BANK LEUMI LE-ISRAEL B.M.
AND ITS INVESTEE COMPANIES

2019 Annual Report

The Bank received the Banking Supervision Department’s approval to publish its annual financial statements on a consolidated basis only, with condensed (non-consolidated) financial statements in Note 35 to the financial statements. The Bank’s standalone data are available upon request at the Bank's offices at 34 Yehuda Halevi Street, Tel Aviv or on its website: www.bankleumi.co.il.

This is a translation from the Hebrew. It has been made for convenience purposes alone. In case of any discrepancy, the Hebrew version shall prevail

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES

2019 Annual Financial Statements

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Word from the Chairman of the Board of Directors

In the name of the Bank's Board of Directors and management, I am proud to present the financial statements, which represent the performance of the Leumi Group for 2019. The report reflects the successful implementation of the Leumi Group's strategy - as outlined by the Board of Directors - by the Bank's management and employees.

On June 30 2019, the Bank's Board of Directors appointed me Chairman of the Board of Directors, after having served as director since September 2014. I take this opportunity to once again thank the directors for the privilege and responsibility I have been entrusted with, and to thank Mr. David Brodet and Ms. Rakefet Russak Aminoach for leading the Board of Directors and management professionally and successfully in the face of the numerous challenges and transformations experienced by the banking system. I would also like to wish Hanan Friedman much success in the continued positioning of the Bank as a leader in Israel's banking system, in implementing business and digital innovation, and in the corporate social commitment to all stakeholders - including investors, customers, employees and the community in which we operate.

The role of Leumi's Chairman of the Board represents yet another professional and personal pinnacle. I feel very proud and honored to lead Leumi, as well as responsibility to ensure that the Bank's values will endure and continue to be expressed in every step taken by the Bank. I would like to stress my commitment to the Bank's success as a whole, as well as to the success of the employees and their personal and professional realization.

Leumi's uniqueness is expressed across multiple levels, which together render the Bank a cornerstone of Israeli economy and culture. First, the Bank has been blessed with gifted, dexterous and loyal employees, whose unrelenting efforts enable the Bank to achieve its challenging objectives. Its human resource is Leumi's most significant asset. The Bank's employees constitute a human mosaic, which represents the melting pot that is Israeli society, with its multitude of cultures, beliefs and religions. Second, the Bank's management is characterized by a unique culture which combines a continuous strife for business excellence with fairness and social responsibility for the community. This combination allows management to implement a groundbreaking business vision and policy for its customers' benefit while reinforcing, and contributing to, all segments of Israeli society, Third, Leumi is characterized by open thinking, tolerance, inclusion and taking into account the myriad opinions of its employees.

The Leumi Group has completed 2019 with a net income of NIS 3,522 million, which reflects a 9.8 percent return on equity, with most of its revenues and profitability coming from its core activities. In 2019, Leumi continued to distribute 40 percent of its net income as dividend to its shareholders, amounting to NIS 1.4 billion. In addition, during the year, the Bank executed a share buyback totaling NIS 700 million, bringing the total return amount to investors - in the form of dividends and share buyback - to NIS 2.1 billion. These results were achieved against a background of challenges and changes in the banking system - both internal and external, regulatory and technological, business and consumer-oriented - which require determination and adherence on the one hand, and open thinking and dynamic conduct on the other hand. These changes are expected to continue to take place in the future, and we at Leumi work persistently to adapt the business model to the changing reality.

In recent years, more and more technology-based banking solutions are on the offer (such as by BigTechs and FinTechs), representing varied and innovative collaboration opportunities while increasing competition - for the benefit of consumers. Some of these solutions are supervised by various regulators, with various levels of rigorousness; a fundamental, informed discussion should be held among all stakeholders - out of partnership and shared responsibility for the stability and robustness of the banking system and its effect on the economy and customers.

In 2019, the Leumi Group continued to champion enterprising, innovative banking for our customers, and I would like to point out some of the achievements and events in that period.

The continuous improvement in our relations with customers and the quality of service - both digitally and at the branches - are a top priority for us and constitute a guiding light in our implementation of Leumi's vision to champion enterprising, innovative banking for customers. During the year, we upgraded and launched Leumi Trade - which enables trading in securities in Israel and around the world, Invest - for trading in US stocks, Pay - for use by merchants, and Goodies - which features benefits customized to customers' preferences. In addition, we enabled customers to take out mortgages and schedule online meetings at branches through digital channels. While implementing digital processes to improve service, we continue to uphold our commitment towards providing efficient, dedicated service to our customers who prefer to obtain service at the branches deployed across Israel or through our call center.

In 2020, as part of improving our service to business customers, the Corporate Division completed the Power to Businesses project, with the purpose of improving service to customers and enabling quick response to their needs.

During 2019, the Bank launched the Operations Division, which concentrates the Bank's operations with the aim of improving the service experience, shortening the handling cycle and ensuring maximum professionalism for all customers. Concentrating the operations enables the business lines to focus on developing relations with, and solutions for, customers, reducing operational costs and mitigating operational risks. The activity of the Division is characterized by incorporating advanced technological tools complemented by the capabilities of human resources.

In late 2019, the Operations Division was transferred to the KESHEV facility in Lod, as part of transferring the entire headquarters to this facility, which will be completed in the coming years. In addition, as part of this transfer, beginning in 2020, some of the Board meetings are held at KESHEV. We consider it a great privilege to be partners to taking Lod forward both business-wise and socially.

The Leumi Group is very proud for having issued Tier-2 subordinated (CoCo) bonds in early 2020, for a total of USD 750 million. This measure reflects the faith, confidence and formidable reputation Leumi and its management enjoy in global markets. This unprecedented measure in the Israeli financial system reflects the robustness of the Israeli economy.

The Israeli economy continued to grow strong in 2019, with the GDP growing at a real rate of 3.3 percent and the shekel appreciating 7.8 percent over the US dollar, 3.9 percent over the pound sterling and 9.5 percent over the euro, while the Bank of Israel's interest rate remained unchanged at 0.25 percent. Representing a global trend, the US Federal Reserve cut the interest rate 3 times to a range of 1.50-1.75 percent. Following the global growth in manufacturing in 2019, the future is uncertain due to the outburst of the coronavirus, the effect of the Brexit and the global trade war.

As a financial group with impact on Israel's business and public culture, we regard our commitment to the community as a social and ethical anchor we will continue to cultivate as we have done since Leumi's inception. In this framework, we strive to reinforce education and to advance "tomorrow's generation" and the elderly, while maintaining a strategic partnership with numerous NGOs (such as Follow Me!, Latet, Paamonim, Adopt a Soldier, etc.). In 2019, Leumi invested a total of NI 48 million in the community, with more than 4,400 Leumi employees volunteering approx. 40,000 hours in a wide range of community outreach programs.

