a debit card, of the possibility of issuance of debit cards to them.
- The duty of recording conversations has been mitigated in certain circumstances, so that entering an online banking agreement, entering an agreement authorizing instructions by telephone, and the marketing of credit to retail customers may be documented using alternative means where recording is not possible.
- Relief has been granted regarding the manner of responding to customer complaints and to the delivery of notice regarding their right to object to the response. It was also determined that in exceptional circumstances, it would be

possible to publish a notice to all customers with respect to the extension of the date and the reason for the delay, using online means.

- The definition of a "senior citizen" has been updated so that the minimum age for entitlement to priority in obtaining telephonic response has been reduced to 70 (instead of 75). This change has recently been approved to apply permanently.
- The limit on the amount of a single check that may be deposited using the mobile phone has been raised from NIS 20 thousand to NIS 50 thousand.
- The period for responding to the request of a customer to close his account has been extended from five days to fourteen days from the date on which the customer had fulfilled the requirements determined by Proper Conduct of Banking Business Directive No. 432. This relief expired on September 30, 2020.
- It has been made possible for banks to receive instructions from customers to cancel authorization to charge an account, or an authorization for charging an account by telephone, subject to documentation of the conversation.
- It has been made possible to obtain a documented consent of the customer (including by telephone) to a debt arrangement. This relief has recently been approved permanently.
- The requirement to conduct a security review, at least once every eighteen months, in respect of high-risk systems and online banking systems, has been deferred. Also deferred is the requirement to conduct certain reviews of the internal audit function and of operating risks.
- FATCA and CRS reports – Regulations were published on December 23, 2020, which, inter alia, defer the dates of the FATCA and CRS reporting to the Israeli Tax Authorities.
- Guidelines were issued on April 21, 2020, regarding "points of emphasis in reports to the public for the first quarter of 2020", and on June 16, 2020 and on October 11, 2020, guidelines in the matter were issued also with respect to the quarterly and annual reports for 2020.

**Banking order (customer service)(supervision on debit card fees services, notice letter issued by lawyer and transaction made by an official in call center)(provisional instruction), 2020**

The order was published on September 13, 2020, which in its framework the Bank of Israel announced on three banking services as services which are under supervision. The order affects individual customers and small businesses, and the services included therein are debit card fees, for which no fees are to be collected (as from October 2020 until March 2021), a lawyer's warning letter and a transaction made by a call center clerk (regarding these two fees- from October 13, 2020 until April 13, 2021).

**Outline for the deferral of loan repayments**

Bank of Israel announced on May 12, 2020, the formation of a uniform outline for the deferral of loan repayments ("the outline"), which has been adopted by the banking system and applies to three segments of operation – mortgages, consumer credit and business credit (as defined in the outline). The outline states for each of the said segments, minimum conditions required for a loan to be included in the outline, the scope of discretion of the bank with respect to the deferral of repayments, as well as states the rules for the repayment deferral format for each of the segments, the essence of which are: the periods for the deferral of repayments, dates for submission of applications for deferral, prohibition on the charging of commission in respect of the deferral process, the rate of interest to be charged on the deferred repayments, the manner of spreading the repayment of the loan, and more.

On July 13, 2020, the Supervisor of Banks announced the expansion of the outline, within the framework of which, inter alia, the period for submission of applications for deferral of repayments was extended to October 30, 2020, and the possible length of the deferral period was extended with respect of a part of the borrowers. The extended outline applies both to customers who had already deferred loan repayments during the Corona crisis and require further assistance, and to customers who have not yet applied for deferral, as stated.

On September 29, 2020, Bank of Israel announced the extension and additional expansion of the Outline, within the framework of which, the period for submission of an application for deferral of loan repayments has been extended to December 31, 2020, and the possible length of the deferral period for a part of the borrowers has been extended. Moreover, the Outline was updated with respect to a part of the loans, so that the deferral granted with no discretion of the bank, would apply only to the principal sum component of the loan. This Outline applies both to customers who had already deferred their loan repayments during the crisis, and to customers who have not yet applied for a deferral, as stated.
On November 30, 2020, Bank of Israel published an additional outline with respect to mortgages and consumer loans, which is intended to assist a focused group of customers that had been seriously affected by the crisis and who comply with several cumulative requirements. This outline emphsizes the resumption loan repayment by borrowers, alongside instituting a mitigated repayment schedule (in contrast to the stay or deferral of repayments). The period for submission of applications for deferral of loan repayments, in accordance with the latest outline, is between January 1, 2021 and March 31, 2021. On December 10, 2020, Bank of Israel published an additional outline also with respect to small and minute businesses. The outline allows small and minute businesses that had been seriously affected by the crisis, and which comply with cumulative requirements, to defer, with no discretion of the Bank in the matter, repayment of the principal sum of the loan, for a period of up to six to twelve months (depending on the amount of the loan). The new outlines relate only to loans being already in a state of deferred repayments.

**The Securities Authority and the Capiatl Market Authority**

A number of reliefs and relief proposals were published during March and April 2020, intended in principle to allow and/or ease the provision of services to customers by digital means, with no need for a personal meeting (including for the purpose of enrolling customers for investment consulting services and the initial charachterization of customer needs for the purpose of investment consulting; providing pension consulting) as well as deferral of dates (mostly for clarifying customer needs and for delivery of different reports required by law). It is clarified, that the validity of the mitigations relating to the deferral of dates, including the clarification of needs and delivery of different reports, expired on July 1, 2020, and has not been extended. Further in this respect, a Memorandum for amendment of the Financial Services Supervision Act (Consultation, marketing and a pension clearing system) (Amendment No. 11), 2020, was published on July 9, 2020 (as an alternative to the draft provisional instruction published in April 2020,) proposing that a banking corporation would be permitted to provide pension consulting through the telephone or by digital means (together hereunder – "distant opension consulting"). Concurrently published on December 1, 2020, was a non-enforcement position, according to which, the Capital Market Authority would not adopt enforcement measures against a banking corporation that provides distant pension consulting to existing customers in this area, so long as limitations on operation exist according to emergency legislation relating to the confrontation with the Coronavirus.