I would like to acknowledge the devotion and professionalism of the members of the Board of Directors, management and the Group's employees in achieving the goals which will ensure the continued positioning of Leumi as a leading entity in the Israeli banking system, providing the best, most innovative, professional and digital services to our customers.

This is a great opportunity for Leumi's Board of Directors, management and employees to express our deepest thanks to our sizable, devoted customer base - which represents all population groups across Israel - for their continued trust. We would also like to thank Leumi's investors for their ongoing trust in our business conduct and chosen path.

סאמר

Dr. Samer Haj Yehia

Chairman of the Board

February 26 2020

Report of the Board of Directors and Management

Overview, Goals and Strategy

Description of the Leumi Group's Business

Bank Leumi and its subsidiaries - one of the largest banking groups in Israel - has been in the banking business for the past 118 years. The Bank's predecessor, the Anglo-Palestine Company, was established in London in 1902 as a subsidiary of Otsar Hityashvuth HaYehudim Jewish Colonial Trust Limited, the predecessor of Otsar Hityashvuth HaYehudim Ltd.[1]

The Bank is defined as a banking corporation under the Banking (Licensing) Law, 1981, and holds a banking license pursuant to said law. As a “bank” and “banking corporation”, Bank Leumi is regulated and governed by a system of laws, ordinances and regulations, including, inter alia, the Banking Ordinance, the Bank of Israel Law, the Banking (Licensing) Law and the Banking (Service to Customer) Law, as well as by the Banking Supervision Department’s directives, rules, guidance and position papers. As a leading banking group in Israel, and in order to achieve adequate profitability over time, Leumi constantly evaluates the trends and changes in the business environment in which it operates and develops strategies that address these changes.

To implement its strategy, the Bank is organized into three main business lines, each focusing on a different market segment. Each business line specializes in the provision of banking and financial services to a specific customer segment, alongside the activities of the Bank’s foreign and Israeli subsidiaries.

1. **Retail banking** - focuses on providing banking services, mainly to households (including mortgages), high-net-worth customers (Private Banking) and small businesses. The structure of the retail banking line of business enables tailoring services to customers’ needs, by providing an integrative multi-channel customer experience, via the Bank’s branches and direct channels (e.g. mobile and e-banking, Leumi Call, information kiosks and ATMs).

2. **Corporate Banking** - focuses on providing services to Israeli and international corporations with varying scope of activities from a wide range of sectors. The Corporate and Commercial Banking business line aims to provide comprehensive financial and banking services to its various customers, while promoting the involvement of Leumi Group’s units in Israel and abroad as a means to expand its product and service offerings.

3. **Capital Markets and Financial Management** is engaged in the management of the Bank's own portfolio and operates the Bank's trading rooms aiming to provide services to customers' capital and financial market activities, including institutional customers. Non-financial investments are primarily managed through Leumi Partners.

In addition to the Bank’s activities of its lines of business, Leumi operates through its Israeli and foreign subsidiaries.

Activity of Israeli subsidiaries – In 2019, this mainly included non-financial investments, underwriting and investment banking activities carried out by Leumi Partners. Under the Law on Minimizing Market Centralization and Promoting Economic Competition, Leumi sold its holdings in Leumi Card in February 2019.

For more information regarding the said sale agreement, please see “Major Investees - Leumi Card” in the financial statements as at December 31 2018.

Activity of foreign subsidiaries – is carried out by the subsidiaries Leumi USA and Leumi UK, which mainly engage in extending loans to corporate and commercial customers, and small businesses. During the reporting period, activities were also carried out through Leumi Romania, whose sale was completed on July 10 2019. For more information, please see the section entitled “Major Investees – Bank Leumi Romania” below. The Bank also has a field office in China.

The Leumi Group operates in an increasingly competitive market across segments. Its main competitors are other Israeli banks. However, in certain operating segments, competition is on the rise and among the Bank’s competitors are foreign banks, nonbanking entities, other institutional entities and technology-based solutions (FinTech companies).

CPA firms Somekh Chaikin and Kost Forer Gabbay & Kasierer serve as joint independent auditors of the Bank. CPA firm Somekh Chaikin has served as the Bank’s CPA since 1950. CPA firm Kost Forer Gabbay & Kasierer, including former firms merged into

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[1] Otsar Hityashvuth HaYehudim Ltd. was the Bank’s controlling shareholder prior to the equalization of voting rights in 1991. In 1993, the State of Israel became the owner of most of the Bank’s shares pursuant to the Bank Shares Arrangement (Temporary Order) Law, 1993. On September 3 2007 the Company ceased to be an interested party in the Bank.

it, has served as the Bank's independent auditor since 1955, as far as is known. Kost Forer Gabbay & Kasierer bears its current name since 2003, following an acquisition.

Objectives and Business Strategy

Leumi's Vision

"To introduce proactive, innovative banking for the benefit of customers"

The vision is based on our aim to create a dynamic business environment which incorporates the Bank's values into product and technological innovation - a system where our customers can find the best and most suitable solution to their financial needs, while striving for adequate profitability, maintaining the Bank's stability and striking a balance with the needs of our employees and the shareholders' expectations. As a financial group with major impact on Israel's business and public culture, Leumi regards its commitment to the community as a social and ethical anchor it will continue to cultivate.

Leumi's Strategy

In view of the new trends and significant changes introduced into its operating environment, Leumi adopted two main courses of action, the combination of which is at the core of the Group's strategy. On the one hand, the Bank strives to adapt its traditional banking models without compromising the high-quality professional services it provides to all customer types according to their needs, preferences and willingness to adopt digital innovation; on the other hand, the Bank develops its "New Banking" need to streamline the Bank's activity and maximize capital utilization while meeting capital adequacy targets.

Adjusting the "traditional banking" model

For the last several years, Leumi has been working to make changes to its operating model. As part of this process, Leumi established its Operations Division, which coordinates the Bank's operational activities, with the aim of improving customer service and professionalism, while making the model more flexible, addressing redundancies and improving controls. The Group continues to implement the multi-year program of adapting the service model to a multi-channel environment.

As part of its strategy to reduce its international private banking activity, Leumi completed the closure of its foreign private banking offices.

Leumi's foreign activity mainly focuses on commercial-corporate loans and loans to small businesses through its US and UK subsidiaries. During the reporting period, activities were also carried out through Leumi Romania, whose sale was completed on July 10 2019. For more information, please see the section entitled "Major Investees – Bank Leumi Romania" below. In addition, the Bank has a representative office in China.

During the reporting period, the Bank focused on improving customer service, including for the elderly, inter alia by enabling customers to receive service at any branch, according to their business line, to schedule a meeting with the banker at a branch and to be serviced on time, as scheduled, without having to wait in line; the Bank also reinforced its call center, etc.

Expanding the "New Banking" model

In order to adapt the Bank's business model to the "New Banking" model during the reported year Leumi continued to expand its digital banking activities by continuously boosting its service offering and upgrading, among other things, its online and mobile banking services.

Furthermore, in 2017, Leumi launched the PEPPER banking app and the free PAY payments app, thereby meeting the principal milestones on its course to set up a mobile digital banking service.

PEPPER is a first of its kind pure e-banking platform in the Israeli banking industry and one of the first ones introduced worldwide; its users can fully manage their bank account via smartphones: They can open an account, carry out common transactions, including ordering credit cards and checkbooks, making money transfers, taking out loans, depositing into saving accounts, depositing checks, etc.

PEPPER's user experience is similar to Facebook's "Personal Feed"; it provides a dashboard summary of the account and recent transactions, featuring personalized content, consumer insights, comparisons with people with similar banking needs, expense summaries, weekly and monthly expenses analyses, live updates, consumer tips, and more – all in a simple and engaging language.

In 2018, the Leumi Group also founded Videa - an online investment portfolio management company. This is a groundbreaking move in Israel. Videa manages customers' funds using an innovative algorithm. It offers online, transparent, straightforward investment portfolio management, similarly to leading companies - such as Wealthfront - and leading banks worldwide. This move further supports the Leumi Group's leadership in the e-banking domain.

In September 2019, Leumi launched Pepper Invest, which allows customers to trade in foreign securities.

The investment app allows trading in leading stocks of large US companies, offering a straightforward fees and commissions scheme, which provides customers with full transparency.

The app is only available to Pepper customers over 18 years of age, and allows them to invest a minimum of NIS 50 to purchase fractional shares.

The said apps allow users to enjoy a personalized, innovative and advanced customer experience that meets their needs in a friendly, fair and personalized manner "anytime, anywhere".

The Group's strategy is implemented in accordance with the risk appetite approved by the Board of Directors, through the use of advanced processes and tools for managing diverse types of risk and preparing for implementation of regulatory requirements.

It should be noted that strategic planning involves a considerable degree of uncertainty; the implementation of long-term strategic plans depends on several variables, including the performance of markets in Israel and abroad, the security situation, and the effects of ongoing regulatory changes whose scope and foci in the long-term cannot be predicted with a high degree of certainty.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information."

Principal Trends in the Operating Environment

The Bank operates in a competitive and complex business environment which is influenced by diverse exogenous factors.

For more information regarding the macroeconomic environment in Israel and globally, please see the section entitled "Principal Developments in the Economy".

Increased Regulation

The effect of regulation on the banking sector continues to grow. The growing number of regulations and their complexity limit the sources of income, lead to increased compliance costs and require banks to constantly improve the levels of service and innovation. The regulatory changes are shifting the banking domain and are expected to continue to do so in the coming years.

The Bank copes with various international and domestic regulatory requirements, including Open Banking, Central Credit Register, the requirement to split credit card companies from major banks, the inter-bank transition reform, and compliance requirements such as FATCA, CRS, tax offense as a predicate offense, etc.

Thus, regulation has an immediate effect on several business and strategic decisions of the Bank, including with regard to the Bank's various areas of activity.

For more information regarding the regulatory environment and the consequences of the main regulatory changes, please see the section entitled "Legislation and Regulations Governing the Banking System".

The Consumer Environment

Economic, social and technological changes and especially the increased use of mobile technology, prolific data sharing on social media networks and the constant improvement in customer experience driven by high-tech companies and retailers which aim to increase the convenience, availability, simplicity, personalization, fairness and transparency of their services "anytime anywhere", continue to increase consumer awareness and materially change consumption habits.

Non-bank entities, mainly FinTech companies, continue to develop innovative solutions (products), mainly for the retail sector, but also for other areas of activity. These solutions set a new customer experience benchmark and compete with banks in various domains. More and more banks worldwide collaborate with FinTech companies in various areas of activity.

Furthermore, in recent years, we have witnessed an intensification of trends led by GAFA (Google, Amazon, Facebook, Apple), which are in the process of penetrating the field of direct financial services, typically focusing on payments but also looking into entering other domains. Various regulators are assessing how to react to this growing threat; it is therefore too soon to determine how regulation evolve in this area will.

The Competitive Environment

Local banks

The competition between the local banks continues to focus on households and on the small business and mid-market business sectors. The banks advertise and launch value propositions based on technological and digital innovation, customer loyalty programs and leading products (such as mortgages, investment consultation, etc.).

The competitive pressure and evolving technology lead the banks to invest tens, even hundreds of millions of shekels in innovation, in order to make banking services more readily accessible and convenient for customers. For example, in 2017, the large banks (Leumi, Poalim and Discount Bank) launched payment apps which allow anyone to transfer money instantly, free of charge, through their mobile phones, to another person, without requiring their account number or other information except for the beneficiary's telephone number. Another example is the digital mortgage product developed by Leumi - for customers of all banks.

Non-bank competitors

Loans by institutional entities – in recent years, we have witnessed a clear trend of increase in loans extended to the business sector by institutional entities, including funding for infrastructure projects and rental properties and even funding the construction of residential projects.

Furthermore, the activity of non-bank entities has expanded consistently as a result of recent regulatory changes, which encourage such non-bank financial entities to extend consumer and commercial loans. Some of these entities have received investments by institutional investors while others benefit from funding by institutional entities as well. It should be noted that currently, less than half of the credit extended to businesses in Israel is provided by domestic banks.

Fintech and BigTech solutions which compete with specific banking areas of activity - in recent years, with the growing use of advanced technologies by consumers (primarily through smartphones and tablet devices), the choice and quality of innovative initiatives/technologies offering financial services based on advanced technology have grown significantly. These initiatives speed up the adoption of innovation in the financial industry. While most do not compete head-to-head with the traditional banks, they certainly threaten to take a bite off the banks' market share in certain areas of activity.

BigTech companies such as Amazon, Google, Facebook, Alibaba, Microsoft, Apple, PayPal, Intuit and the likes may pose a significant risk to traditional banking models. These companies offer banking services (such as payments), without being defined as banks or being subjected to regulation similar to banks.

Implementation of the Open Banking initiative may accelerate these trends of promoting and encouraging the competitive environment to the banking system, including by the abovementioned non-bank entities.