**Emergency Regulations**

In the matter of accessibility of financial services – Emergency Regulations (The new Coronavirus) (Accessibility of financial services), 2020, were published on April 7, 2020, determining rules aimed at easing the signing of a debit card agreement. Relief in this respect was also determined in the Provisional Instruction by way of amendment of Proper Conduct of Banking Business Directive No. 411 regarding identification duty. In addition, the said Emergency Regulations allowed the issuance of debit cards also to customers who are subject to special limits in accordance with the Debt Execution Act. The validity of these Regulations expired on July 6, 2020. On August 20, 2020, the Distant Provision of Essential Services Act (The new Coronavirus – Provisional Instruction), 2020, was published, within the framework of which, the Debit Cards Act was amended, adopting the relief stated in the Regulations regarding the signing of a debit card agreement, while falling in line with the provisions of the Payment Services Act (this Amendment had been in force until the entry into effect of the Payment Services Act on October 14, 2020). It also established the instruction included in the Regulations regarding the issue of debit cards also to customers who are subject to special limits in accordance with the Debt Execution Act (up to the end of six

months from the date on which the Act entered into effect). The Act is in effect retroactively, since date of expiry of the Regulations.
The Emergency Regulations (Bounced checks), 2020, published on March 22, 2020, included an additional declaration regarding a dangerous contagious desease, to the definition of "Emergency period declaration" stated in the Bounced Checks Act, thus empowering Bank of Israel to instruct banks to suspend limitations on customers and their bank accounts regarding dishonored checks due to lack of sufficient funds, during the period from March 4, 2020 and until June 22, 2020. Such an instruction was issued by Bank of Israel on March 23, 2020. The Bounced Checks Regulations (Limitations on the application of the Act) were published on June 14, 2020, stating that checks bounced in the period from March 4, 2020 and June 22, 2020, would not be considered as bounced checks for the purpose of limitations on the account, and limitations that had been imposed on the account in respect of such checks, would be removed. Furthermore, Banks are required to amend reports submitted in respect of checks dishonored in the said period. The Regulations were further amended on August 26, 2020, extending the instructions also to checks bounced in the period between June 23, 2020 and August 10, 2020.

**Different Regulators** have, in view of the crisis, determined different procedures for conducting banking operations at a distance, this subject to arrangements approved, inter alia, by the Custodian General, the Registrar of Lands, the Registrar of Liens, the Registrar of Companies and the Commissioner of the Sales Act in accordance with the Sales Act (Apartments) (Securing the investment of purchasers of apartments), 1974.
It is noted, that special legal proceedings in emergency situations have been determined in respect of Courts of Law, and monthly payment dates applying to certain debtors have been deferred according to the announcements by the Official Receiver and the Commissioner of Insolvency Proceedings and Economic Recovery.

Furthermore, the Debt Execution Act (the new Coronavirus – Amendment No. 68 and Provisional Instruction), 2020, was published on September 24, 2020. The Act determines special arrangements with the aim of assisting individuals and businesses encountering distress due to the Corona crisis, such as, the possibility of extending loan repayment periods and warning periods, arrangements for repayment by installments of loans not in high amounts, and more.
On background of the crisis, relief has been granted with respect to reporting dates and handling dates for public complaints in accordance with the Credit Data Act, 2016, and guidelines have been issued to the reporting sources, including banking corporations, with respect to reporting data to the credit data base in a manner which would reflect the effect of the Corona crisis.

## BANKING

### Payment Services Act, 2019

The Act, which was published on January 9, 2019, with the aim of creating comprehensive and uniform regulation in the matter of payment services and payment means, while providing consumer protection to customers, had been modified to technological developments and is also based on European regulation in this field. The Act replaces the Charge Cards Act, 1986, and it applies to different providers of services, including banks, credit card companies, clearing agents and payment applications, on physical and non-physical means of payment, and on a variety of payment services, including the issue of payment means, clearing of payment transactions and management of a payment account (for the payer or the beneficiary) as well as payment services within the framework of certain operations conducted in current accounts.
The principal issues regulated in the Act relate to instructions in the matter of a payment services contract, proper disclosure and forbiddance of misleading, a payment transaction, stopping the use of payment means, misuse of payment means, authorization for charging an account and the manner of executing payment orders. Also determined in the Act are criminal sanctions and monetary sanctions in respect of certain violations of its provisions and forbiddance of the subjecting of its provisions unless it is in favor of the customer (except for certain Sections regarding customers of a certain class). The Act

applies also to payment means issued prior to its effective date, and states instructions for the amendment of existing payment services agreements. The Act takes effect one year after its date of publication ("the original date"), and the Minister of Justice has the authority to instruct deferral of the original date for up to one additional year.
The Act entered into effect on October 14, 2020,

### Proper Conduct of Banking Business Directive No. 359A - Outsourcing

The Directive, effective as from March 31, 2020 (with the possibility of earlier adoption) determines principles for the transfer to outsourcing, on a continuous basis, of material operations included in the line of business of the banking corporation in accordance with the Banking Act (Licensing), while minimizing exposure to potential risks. The Directive imposes duties in the matter on the Board of Directors, 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 forbids the outsourcing of duties of the Board of Directors and senior Management, and states conditions for the outsourcing of decisions requiring discretion as regards different matters, including the opening or closing of customer accounts and underwriting activity regarding loans. The Directive also states terms for the outsourcing of an initiated approach to households offering credit and the possibility of banking corporations to engage brokers has been enlarged.
On April 7, 2020, an update was published deferring the initial application date of the Directive from March 31, 2020 to September 30, 2020, permitting the prior application thereof. The Bank has elected the earlier adoption of the contents of the Directive and it applies to it since May 2020.

### Proper Conduct of Banking Business Directive No. 443 - Dormant deposits and accounts of deceased persons

The Directive was published on November 15, 2020, for the purpose of making more efficient the process of locating dormant deposits and accounts of deceased persons. The Directive requires the establishment of a function dealing with dormant deposits, and states the responsibility of the Board of Directors and of Management for the operation of which. It also expands the duties applying to banking corporations with respect to locating owners of dormant deposits, while determining a hierarchy for required locating operations and instructions regarding the establishment of contact, and includes also instructions regarding accounts of deceased persons and regarding lost connection with hirers of safe deposit boxes. The Directive becomes effective one year following its publication date.