Condensed Financial Information and Key Performance Indicators

Following are the key performance indicators (in %)

	As at December 31				
	2019	2018	2017	2016	2015
Key performance indicators:					
Return on equity	**9.8**	9.5	9.8	9.3	10.3
Return on average assets[(d)]	**0.8**	0.7	0.7	0.6	0.7
CET1 capital ratio	**11.88**	11.07	11.43	11.15	9.58
Leverage ratio[(e)]	**7.34**	7.05	6.94	6.77	6.27
Liquidity coverage ratio[(e)]	**123**	121	122	132	105
Ratio of income[(b)] to average assets[(d)]	**3.02**	3.05	3.05	2.97	3.29
Efficiency ratio	**56.8**	60.6	62.9	66.1	65. 9
Ratio of net interest income to average assets[(d)]	**1.92**	1.97	1.84	1.74	1.75
Ratio of fees and commissions to average assets[(d)]	**0.70**	0.91	0.92	0.90	1.00
Additional performance indicators:					
Ratio of total capital to risk-weighted components[(a)]	**15.67**	14.54	14.99	15.21	13.74
Equity (excluding non-controlling interests) to total assets ratio	**7.5**	7.7	7.4	7.1	6.9
Percentage of tax provision from net income, before taxes	**33.9**	33.0	35.2	38.3	38.6
Loan loss expenses (income) in respect of average outstanding loans to the public[(f)]	**0.22**	0.19	0.06	(0.05)	0.08
Of which: Expenses for collective provision for average outstanding loans to the public[(f)]	**0.20**	0.26	0.20	0.19	0.18
Net interest income to average balance of interest-bearing assets (NIM)	**2.14**	2.19	2.05	1.95	2.00
Total income to total assets under management by the Group[(b)(c)]	**0.86**	0.96	0.94	1.02	1.10
Total operating and other expenses to total assets under the Group's management[(c)]	**0.49**	0.58	0.59	0.67	0.73
Key credit quality indicators:					
Percentage of loan loss provision for loans to the public out of outstanding loans to the public[(f)]	**1.30**	1.41	1.36	1.49	1.57
Percentage of impaired non-performing loans to the public in arrears of 90 days or more out of outstanding loans to the public[(f)]	**1.24**	1.34	1.60	1.75	1.83
Percentage of net accounting write-offs out of average loans to the public[(f)]	**(0.24)**	(0.09)	(0.15)	(0.03)	(0.20)

(a) Equity - Including non-controlling interests and various adjustments.
(b) Total income - net interest income and noninterest income.
(c) Including off-balance-sheet operations.
(d) Average assets are the total assets - income-generating and others.
(e) For more information regarding the leverage ratio, please see "Equity and Capital Adequacy" under "Structure and Development of Assets, Liabilities, Equity and Capital Adequacy". For more information regarding the liquidity coverage ratio, please see section entitled "Risk Exposure and Management Thereof".
(f) Including balances classified as held-for-sale assets and liabilities. For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

Following are the main income statement data for the reporting year:

	2019	2018	2017	2016	2015
	In NIS millions				
Net income attributable to the banking corporation's shareholders	**3,522**	3,257	3,172	2,791	2,835
Interest income, net	**8,841**	8,890	8,046	7,526	7,118
Expenses (income) for loan losses	**609**	519	172	(125)	199
Noninterest income	**5,081**	4,871	5,342	5,328	6,297
Of which: Fees and commissions	**3,225**	4,121	4,052	3,887	4,092
Total operating and other expenses	**7,908**	8,337	8,415	8,500	8,836
Of which: Salaries and related expenses	**4,325**	4,544	4,591	4,778	4,938
Earnings per share attributable to the banking corporation's shareholders (in NIS):					
Basic earnings	**2.37**	2.15	2.08	1.85	1.92
Diluted earnings	**2.37**	2.15	2.08	1.84	1.92

Following are the main balance sheet data as at the end of the reporting year:

	2019	2018	2017	2016	2015
	In NIS millions				
Total assets	**469,134**	460,780	450,916	438,603	416,499
Of which: Cash and deposits with banks	**76,213**	80,113	81,333	74,757	60,455
Securities	**84,949**	74,571	77,299	77,201	69,475
Loans to the public, net[(a)]	**282,478**	272,602	268,764	261,957	261,399
Total liabilities	**433,260**	424,619	417,363	406,889	387,392
Of which: Deposits by the public	**373,644**	364,714	362,854	346,854	328,693
Deposits by banks	**6,176**	5,210	4,858	3,394	3,859
Bonds, promissory notes and subordinated bonds	**19,958**	17,798	15,577	22,640	21,308
The banking corporation's shareholders' equity	**35,406**	35,305	33,167	31,347	28,767
Additional data:					
Price per share (in NIS)	**25.1**	22.6	21.0	15.9	13.5
Dividend per share (in agorot)[(b)]	**95.339**	86.609	63.594	-	-
Average number of jobs[(c)]	**9,719**	11,208	11,623	12,257	13,059

(a) Including the credit for Leumi Card, which was classified as a held-for-sale asset since the balance sheet as at March 31 2018. For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

(b) The dividend per share is in respect of profit for each reporting year.

(c) Including average number of jobs at Leumi Card.

Forward-Looking Information in the Report of the Board of Directors and Management

The Report of the Board of Directors and Management includes, in addition to data relating to the past, information and assessments relating to the future, defined in the Securities Law, 1968 (hereinafter: The "Law") as "forward-looking information". Forward-looking information relates to a future event or matter, the materialization of which is uncertain and not under the Bank's exclusive control.

Forward-looking information is generally worded using the following words or phrases: "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "targets", "likely to impact", and additional phrases indicating that the matter in question is a forecast of the future rather than past facts.

Forward-looking information included in the Report of the Board of Directors and Management is based, inter alia, on forecasts of various matters related to economic developments in Israel and abroad, especially the currency markets and capital markets, legislation, regulators' directives, competitors' behavior, technological developments and human resources issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that, in reality, events may differ from those forecasted, users should treat information defined as "forward-looking" with caution, since reliance on such information involves risk and uncertainty and the future financial and business results of the Leumi Group may be materially different.

The Bank does not undertake to publish updates on forward-looking information included in its reports. This does not derogate from the Bank's reporting obligations pursuant to any law.

Main Risks Inherent in the Operations of the Bank

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.

This risk is embodied in the Group's core business and is reflected in its activities with corporate, commercial and retail customers, as well as in the Group's own portfolio activity. The Bank applies a comprehensive credit risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311.

For more information on the Bank's credit risk and its management, please see the section entitled "Credit Risks".