### Proper Conduct of Banking Business Directive No. 311A – Consumer credit management

The Directive was published on February 2, 2021, with the aim of securing proper, fair and transparent activity by banking corporations and clearing agents regarding their customers, from the aspect of marketing consumer credit, in order to minimize conduct risk and prevent materialization of other risks. The Directive collects the requirements addressed by the Supervisor of Banks to the banking system regarding activity with retail customers, and includes instructions regarding the duties of Boards of Directors and Managements with respect to outlining the management and marketing strategy for consumer credit and its establishment in a policy and procedures document, that would cover all aspects of consumer credit at the borrower's level, instructions regarding the manner of marketing consumer credit and regarding processes for approval of such credit. The Directive takes effect on November 2, 2021, except for the items dealing with the marketing of credit, which take effect on May 2, 2021.

## INCREASING COMPETITION

### Amendment No. 27 to the Banking Act (Customer service) regarding the transfer of a customer between banks

The Amendment, which was published on March 22, 2018, as part of the Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018, require banks to allow the transfer of the financial activity of a customer from the bank, in which it is being conducted ("the bank of origin") to another bank ("the accepting bank") in an online, convenient, reliable and secured manner, with no charge to the customer in respect of such operation, and within seven business days from the date on which the bank of origin received from the accepting bank notice of approval of 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 a bank of origin.

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).

The Economic Program Regulations (Legislation amendments for the implementation of the economic policy for the 2019 budget year) (Deferral of application of Chapter "B" of the Act),2020, were published on August 2, 2020, deferring the effective date of the Amendment by six months, so that it would take effect on September 22, 2021.

Proper Conduct of Banking Business Directive No. 448 - the online transfer between banks of the financial activity of a customer, published on December 16, 2019, details the rules that the bank of origin and the accepting bank have to apply with respect to the handling of the request of a customer for the transfer of his account. The date of entry into effect of this Directive shall correspond to the the date of entry into effect of the said Amendment to the Banking Act (Customer service).

The Banking Rules (Customer service) (Transfer between banks of the financial activity of customers), which were published on December 17, 2019, state the classes of accounts and the classes of financial operations to which the said Amendment applies.

### Proper Conduct of Banking Business Directive No. 368 - application in Israel of the open banking Standard

In accordance with the Increase in Competition and Decrease in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, a banking corporation is required, at the request of a customer, to enable a supplier of a cost comparison service to observe the financial information of that customer existing in the hands of a banking corporation. Concurrently with the formation process of the legislation required to enable the above requirement (within the framework of the Financial Information Services Bill Memeorandum, 2020), Bank of Israel published Directive No. 368 on February 24, 2020, this in view of the great importance it sees in the implementation of open banking and in its potential effect on financial services and on the way these are consumed by customers, and this, alongside the exposure of all players in the system and customers to many more risks. The Directive applies to banks and to credit card companies, and the infrastructure of open banking is expected to open to third parties once the legislation in the matter is completed and the regulation would apply to them.

The Directive includes provisions in matters of corporate governance, of the manner in which the consent of the customer for delivery of information or for instructing payment, is obtained, rules regarding the level of service, principles for the management of data protection risk and cyber defense, duties applying to banks and to credit card companies choosing to operate also as a consumer of information or as a payments initiator, the manner of treating approaches by customers and the reports required by the Supervisor.

The effective date of the Directive has been deferred to March 31, 2021, on background of the Coronavirus event, except for the matter of delivery of information regarding charge cards, placing a one-time payment order in shekel and providing information regarding the status of a payment order, as stated, which effective date has been deferred to October 10, 2021; except for the matter of delivery of information regarding savings and deposit accounts, credit and securities, which effective date has been deferred to March 31, 2022.

## THE CAPITAL MARKET

### Terms of the General Permit under Section 49A of the Securities Act

The Securities Authority has published terms for a general permit under Section 49A of the Securities Act, 1968, which, when fulfilled, the Chairman of the Securities Authority may permit a person to offer securities trading services by means of a securities trading system operated by a stock exchange outside Israel, if he finds that no harm shall be caused by it to the interests of the investor public in Israel.

The permit shall be granted based upon a declaration of the person requesting the permit that he complies with the relevant terms for receiving a permit to offer the said services.

On March 31, 2020, the requested permit was granted to the Bank by the Chairperson of the Securities Authority, and the Bank is preparing in accordance therewith.

## LEGAL PROCEEDINGS

With respect to material legal actions pending against the Bank and against its consolidated subsidiaries, see Note 25G to the financial statements.

## 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 23, 2020, Midrug ratified the evaluation of the Bank's internal financial stability at the rank of aa2.il/stable outlook, the Bank's short-term deposits at the rank of P-1.il, the Bank's long-term deposits and the senior debt at the rank of Aaa.il/stable outlook, its subordinate debt notes at the rank of Aa1.il/stable outlook, its subordinate capital notes at the rank of Aa2.il(hyb)/stable outlook, and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating.
- On December 17, 2020, the international rating agency Moody's ratified the rating of long-term deposits with the Bank in foreign currency and in Israeli currency at A2, the short-term deposits with the Bank at Prime-1, and the rating outlook at "stable".
- On January 3, 2021, S&P Maalot ratified the issuer rating of the Bank at ilAAA/Stable, its subordinate debt notes at ilAA+ and the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.

## THE SUPERVISORY SEGMENTS OF ACTIVITY - ADDITIONAL DETAILS

For the description of segments of activity see note 28 to the financial statements and the chapter of segments of activity in the Board of Directors and Management report.

**Structure of the competition in the segment and changes in it**

### CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks.
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products.
- Apart from the expansion of the non-bank market in Israel as a substitute for bank credit as described above, globalization and liberalization have provided the Corporate Segment's customers with opportunities for raising capital in local and worldwide capital markets, and with ready access to credit and banking services from foreign banks and financial entities abroad.

### THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private and foreign brokers.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertising campaigns, focus on personal service and creation of a customer adjusted overall service program.
- In the upper section of the private banking segment, as well as with respect to activity with foreign resident customers, the Group faces competitors in the global private banking market, which is characterized by a specially high level of competition. In particular, the Group competes against Israeli banks operating abroad, against banks and other institutions specializing in private banking for the foreign population and against international investment houses.
  In order to improve the Group preparedness in attending to the upper section of private banking segment, the Bank changed Ubank's branches into platinum centers which attend the said customers with a service model that is uniquely tailored to the character of the customers' activity and their needs.
- The Bank and the Group are constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones, and development of advanced capital market services, such as "advise me"- system which enables the transfer of recommendations from the advisor directly to the cellular phone f the customer and the performance of the advised transactions by the customer through the application. In addition, "smart trade"- service which enables an upgrade to the supervision of the customer of its portfolio and to execute transaction in security through the application, by receiving alerts to his cellphone and creating strategies for buying and selling securities.