Market risks, including liquidity risk - Market risk is the risk of a loss arising from a change in the value of assets and liabilities due to changes in the price level in markets, interest rates, exchange rates, inflation rate and stock prices. Liquidity risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. Ongoing market risk management plays a supporting role in the achievement of the Bank's business objectives and assesses the expected profit against the damages and losses that may result from exposure to these risks. Management of market risk exposures is carried out on a dynamic basis in compliance with a set of restrictions prescribed by the Board of Directors and Risk Committees, in order to contain the effects of market exposures on fair value, accounting profit, capital reserves and liquidity position.

For more information on market risk and market risk management, please see the section entitled "Market Risks". For more information on liquidity risk and liquidity risk management, please refer to the "Liquidity Risk" section.

The Bank's function as a financial intermediary involves operational risks, including, inter alia, information security and cyber risks, IT and innovation risks, embezzlement and fraud risks, business continuity risks, legal and compliance risks.

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events, including cyber-events.

Operational risk management is carried out throughout the Group according to the industry's best practices; the Bank modifies its risk management tools in line with changes in the risk environment. In recent years, due to the rapid development of technology in general and specifically in the banking industry, and due to changes external to the Bank, information and cyber risks, technology and innovation risks and embezzlement and fraud risks have been on the rise. The Bank works continuously to enhance the management of these risks.

For more information regarding operational risk and the management thereof, please see the section entitled "Operational Risks".

Trends, Phenomena, Developments and Material Changes

Main Developments in the Israeli Economy[1]

In 2019, the Israeli economy grew at a real rate of 3.5 percent, compared to 3.4 percent in 2018. A relatively rapid expansion of private and public consumption (3.9 percent and 3.5 percent, respectively) was the main contributor, with a growth rate of 1.3 percent in investments in fixed assets.

The Global Economy

On January 20 2020, the International Monetary Fund (IMF) revised its global growth estimates for 2019 and its forecast for 2020. The revised projections show a slight moderation of 0.1 percent in the current forecast (compared with the previous one from October 2019) for a global growth rate of approximately 3.3 percent in 2020, compared to an estimate of 2.9 percent in 2019. The slow growth in 2019 was adversely impacted, inter alia, from the trade war between the US and China and its global impact and from the ongoing Brexit crisis in Britain. However, in the past months, there are indications of stabilization in global industrial activity and trade. In addition, the expansionary monetary policy exercised by many countries, the signing of the first phase of the trade agreement between the US and China and lower fears of Britain exiting the European Union without an agreement following the latest elections - have all mitigated risk compared with the situation in the beginning of the last quarter of the past year. Despite the aforesaid, geopolitical risks increased, especially between the US and Iran, which may affect the entire area (until now, for example, oil prices have not been significantly affected by this development) and many countries exhibit growing social tensions.

Global growth/real change rate
Source: IMF - World economic outlook/January 2020

	2019	2020
World	2.9%	3.3%
USA	2.3%	2.0%
Euro Zone	1.2%	1.3%
Japan	1.0%	0.7%
United Kingdom	1.3%	1.4%
China	6.1%	6.0%
India	4.8%	5.8%

The economic slowdown during the past year caused the world's largest central banks to exercise a highly expansionary monetary policy, otherwise - the IMF believes - the global growth rate in 2019 and 2020 would have been 0.5 percentage point lower. (About Israel's monetary policy in the context of forward guidance, please see under "Inflation and Monetary Policy" below). The US Federal Reserve, for example, lowered the interest rate 3 times during the second half of the year (to the 1.50-1.75 percent range) and currently seems to be on "standby". The long-term (10-year) interest rate in the US was up during the last quarter of 2019 after its third quarter low, against the backdrop of the aforementioned indicators of increasing stability and certain decrease in risk, which have lowered demand for T-bonds as "safe assets" at a time of growing risk. On the other hand, the weight given to the US budget over the yields to maturity seems to have decreased.

The State Budget and its Funding

In 2019, the state budget deficit reached NIS 52.2 billion (3.7 percent of the GDP) compared with a deficit of NIS 38.7 billion (about 2.9 percent of the GDP) in 2018. The deficit target for the entire 2019 was NIS 40.2 billion, 2.9 percent of the GDP. The difference between the planned and implemented budget stemmed from lower-than-projected income of NIS 9.2 billion and higher-than-expected expenses of NIS 2.8 billion.

[1] Data sources: Publications by the Central Bureau of Statistics, Bank of Israel, Ministry of Finance, Tel Aviv Stock Exchange, the IMF.

In January 2019, the Minister of Finance submitted to the government a revised forecast of the income and expenses for 2019 which brought about a deficit of 3.6 percent of GDP (approx. NIS 50 billion). This signified a deviation of 0.7 percent of GDP over the maximum deficit permitted by law. The Ministry of Finance assessed, at the time, that if the forecast materialized during the year, various adjustments would be required to reduce the deficit and maintain fiscal stability.

Against the backdrop of the deviation from the allowed budget deficit in 2019 and the failure to approve the 2020 budget, with the Knesset elections set to take place in March 2 2020, the Governor of the Bank of Israel said on January 9 2020 that the "fiscal policy is expected to have a significant effect on activity in the coming months - in the first half of 2020, the budget is expected to be restrictive and entities in the business sector rendering services to the government may be affected by it. In addition, there is uncertainty regarding the policy which will be in effect following the elections, which may also be restrictive if the required measures are taken to deal with the growing deficit. As long as the political and fiscal uncertainty persists, it underscores the need to maintain the expansionary monetary policy in order to support growth".

Foreign Trade and Capital Flows

In 2019, Israel's trade deficit reached USD 23.7 billion versus a USD 21.5 billion deficit in 2018. The increase in the trade deficit arises from a slight increase in the stability of imported goods combined with a decrease in exported goods. Contrary to the goods account deficit, the service account shows continued surplus. According to data for the first 9 months of the year (data for the entire year have yet to be published) the surplus grew from USD 13.1 billion in January-September 2018 to 17.1 in January-September 2019, a significant increase of USD 4 billion.

In the first eleven months of the past year, nonresidents' direct investments in Israel - through the banking system - totaled approximately USD 8.9 billion, while nonresidents' financial investments through marketable securities in Israel totaled approximately USD 0.4 billion. On the other hand, total foreign investments by Israeli residents (direct investments through banks in Israel and financial investments in tradable securities) totaled approximately USD 8.8 billion, so that inbound investments were slightly higher than outbound investments in foreign currency. As a result, the overall picture, although partial in the absence of full data for the entire 2019, is of foreign currency inflows both from the current account and financial account (net).