## THE MEDIUM BUSINESS SEGMENT

- The competition in the banking system for commercial segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most commercial customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- The Bank uses the competitive advantage existing in the Group's activity and offers customers to enjoy the factoring services and the financing within the framework of the small and middle market business fund.
- Competition also exists in investment and savings activity with the segment's middle-market customers, against other banks and against non-bank entities that specialize in the capital and money markets (including insurance companies and investment houses).

## THE HOUSEHOLD SEGMENT

In recent years the level of competition on the household segment is rising- both in the banking system and against entities outside the banking system. As part of competition on market share the Group performs needed changes, including adjustment of preparations in the following areas:

- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self-service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more. The merger of the activity of Otsar Hahayal into the Bank, as from the year 2019, greatly contribute to improve and widen the service provided to the defense force personal and its retirees.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.
- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including advanced automatic appliances, the Internet website, cellular phone applications which are in a state of constant expansion of the banking services included in them, such as FIBI - the virtual banker, biometric identification, expansion of the service of information in a click- allowing the customer receiving information without the need to identify, sending personal massages to customers, correspondence with a banker via mail or sms in the website or the application, etc.
- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments.
- Development of mortgage activity as a supplementary retail product.

## THE SMALL AND MINUTE BUSINESS SEGMENT

The competition in the Small and minute Business Segment has increased during recent years.

In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. Additional factor contributing to the intensification of the competition in the segment is the existence of specific government funds for granting credit to small and medium sized businesses. During the orona crisis, the Bank made available to the small business financial solutions, including: deferral of loan repayments, granting of loans in the framework of the fund guaranteed by the state for businesses impacted by the economic implications of the spread of the Coronavirus, granting of credit from the designated government fund for granting credit to medium and small businesses and providing individual solutions to customers in accordance with the customer's information and the profile of its activity.

## TECHNOLOGICAL IMPROVEMENTS AND INNOVATION

The information technology group of the Bank operates and maintains the hardware and software of the core systems and digital of the central and decentralized servers and of the end stations, the communication and telephone network, as well as all the designated and related equipment connected to information technology at the branches and at the head offices of the Group companies.

### Confrontation with the spreading of the Coronavirus

The year 2020 has been marked, inter alia, by the need to provide a computerized and digital response to changes and challenges stemming from the spreading of the Coronavirus, the wish to provide an excellent service to our customers on the digital channels (in view of the enlarged volume of operations), enlarging the variety of services on these channels as an alternative to the activity in the branches (for example: enlarging the variety of services available by correspondence with the bank officer), support in implementing regulations and Bank of Israel guidelines as well as preparing for providing services and the continuing distance operation of the branches, service and trading centers ("working from home") in a secured and transparent manner to the customer. The provided technological response was one of the corner stones for the high satisfaction of customers, which was reflected in in the leadership of the Bank in satisfaction surveys for 2020 (first place in among banks in the Marketest Index regarding preparations for the provision of services during the Corona period).

Following are the principal issues concerning the technological infrastructure in 2020:

**Digital and innovation**

- Online opening of an account – the online opening of an acount using the Bank's Application, by means of a friendly interface providing a convenient and easy experience for implementation, while integrating an advance technology for a "living person" test, accepting documents and decoding identity cards, with no need to visit the branch. Hundreds of accounts have been opened using this service since its introduction.
- Renewal of the website image – a new design of the Bank's website and an improved web browsing experience, with an in-depth improvement of the technological infrastructure.
- Fixing a meeting at the branch – self service for the fixing of a meeting at the branch by means of the website.
- Enriching the deposit and savings field on the digital channels – a new designe for the screens, integration of software wizard assisting customers and the addition of a wide diversity of operations, which until now were available only in the branches.
- Customer recognition – development of an innovative and convenient Application for the answering of a customer recognition questionnaire, in a way that makes the process mor efficient for the banker and the customer. The implementation is integrated in the online account opening process and in additional processes at the Bank.
- Correspondence with a banker – enlarging the available classes of operations and widening the scope of the service supporting customers, with a comprehensive response during the Corona period.
- Application for a mortgage loan - a process has been introduced through the Internet/mobile for the filing of a mortgage loan application with respect to the purchase of an apartment, which includes a preliminary examination of the details of the application and reference of the application to the branch/center for approval in principle.

**The strengthening of digital capabilities in the capital market operations**

- Advise.me – integration of improvements into the consultation and recommendation system, including the taking into consideration of the taxation data of the customer at the recommendation stage.
- SmarTrade – a system for the structuring of a trading strategy on the website of the Bank and on the Application - enlarging the abilities of the system allowing the consultant to create automated strategy definitions for his customers,

the structuring of a "quick strategy", "trailing stop" determining a rolling level of maximum loss, quick delivery of warning notices through the website and the Application.

- Consultation by way of a video conversation – the ability has been added for consultation by means of video conversation with the customer with no need for a personal meeting at the branch.
- Personal area for advised customers – a personal consultation area has been added for advised customers, which contains all the data relating to the customer's assets and consultation processes.
- Derivatives field – a friendly interface showing the positions of the customer and all the required information regarding derivatives traded on the Tel Aviv Stock Exchange.

**Improving customer service**

- The Bank has recently introduced the FibiPay service, a new service on the Application of the Bank, which allows customers of the Bank having an Android mobile, to manage a digital wallet on the Application of the Bank. The digital wallet allows payments by means of the mobile phone, using the charge card of the customer ("touch payment") at trading houses having payment terminals (POS) that support payments by means of the EMV component. The digital wallet saves in a secured manner, details of the charge cards used by customer and frees them from the need to carry a wallet or the charge card itself.
- FIBI WISE – management and presentation of the pension portfolio of a customer on the digital channels, for customers who had signed a pension agreement, including the possibility of obtaining personal pension consultation, carry out recommendations and updating the pension portfilio as well as making nonrecurring deposits.
- Charge cards of the MAX concern for customers of the First International Bank – the combination of a credit card company with customers of the Bank and the following development, allows the customer complete control through the Bank's website and the Application, over a wide variety of operations and control of credit card transactions.
- structuring of an automated mortgage mix – the structuring of customized automated mix, determination of a track and recommended interest. The model calculates a proposal offering minimum cost to the customer, structuring an offer competitive with other proposals offered to the customer.
- Swift GPI – a singular service in Israel, which includes the possibility of real-time monitoring of the process of transferring funds abroad, by means of a unique graphic presentation and real time SMS updates.

**A multi-brand branch**

Conducting at the Bank's branch, the customer's operations in any of the Group's brands while maintaining the characteristics of the original brand of the customer's account.

**Open banking**

- Implementation of the open banking requirements in accordance with Bank of Israel requirements.
- Externalization of services to business customers interested in an API based engagement, directly or through providers of business management services – increasing the number of customers enjoying this service.

**Automation and innovation**

- Robotic Process Automation (RPA) – establishment of a robotic excellence center and expanding the integration of robots in business and operating processes, improving customer service and efficiency.

**Data protection**

- FibiGuard – a management interface with customers for the marking of "safe" instruments.
- Mobile Approve - the possibility of entering the operations website by way of a strong identification on the mobile Application.
- More pointed messages to customers through notices delivered with a one-time code.

# APPENDICES

# APPENDIX 1 -
# RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

## A. Average balances and interest rates - assets

| | Year ended December 31, 2020 | | | Year ended December 31, 2019 | | | Year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average balance (1) | Interest income (expense) | Rate of income (expense) | Average balance (1) | Interest income | Rate of income | Average balance (1) | Interest income | Rate of income |
| | | NIS million | % | | NIS million | % | | NIS million | % |
| **Interest-bearing assets** | | | | | | | | | |
| Credit to the public(2)(5) | | | | | | | | | |
| - In Israel | **83,763** | **2,702** | **3.23** | 80,171 | 2,797 | 3.49 | 77,088 | 2,764 | 3.59 |
| Total | **83,763** | **2,702** | **3.23** | 80,171 | 2,797 | 3.49 | 77,088 | 2,764 | 3.59 |
| Credit to the Government | | | | | | | | | |
| - In Israel | **847** | **(4)** | **(0.47)** | 675 | 2 | 0.30 | 661 | 4 | 0.61 |
| Total | **847** | **(4)** | **(0.47)** | 675 | 2 | 0.30 | 661 | 4 | 0.61 |
| Deposits with banks | | | | | | | | | |
| - In Israel | **2,551** | **5** | **0.20** | 2,291 | 23 | 1.00 | 2,419 | 14 | 0.58 |
| - Outside Israel | **28** | **-** | **-** | 4 | - | - | 14 | - | - |
| Total | **2,579** | **5** | **0.19** | 2,295 | 23 | 1.00 | 2,433 | 14 | 0.58 |
| Deposits with central banks | | | | | | | | | |
| - In Israel | **36,570** | **49** | **0.13** | 26,722 | 68 | 0.25 | 27,783 | 32 | 0.12 |
| Total | **36,570** | **49** | **0.13** | 26,722 | 68 | 0.25 | 27,783 | 32 | 0.12 |
| Securities borrowed or repurchased | | | | | | | | | |
| - In Israel | **46** | **-** | **-** | 429 | 1 | 0.23 | 760 | 1 | 0.13 |
| Total | **46** | **-** | **-** | 429 | 1 | 0.23 | 760 | 1 | 0.13 |
| Held to maturity or available for sale bonds(3) | | | | | | | | | |
| - In Israel | **11,350** | **126** | **1.11** | 10,592 | 193 | 1.82 | 10,741 | 182 | 1.69 |
| Total | **11,350** | **126** | **1.11** | 10,592 | 193 | 1.82 | 10,741 | 182 | 1.69 |
| Trading bonds | | | | | | | | | |
| - In Israel | **228** | **-** | **-** | 218 | 1 | 0.46 | 428 | 4 | 0.93 |
| Total | **228** | **-** | **-** | 218 | 1 | 0.46 | 428 | 4 | 0.93 |
| **Total Interest-bearing assets** | **135,383** | **2,878** | **2.13** | 121,102 | 3,085 | 2.55 | 119,894 | 3,001 | 2.50 |
| Non-interest-bearing debtors regarding credit cards | **2,586** | | | 2,762 | | | 2,641 | | |
| Other non-interest-bearing assets(4) | **14,205** | | | 12,396 | | | 12,757 | | |
| **Total assets** | **152,174** | | | 136,260 | | | 135,292 | | |
| Total interest-bearing assets attributed to activity outside Israel | **28** | **-** | **-** | 4 | - | - | 14 | - | - |

See notes in page 331.