Exchange Rate and Foreign Exchange Reserves

In 2019, the shekel appreciated against the USD by approximately 7.8 percent, and approximately 9.6 percent against the euro. When examining the effect of macroeconomic factors, it seems that a possible explanation for this significant appreciation is Israel's increase in the current account surplus of the balance of payments. According to the Central Bureau of Statistics' estimates, as of December 31 2019, the balance of payments' current account - which includes the goods account and the services account (including security imports), the income account from investments and labor and current foreign transfers account totaled a USD 14.8 billion surplus in 2019 (approx. 3.7 percent of GDP) compared to a USD 9.5 surplus (approx. 2.6 percent of GDP) in the previous year.

The Bank of Israel's foreign exchange reserves totaled, as at the end of December 2019, approximately USD 126.0 billion vs. approximately USD 115.3 billion as at the end of December 2018.

In the past year, the Bank of Israel purchased foreign currency in the amount of USD 3.9 billion, with most of the amount (NIS 3.8 billion) purchased during the last quarter of the year, after the announcement regarding changing the use of the policy tool and moving from a system-wide tool of interest rate to using a more focused tool of foreign currency purchases.

Inflation and Monetary Policy

The "in lieu" consumer price index (CPI) was up 0.6 percent in 2019, a rate that is under the lower band of the government's price stability target (1-3 percent). The main contributor to the CPI increase was the housing item, which was up 2.1 percent, contributing approx. 0.5 percentage points to the CPI increase.

In the past year, the "known" CPI was up 0.3 percent.

The Bank of Israel interest rate, which is 0.25 percent, remained unchanged during the past year. However, there was a textual change in the Monetary Committee's interest rate decision of January 9 2020 compared with the previous forward guidance. The announcement now reads as follows: "The Monetary Committee's assessment is that in view of the inflation environment in Israel, the monetary policies of the major central banks, developments in the global economy and the risks to the local economy and the development in the exchange rate, it will be necessary to leave the interest rate at its current level for a prolonged period, or to reduce it in order to support a process at the end of which inflation will stabilize around the midpoint of the target range, and so that the economy will continue to grow strongly. Furthermore, the Committee is taking additional steps, as necessary, to make monetary policy more accommodative."

Israel's Capital Market

The Shares and Convertible Securities Index was up by 17.8 percent in 2019, following a 3.9 percent decrease in 2018, against the backdrop of similar trends in stock exchanges around the world, particularly in the US.

The average daily trade volume of shares and convertibles was down 18.4 percent in 2019 compared with the 2018 average, totaling NIS 1.300 billion.

The government bond market in 2019 was characterized by sharp appreciation, in view of the expectations for continued expansionary monetary policy in Israel and around the world. The CPI-Linked Government Bond Index was up approximately 10.3 percent, while the non-linked Government Bond Index was up by approximately 8.3 percent.

The Non-Government (corporate bonds) CPI-Linked Bond Index in 2019 was up by approximately 7.9 percent, following an approximately 0.8 percent decrease in 2018.

Financial Assets Held by the Public

The value of the public's financial assets portfolio as at the end of November 2019 was NIS 4,045 billion, a 10.1 percent increase compared to December 2018. The weight of the shares (Israeli and foreign) out of the Israeli public's financial asset portfolio was 24.7 percent as at the end of November 2019, compared to 22.6 percent at the end of December 2018, mainly on the back on significant increases in share prices.

Major and Emerging Risks in the Operating Environment

In recent years, major emerging risks arise from the Bank's operating environment, which has been highly affected by risks related to regulation and legislation, a volatile macro-economic environment, and changes in the business model - including the transition to digital "new banking" and new social and consumer trends. In recent years, due to the changes in the competitive environment, consumer environment, regulatory environment and technological environment, non-financial risks have been on the rise.

Following are the most material leading and emerging risks:

- Strategic risk.
- Information security and cyber risk.
- Technological and innovation risk.
- Regulatory risk.
- Conduct risk.
- Macroeconomic risk.

For more information regarding these risks, please see section "Risk Exposure and Management Thereof".

Main Changes in the Reporting Year

Leumi Card[1]

In accordance with the provisions of the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel and after reviewing the various alternatives, and following a procedure for the disposal of the Bank's interests in the company - an agreement was signed between the Bank and Azrieli and Warburg Pincus Financial Holdings (Israel LTD.), a corporation under the control of investment fund Warburg Pincus, for the sale of the Bank's entire interests in Leumi Card. On February 25 2019, the sales transaction was completed, after the conditions precedent thereto were fulfilled.

Following is the consolidated pro forma income statement, net of the effect of Leumi Card[(a)]

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Interest income	**11,437**	11,030	9,842
Interest expenses	**2,596**	2,447	2,021
Interest income, net	**8,841**	8,583	7,821
Expenses for loan losses	**609**	403	103
Interest income, net after loan loss expenses	**8,232**	8,180	7,718
Noninterest income			
Noninterest finance income	**1,686** [(b)]	684	915
Fees and commissions	**3,225**	3,304	3,258
Other income	**170**	68	370
Total noninterest income	**5,081**	4,056	4,543
Operating and other expenses			
Salaries and related expenses	**4,325**	4,245	4,256
Buildings and equipment - Maintenance and depreciation	**1,521**	1,495	1,508
Other expenses	**2,062**	1,904	1,897
Total operating and other expenses	**7,908**	7,644	7,661
Profit before taxes	**5,405**	4,592	4,600
Provision for profit tax	**1,830**	1,504	1,626
Profit after taxes	**3,575**	3,088	2,974
The banking corporation's share in associates' profits (losses), after tax effect	**(15)**	30	85
Before attribution to non-controlling interests	**3,560**	3,118	3,059
Attributable to non-controlling interests	**(38)**	(19)	-
The banking corporation's share in Leumi Card's results	**-**	158	113
Attributable to the Bank's shareholders	**3,522**	3,257	3,172

(a) Excluding offsetting of inter-company transactions between the Bank and Leumi Card.
(b) Including gain on the sale of Leumi Card in the amount of NIS 314 million (net of tax effect).

Comment: In 2019, the return on equity net of the effect of Leumi Card was 9.2 percent and 9.0 percent in 2018. Less the effect of Leumi Card on the return on equity in the fourth quarter of 2018 was 7.9 percent.
In 2019, the efficiency ratio net of the effect of Leumi Card was 58.1 percent and 60.5 percent in 2018. The efficiency ratio in the fourth quarter of 2018 excluding the effect of Leumi Card was 63.3 percent.

For more information regarding the held-for-sale operation (comparative results), please see the section entitled "Main Changes in the Reporting Period" and Note 36F to the financial statements as at December 31 2018.