# 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

| | Year ended December 31, 2020 | | | Year ended December 31, 2019 | | | Year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average balance (1) | Interest expenses | Rate of expense (1) | Average balance (1) | Interest expenses | Rate of expense (1) | Average balance (1) | Interest expenses | Rate of expense (1) |
| | | NIS million | % | | NIS million | % | | NIS million | % |
| **Interest-bearing liabilities** | | | | | | | | | |
| Deposits from the public | | | | | | | | | |
| - In Israel | | | | | | | | | |
| Demand | **20,659** | **5** | **0.02** | 18,981 | 24 | 0.13 | 17,412 | 4 | 0.02 |
| Fixed-term | **48,843** | **197** | **0.40** | 45,698 | 342 | 0.75 | 46,429 | 316 | 0.68 |
| Total | **69,502** | **202** | **0.29** | 64,679 | 366 | 0.57 | 63,841 | 320 | 0.50 |
| Deposits from the Government | | | | | | | | | |
| - In Israel | **159** | **3** | **1.89** | 233 | 4 | 1.72 | 242 | 4 | 1.65 |
| Total | **159** | **3** | **1.89** | 233 | 4 | 1.72 | 242 | 4 | 1.65 |
| Deposits from banks | | | | | | | | | |
| - In Israel | **1,063** | **1** | **0.09** | 1,042 | 4 | 0.38 | 1,023 | 4 | 0.39 |
| Total | **1,063** | **1** | **0.09** | 1,042 | 4 | 0.38 | 1,023 | 4 | 0.39 |
| Deposits with central banks | | | | | | | | | |
| - In Israel | **587** | **1** | **0.17** | - | - | - | - | - | - |
| Total | **587** | **1** | **0.17** | - | - | - | - | - | - |
| Bonds | | | | | | | | | |
| - In Israel | **4,099** | **33** | **0.81** | 3,980 | 106 | 2.66 | 5,094 | 184 | 3.61 |
| Total | **4,099** | **33** | **0.81** | 3,980 | 106 | 2.66 | 5,094 | 184 | 3.61 |
| Other liabilities | | | | | | | | | |
| - In Israel | **31** | **1** | **3.23** | 202 | 3 | 1.49 | 277 | 3 | 1.08 |
| Total | **31** | **1** | **3.23** | 202 | 3 | 1.49 | 277 | 3 | 1.08 |
| **Total Interest-bearing liabilities** | **75,441** | **241** | **0.32** | 70,136 | 483 | 0.69 | 70,477 | 515 | 0.73 |
| Non-interest-bearing deposits from the public | **60,357** | | | 50,142 | | | 49,507 | | |
| Non-interest-bearing creditors in respect of credit cards | **2,428** | | | 2,638 | | | 2,641 | | |
| Other non-interest-bearing liabilities(6) | **4,832** | | | 4,661 | | | 4,434 | | |
| **Total liabilities** | **143,058** | | | 127,577 | | | 127,059 | | |
| **Total capital resources** | **9,116** | | | 8,683 | | | 8,233 | | |
| **Total liabilities and capital resources** | **152,174** | | | 136,260 | | | 135,292 | | |
| **Interest spread** | | | **1.81** | | | 1.86 | | | 1.77 |
| **Net return on interest-bearing assets** (7) | | | | | | | | | |
| - In Israel | **135,355** | **2,637** | **1.95** | 121,098 | 2,602 | 2.15 | 119,880 | 2,486 | 2.07 |
| - Outside Israel | **28** | **-** | **-** | 4 | - | - | 14 | - | - |
| Total | **135,383** | **2,637** | **1.95** | 121,102 | 2,602 | 2.15 | 119,894 | 2,486 | 2.07 |
| Total interest-bearing liabilities attributed to activity outside Israel | **-** | **-** | **-** | - | - | - | - | - | - |

See notes in page 331.

## 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

| | Year ended December 31, 2020 | | | Year ended December 31, 2019 | | | Year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average balance (1) | Interest income (expenses) | Rate of income (expense) | Average balance (1) | Interest income (expenses) | Rate of income (expense) | Average balance (1) | Interest income (expenses) | Rate of income (expense) |
| | | NIS million | % | | NIS million | % | | NIS million | % |
| **Non-linked Israeli currency** | | | | | | | | | |
| Total interest-bearing assets | **112,510** | **2,427** | **2.16** | 98,352 | 2,442 | 2.48 | 96,190 | 2,266 | 2.36 |
| Total interest-bearing liabilities | **58,621** | **(133)** | **(0.23)** | 53,096 | (159) | (0.30) | 53,051 | (110) | (0.21) |
| Interest spread | | | **1.93** | | | 2.18 | | | 2.15 |
| **Israeli currency linked to the CPI** | | | | | | | | | |
| Total interest-bearing assets | **10,619** | **257** | **2.42** | 10,623 | 336 | 3.16 | 10,717 | 427 | 3.98 |
| Total interest-bearing liabilities | **7,566** | **(54)** | **(0.71)** | 8,677 | (179) | (2.06) | 10,013 | (299) | (2.99) |
| Interest spread | | | **1.71** | | | 1.10 | | | 0.99 |
| **Foreign currency (including linked to f-c)** | | | | | | | | | |
| Total interest-bearing assets | **12,226** | **194** | **1.59** | 12,123 | 307 | 2.53 | 12,973 | 308 | 2.37 |
| Total interest-bearing liabilities | **9,254** | **(54)** | **(0.58)** | 8,363 | (145) | (1.73) | 7,413 | (106) | (1.43) |
| Interest spread | | | **1.01** | | | 0.80 | | | 0.94 |
| **Total activity in Israel** | | | | | | | | | |
| Total interest-bearing assets | **135,355** | **2,878** | **2.13** | 121,098 | 3,085 | 2.55 | 119,880 | 3,001 | 2.50 |
| Total interest-bearing liabilities | **75,441** | **(241)** | **(0.32)** | 70,136 | (483) | (0.69) | 70,477 | (515) | (0.73) |
| Interest spread | | | **1.81** | | | 1.86 | | | 1.77 |

See notes in page 331.

# 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

| | Year ended December 31, 2020 compared with the year ended December 31, 2019 | | | Year ended December 31, 2019 compared with the year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to the change | | | Increase (decrease) due to the change | | |
| | Quantity | Price | Net change | Quantity | Price | Net change |
| | | | | | | NIS million |
| **Interest-bearing assets** | | | | | | |
| Credit to the public | | | | | | |
| In Israel | **116** | **(211)** | **(95)** | 108 | (75) | 33 |
| Total | **116** | **(211)** | **(95)** | 108 | (75) | 33 |
| Other interest-bearing assets | | | | | | |
| In Israel | **36** | **(148)** | **(112)** | (14) | 65 | 51 |
| Total | **36** | **(148)** | **(112)** | (14) | 65 | 51 |
| Total interest income | **152** | **(359)** | **(207)** | 94 | (10) | 84 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from the public | | | | | | |
| - In Israel | | | | | | |
| Demand | **-** | **(19)** | **(19)** | 2 | 18 | 20 |
| Fixed-term | **13** | **(158)** | **(145)** | (5) | 31 | 26 |
| Total | **13** | **(177)** | **(164)** | (3) | 49 | 46 |
| Other interest-bearing liabilities | | | | | | |
| In Israel | **3** | **(81)** | **(78)** | (25) | (53) | (78) |
| Total | **3** | **(81)** | **(78)** | (25) | (53) | (78) |
| Total interest expenses | **16** | **(258)** | **(242)** | (28) | (4) | (32) |
| Total interest income less interest expenses | **136** | **(101)** | **35** | 122 | (6) | 116 |

(1) On the basis of 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-interest-bearing 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 income in the item "adjustments to fair value of available for sale bonds" for the year ended on December 31, 2020 in the amount of NIS 6 million (year ended on December 31, 2019 amount of NIS 45 million was deducted and for the year ended on December 31, 2018 an amount of NIS 20 million was deducted).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 189 million, NIS 181 million and NIS 187 million were included in interest income for the years ended December 31, 2020, December 31, 2019 and December 31, 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.

# APPENDIX 2 -
# CONSOLIDATED STATEMENTS OF INCOME - MULTI-PERIOD DATA
(NIS million)

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| Interest Income | **2,878** | 3,085 | 3,001 | 2,704 | 2,526 |
| Interest Expenses | **241** | 483 | 515 | 402 | 357 |
| Interest Income, net | **2,637** | 2,602 | 2,486 | 2,302 | 2,169 |
| Expenses from credit losses | **464** | 138 | 166 | 121 | 80 |
| Net Interest Income after expenses from credit losses | **2,173** | 2,464 | 2,320 | 2,181 | 2,089 |
| **Non-Interest Income** | | | | | |
| Non Interest Financing income | **148** | 225 | 231 | 83 | 115 |
| Commissions | **1,371** | 1,286 | 1,325 | 1,305 | 1,300 |
| Other income | **4** | 9 | 81 | 62 | 65 |
| Total non-Interest income | **1,523** | 1,520 | 1,637 | 1,450 | 1,480 |
| **Operating and other expenses** | | | | | |
| Salaries and related expenses | **1,532** | 1,601 | 1,696 | 1,579 | 1,581 |
| Maintenance and depreciation of premises and equipment | **344** | 353 | 376 | 380 | 409 |
| Amortizations and impairment of intangible assets and goodwill | **96** | 92 | 91 | 94 | 116 |
| Other expenses | **597** | 608 | 656 | 554 | 577 |
| Total operating and other expenses | **2,569** | 2,654 | 2,819 | 2,607 | 2,683 |
| Profit before taxes | **1,127** | 1,330 | 1,138 | 1,024 | 886 |
| Provision for taxes on profit | **368** | 478 | 408 | 358 | 398 |
| Profit after taxes | **759** | 852 | 730 | 666 | 488 |
| The bank's share in profit of equity-basis investees, after taxes | **29** | 51 | 37 | 54 | 72 |
| **Net profit:** | | | | | |
| Before attribution to non-controlling interests | **788** | 903 | 767 | 720 | 560 |
| Attributed to non-controlling interests | **(38)** | (38) | (34) | (42) | (39) |
| Attributed to shareholders of the Bank | **750** | 865 | 733 | 678 | 521 |

| | | | | | NIS |
|---|---|---|---|---|---|
| **Primary profit per share attributed to the shareholders of the Bank** | | | | | |
| Net profit per share of NIS 0.05 par value | **7.48** | 8.62 | 7.31 | 6.76 | 5.19 |

# APPENDIX 3 -
# CONSOLIDATED STATEMENTS OF INCOME - MULTY QUARTER DATA
(NIS million)

| Year | | | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| **Quarter** | **4** | **3** | **2** | **1** | **4** | **3** | **2** | **1** |
| Interest Income | **718** | **731** | **714** | **715** | 748 | 699 | 911 | 727 |
| Interest Expenses | **61** | **69** | **54** | **57** | 88 | 57 | 246 | 92 |
| Interest Income, net | **657** | **662** | **660** | **658** | 660 | 642 | 665 | 635 |
| Expenses from credit losses | **51** | **91** | **165** | **157** | 46 | 33 | 23 | 36 |
| Net Interest Income after expenses from credit losses | **606** | **571** | **495** | **501** | 614 | 609 | 642 | 599 |
| **Non-Interest Income** | | | | | | | | |
| Non Interest Financing income | **51** | **36** | **64** | **(3)** | 50 | 63 | 66 | 46 |
| Commissions | **345** | **335** | **323** | **368** | 326 | 325 | 315 | 320 |
| Other income | **1** | **1** | **1** | **1** | 4 | 3 | 1 | 1 |
| Total non-Interest income | **397** | **372** | **388** | **366** | 380 | 391 | 382 | 367 |
| **Operating and other expenses** | | | | | | | | |
| Salaries and related expenses | **394** | **386** | **373** | **379** | 386 | 394 | 419 | 402 |
| Maintenance and depreciation of premises and equipment | **83** | **89** | **86** | **86** | 83 | 90 | 88 | 92 |
| Amortizations and impairment of intangible assets | **25** | **24** | **23** | **24** | 24 | 22 | 23 | 23 |
| Other expenses | **173** | **141** | **135** | **148** | 161 | 143 | 148 | 156 |
| Total operating and other expenses | **675** | **640** | **617** | **637** | 654 | 649 | 678 | 673 |
| Profit before taxes | **328** | **303** | **266** | **230** | 340 | 351 | 346 | 293 |
| Provision for taxes on profit | **114** | **109** | **97** | **48** | 121 | 119 | 127 | 111 |
| Profit after taxes | **214** | **194** | **169** | **182** | 219 | 232 | 219 | 182 |
| The bank's share in profit of equity-basis investee, after taxes | **5** | **19** | **7** | **(2)** | 12 | 15 | 14 | 10 |
| **Net profit:** | | | | | | | | |
| Before attribution to non-controlling interests | **219** | **213** | **176** | **180** | 231 | 247 | 233 | 192 |
| Attributed to non-controlling interests | **(9)** | **(12)** | **(8)** | **(9)** | (9) | (11) | (9) | (9) |
| Attributed to shareholders of the Bank | **210** | **201** | **168** | **171** | 222 | 236 | 224 | 183 |

| | | | | NIS | | | | NIS |
|---|---|---|---|---|---|---|---|---|
| **Primary profit per share attributed to the shareholders** | | | | | | | | |
| Net profit per share of NIS 0.05 par value | **2.10** | **2.00** | **1.68** | **1.70** | 2.21 | 2.35 | 2.24 | 1.82 |