1 Currently Max IT Finance Ltd. (hereinafter: "Leumi Card").

Voluntary Retirement Plan

As part of the understandings underlying the collective agreement signed on July 29 2019, the Bank announced its intention to increase its efficiency by 700 positions by the end of 2020. To implement the plan, the Bank's Board of Directors approved a voluntary retirement plan, under which approx. 400 employees retired by the end of 2019.

For more information, please see Note 23A.For more information, please see the immediate report dated June 25 2019.

Issuance of Additional Subordinated Bonds to Institutional Investors Outside Israel

On January 29 2020, the Bank issued - for the first time in the Israeli banking system - a total of USD 750 million in Subordinated Notes Series Leumi $ 2031 to institutional investors. The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

For more information on the subject, please see under "Shelf Prospectus and Bonds Issue" and an immediate report dated January 29 2020.

Material Changes in Financial Statement Items

Net income attributable to the banking corporation's shareholders was NIS 3,522 million in 2019, compared with NIS 3,257 million in the same period last year, an 8.1 percent increase.

Return on equity in 2019 was approx. 9.8 percent. Return on equity in 2018 was approx. 9.5 percent. Less the effect of Leumi Card, the return on equity in the reporting period was 9.2 percent, compared to 9.0 percent in the corresponding period last year.

The improvement in the return on equity occurred despite the CPI increasing by 0.3 percent in 2019 vs. 1.2 percent in 2018.

The CET1 capital to risk components ratio as at September 31 2019 was 11.88 percent. The total capital ratio as at December 31 2019 was 15.67 percent. For more information, please see Note 25B.

On February 26 2020, the Bank's Board of Directors approved a dividend distribution amounting to 40 percent of the net income of Q4 2019. The dividend amount approved for the quarter totals approximately NIS 297 million. The accumulated dividend for 2019 totals NIS 1,409 million. As part of the Bank's share buyback plan - which was approved in May 2019 and ended on November 21 2019 - NIS 700 million in shares was bought. In addition, the Board of Directors approved an additional share buyback of the Bank of no more than NIS 700 million. On February 26 2020, the Bank's Board of Directors approved an additional share buyback plan for a total of up to NIS 700 million. For more information, please see the section entitled "Equity and Capital Adequacy" below.

Net interest income in 2019 was up by NIS 258 million, a 3.0 percent increase over the Pro Forma Information Excluding Leumi Card in the same period last year. The increase in net interest income mainly arises from an increase in the average outstanding loans to the public.

Loan loss expense for 2019 reflects an expense rate of approx. 0.22 percent of the average outstanding loans to the public vs. a 0.15 percent expense rate in the same period last year, based on the Pro Forma Information Excluding Leumi Card. The increase in the expense rate stems mainly from increase in the scope of activity, decrease in collections and reclassification.

Noninterest finance income totaled NIS 1,686 million compared to NIS 682 million in the corresponding period last year. Income in 2019 was affected by the sale of Leumi Card for NIS 314 million, by the effect of the sale of Super-Pharm for a total of NIS 71 million, by the effect of the sale of ABS and a revaluation totaling of NIS 52 million, by the capital market and by the effect of derivatives and exchange rate differentials. The income in the corresponding period last year included gain on the sale of Avgol Industries totaling approximately NIS 121 million, gain on the sale of Direct Financing totaling NIS 96 million and gain on the sale of the Tel Aviv Stock Exchange totaling approximately NIS 47 million.

The operating and other fees and commissions were down by NIS 79 million in 2019 - based on the Pro Forma Information Excluding Leumi Card in the same period last year, mostly as a result of fees and commissions for distribution of financial products and account management fees.

Other income totaled NIS 170 million compared to NIS 68 million last year. Most of the increase stems from a gain on the sale of buildings.

Operating expenses were up in 2019 - based on the Pro Forma Information Excluding Leumi Card in the same period last year - by NIS 264 million, a 3.5 percent increase.

Salaries and related expenses were up by NIS 80 million, mostly on the back of higher provisions for bonuses, which also include the one-time bonus granted on the signing of the collective salary agreement. Other operating expenses increased by NIS 158 million, mainly due to an accounting loss of NIS 54 million, recorded due to the exchange of bonds series, as detailed in the section entitled "Equity and Capital Adequacy", increase in pension costs and increase in advertising costs.

The efficiency ratio for 2019 reached 56.8 percent. Net of the effect of the gain on the sale of Leumi Card, the efficiency ratio in the first quarter was 58.1 percent, compared with 60.5 percent based on the Pro Forma Information Excluding Leumi Card in the same period last year.

Basic earnings per share attributable to shareholders of the banking corporation in 2019 totaled NIS 2.37 compared to NIS 2.15 per share in 2018.

For more information regarding quarterly results, please see the appendix "Consolidated Income Statement - Multi-Quarter Information".

Material Developments in Income, Expenses and Other Comprehensive Income[1]

Interest income, net

Net interest income of the Leumi Group, based on the Pro Forma Information Excluding Leumi Card, increased in 2019 by approx. NIS 258 million, a 3 percent increase over 2018. The increase in income in the said amount is despite the NIS 55 million effect of the CPI on the interest income in 2019, compared to NIS 258 million in the previous year. The increase in interest income mainly arises from an increase in the average outstanding loans to the public and an increase in the return on interest-bearing assets in the non-linked shekel segment.

The ratio of net interest income to the average balance of interest-bearing assets (net yield on interest-bearing assets) is 2.14 percent, compared with 2.13 percent in the corresponding period last year, based on the Pro Forma Information Excluding Leumi Card. The ratio in the corresponding period last year, including Leumi Card, is 2.19 percent.

Total **interest spread** in 2019 is 1.91 percent, compared with 1.87 percent in the same period last year, based on the Pro Forma Information Excluding Leumi Card. The ratio in the corresponding period last year, including Leumi Card, is 1.93 percent.

Hereinafter is the interest spread information by segment, in respect of the Pro Forma Information Excluding Leumi Card:

In the non-linked shekel segment, the total interest spread in 2019 was 2.22 percent, compared with 2.11 percent in the corresponding period last year. In the foreign exchange segment, the interest spread was 0.79 percent, compared with 0.79 percent in the corresponding period last year. In the CPI segment, the total interest rate spread was 0.94 percent, compared with 1.06 percent in the corresponding period last year.

For more information regarding income and interest expenses, please see “Appendix 1 - Income and Expense Rates and Analysis of Changes in Interest Income and Expenses”.

[1] The financial statements were drawn up in reported values. In 2019, the “known” CPI was up 0.3 percent. The shekel was nominally devalued against the US dollar by 7.8 percent and against the euro - by 9.6 percent. As of December 31 2019, the representative exchange rate of the US dollar was NIS 3.456.
For more information, please see Note D.1.