# APPENDIX 4 -
# CONSOLIDATED BALANCE SHEETS - MULTI-PERIOD DATA
(NIS million)

| | As at December 31, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| **Assets** | | | | | |
| Cash and deposits with banks | **57,802** | 37,530 | 31,303 | 39,186 | 29,150 |
| Securities | **13,105** | 10,995 | 12,595 | 10,238 | 15,776 |
| Securities which were borrowed | **11** | 9 | 863 | 813 | 414 |
| Credit to the public | **92,247** | 88,829 | 85,160 | 81,216 | 78,175 |
| Provision for Credit losses | **(1,277)** | (930) | (868) | (838) | (847) |
| Credit to the public, net | **90,970** | 87,899 | 84,292 | 80,378 | 77,328 |
| Credit to the government | **656** | 1,039 | 700 | 675 | 654 |
| Investments in investee companies | **636** | 605 | 606 | 565 | 514 |
| Premises and equipment | **965** | 996 | 1,023 | 1,095 | 1,133 |
| Intangible assets | **272** | 248 | 239 | 235 | 243 |
| Assets in respect of derivative instruments | **1,897** | 1,091 | 1,399 | 1,342 | 1,332 |
| Other assets | **1,464** | 698 | 1,100 | 1,186 | 1,020 |
| Assets held for sale | **-** | - | - | 4 | 343 |
| Total assets | **167,778** | 141,110 | 134,120 | 135,717 | 127,907 |
| **Liabilities, temporary equity and Shareholders' Equity** | | | | | |
| Deposits from the public | **141,677** | 120,052 | 111,697 | 113,511 | 105,817 |
| Deposits from banks | **2,992** | 1,137 | 1,150 | 1,133 | 755 |
| Deposits from the Government | **459** | 353 | 982 | 960 | 570 |
| Bonds and subordinated capital notes | **4,394** | 3,674 | 4,989 | 5,249 | 5,801 |
| Liabilities in respect of derivative instruments | **2,314** | 1,247 | 1,294 | 1,318 | 1,356 |
| Other liabilities | **6,407** | 5,723 | 5,595 | 5,162 | 4,929 |
| Liabilities held for sale | **-** | - | - | - | 745 |
| Total liabilities | **158,243** | 132,186 | 125,707 | 127,333 | 119,973 |
| Temporary equity - non-controlling interest | **-** | - | - | 338 | 330 |
| Capital attributed to the shareholders of the Bank | **9,141** | 8,568 | 8,093 | 7,756 | 7,321 |
| Non-controlling interests | **394** | 356 | 320 | 290 | 283 |
| Total equity | **9,535** | 8,924 | 8,413 | 8,046 | 7,604 |
| Total liabilities, temporary equity and shareholders' equity | **167,778** | 141,110 | 134,120 | 135,717 | 127,907 |

## APPENDIX 5 - CONSOLIDATED BALANCE SHEETS - MULTY QUARTER DATA

(NIS million)

| Year | | | | 2020 | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| **Quarter** | **4** | **3** | **2** | **1** | **4** | **3** | **2** | **1** |
| **Assets** | | | | | | | | |
| Cash and deposits with banks | **57,802** | **52,366** | **46,144** | **41,933** | 37,530 | 34,516 | 33,900 | 34,108 |
| Securities | **13,105** | **12,174** | **11,715** | **10,824** | 10,995 | 10,453 | 10,587 | 11,338 |
| Securities which were borrowed | **11** | **14** | **45** | **82** | 9 | 126 | 416 | 664 |
| Credit to the public | **92,247** | **90,810** | **90,371** | **91,075** | 88,829 | 88,218 | 86,436 | 87,246 |
| Provision for Credit losses | **(1,277)** | **(1,225)** | **(1,156)** | **(1,047)** | (930) | (908) | (887) | (893) |
| Credit to the public, net | **90,970** | **89,585** | **89,215** | **90,028** | 87,899 | 87,310 | 85,549 | 86,353 |
| Credit to the government | **656** | **651** | **852** | **1,114** | 1,039 | 680 | 684 | 676 |
| Investments in investee companies | **636** | **629** | **611** | **603** | 605 | 607 | 589 | 617 |
| Premises and equipment | **965** | **970** | **979** | **989** | 996 | 988 | 1,001 | 1,011 |
| Intangible assets | **272** | **249** | **244** | **246** | 248 | 227 | 228 | 231 |
| Assets in respect of derivative instruments | **1,897** | **1,438** | **1,671** | **2,551** | 1,091 | 1,078 | 938 | 941 |
| Other assets | **1,464** | **1,294** | **1,243** | **1,161** | 698 | 1,003 | 1,175 | 1,044 |
| Total assets | **167,778** | **159,370** | **152,719** | **149,531** | 141,110 | 136,988 | 135,067 | 136,983 |
| **Liabilities and Shareholders' Equity** | | | | | | | | |
| Deposits from the public | **141,677** | **135,914** | **129,160** | **126,977** | 120,052 | 116,292 | 113,716 | 115,349 |
| Deposits from banks | **2,992** | **1,717** | **1,881** | **1,129** | 1,137 | 464 | 954 | 1,064 |
| Deposits from the Government | **459** | **426** | **495** | **553** | 353 | 368 | 466 | 779 |
| Bonds and subordinated capital notes | **4,394** | **4,384** | **4,375** | **3,754** | 3,674 | 3,690 | 4,034 | 4,270 |
| Liabilities in respect of derivative instruments | **2,314** | **1,669** | **1,940** | **2,586** | 1,247 | 1,298 | 1,104 | 1,021 |
| Other liabilities | **6,407** | **5,932** | **5,783** | **5,625** | 5,723 | 6,066 | 6,088 | 5,962 |
| Total liabilities | **158,243** | **150,042** | **143,634** | **140,624** | 132,186 | 128,178 | 126,362 | 128,445 |
| Capital attributed to the shareholders of the Bank | **9,141** | **8,944** | **8,712** | **8,542** | 8,568 | 8,461 | 8,366 | 8,208 |
| Non-controlling interests | **394** | **384** | **373** | **365** | 356 | 349 | 339 | 330 |
| Total equity | **9,535** | **9,328** | **9,085** | **8,907** | 8,924 | 8,810 | 8,705 | 8,538 |
| Total liabilities and shareholders' equity | **167,778** | **159,370** | **152,719** | **149,531** | 141,110 | 136,988 | 135,067 | 136,983 |

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