Expenses for loan losses

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Expense (income) for loan losses - Specific	**59**	(191)	250	+
Expenses for loan losses - Collective	**550**	710	(160)	(22.5)
Total expense for loan losses	**609**	519	90	17.3
Of which:				
Loan loss expenses in respect of commercial credit risk	**454**	247	207	83.8
Loan loss expenses for credit risk in respect of housing loans	**22**	32	(10)	(31.3)
Loan loss expenses for other credit risk for private individuals	**134**	240	(106)	(44.2)
Loan loss income in respect of credit risk to banks and governments	**(1)**	-	(1)	-
Total expense for loan losses	**609**	519	90	17.3
Ratios (in %):[(a)]				
Percentage of specific expense (income) for loan losses out of the average outstanding loans to the public	**0.02**	(0.06)		
Percentage of expenses in respect of loan losses out of the average outstanding loans to the public[(a)]	**0.22**	0.19		
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	**(0.24)**	(0.09)		
Percentage of net write-offs for loans to the public out of the outstanding loan loss provisions for loans to the public	**(17.95)**	(6.43)		

(a) 2018 data, net of the effect of Leumi Card: Percentage of loan losses specific income out of the average outstanding loans to the public was (0.05), percentage of gross loan losses expense (income), out of the average recorded outstanding loans to the public - 0.15, percentage of net write-offs, out of the average outstanding loans to the public - (0.07), percentage of net write-offs for loans to the public out of the loan loss provision for loans to the public - (4.90).

For more information regarding loan losses expenses, please see “Disclosure, Measurement, Classification and Loan Loss Provision Rules” under “Credit Risks”, Note 13 and Note 30.

Noninterest income

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Noninterest finance income	**1,686**	682	1,004	+
Fees and commissions	**3,225**	4,121	(896)	(21.7)
Other income	**170**	68	102	+
Total	**5,081**	4,871	210	4.3

Breakdown of noninterest finance income

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Income for derivatives and net exchange rate differentials for non-trading activities	**709**	92	617	+
Gains (losses) on sale of available-for-sale bonds, net	**191**	(10)	201	+
Gains and dividend from not held-for-trading equity securities[c][d]	**185**	171	14	8.2
Gains on sale of investees' equity[b]	**287**	223	64	28.7
Gains on sold loans, net	**15**	-	15	+
Net income in respect of derivatives for trading activities	**148**	146	2	1.4
Realized and unrealized gains from adjustments to fair value of held-for-trading bonds and equity securities, net[a]	**151**	60	91	+
Total	**1,686**	682	1,004	+

(a) Realized and unrealized gains from fair value adjustments of held-for-trading bonds and equity securities, net, mainly include the effect of exchange rate differentials.
(b) 2019 includes gains of NIS 314 million from the sale of Leumi Card (before tax effect) and NIS 71 million from the sale of Super-Pharm (before tax effect), less loss of NIS 99 million on the sale of the Romanian office.
(c) 2019 includes a gain on the sale of ABS equity and revaluation of approx. NIS 52 million (before tax effect).
(d) As at December 31 2018 - presented as available-for-sale equity securities.

Breakdown of fees and commissions

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Account management	**690**	716	(26)	(3.6)
Activity in securities and certain derivatives	**637**	638	(1)	(0.2)
Credit cards	**310**	1,129	(819)	(72.5)
Credit handling	**197**	186	11	5.9
Financial products distribution fees and commissions	**296**	316	(20)	(6.3)
Exchange differences	**361**	361	-	-
Loan fees and commissions	**431**	454	(23)	(5.1)
Other fees and commissions	**303**	321	(18)	(5.6)
Total fees and commissions	**3,225**	4,121	(896)	(21.7)
Total fees and commissions net of the effect of Leumi Card	**3,225**	3,304	(79)	(2.4)

The year-on-year decrease of approx. 2.4 percent in 2019 fees and commissions in respect of the Pro Forma Information Excluding Leumi Card is mainly due to account management fees on the backdrop of the transition to digital channels and regulation, and to financial product distribution fees. Income from fees and commissions constitutes 40.8 percent of operational and other expenses compared to 43.2 percent in the same period last year.

Breakdown of other income

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Gains on reserve for severance pay fund	**22**	8	14	+
Other income, including on sale of buildings and equipment	**148**	60	88	+
Total	**170**	68	102	+

The increase in other income arises mainly from the sale of branches during 2019.

Operating and Other Expenses

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Salaries and related expenses	**4,325**	4,544	(219)	(4.8)
Depreciation and amortization	**600**	571	29	5.1
Maintenance expenses for buildings and equipment	**921**	998	(77)	(7.7)
Other expenses	**2,062**	2,224	(162)	(7.3)
Total operating and other expenses	**7,908**	8,337	(429)	(5.1)
Total operating and other expenses net of the effect of Leumi Card	**7,908**	7,644	264	3.5

Net operating and other expenses of the Leumi Group in 2019 was NIS 7,908 million, a 3.5 percent increase.

The operating expenses constitute 56.8 percent of total income, compared with 60.6 percent in the same period last year. Less the effect of the sale of Leumi Card and based on the Pro Forma Information Excluding Leumi Card, the efficiency ratio in 2019 is 58.1 percent compared to 60.5 percent in the corresponding period last year.

Total operating and other expenses constitute 1.69 percent of the balance sheet, compared with 1.81 percent in the same period last year. Net of the effect of Leumi Card and based on the Pro Forma Information the operating and other expenses in 2018 constitute 1.66 of the balance sheet.

Salary expenses

	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Salaries and related expenses	**3,969**	4,196	(227)	(5.4)
Pension, severance and retirement expenses	**356**	348	8	2.3
Total salary expenses	**4,325**	4,544	(219)	(4.8)
Total salary expenses excluding Leumi Card	**4,325**	4,245	80	1.9

Salaries and related expenses constitute 54.7 percent of total operating expenses, compared with 54.5 percent in the same period last year. Net of the effect of Leumi Card and based on the Pro Forma Information, the salary and related expenses constitute 55.5 of the operating expenses. The increase in salary expenses in respect of the Pro Forma Information Excluding Leumi Card is mostly on the back of higher provisions for bonuses, which also include the one-time bonus granted on the signing of the collective salary agreement.

Operating and other expenses (excl. salaries)

In addition to salary expenses as detailed above, the depreciation expenses, buildings' maintenance and other expenses totaled NIS 3,583 million in the reporting period, compared with NIS 3,793 million in the corresponding period last year, a 5.5 percent decrease. Operating and other expenses increased mainly due to an accounting loss of NIS 54 million, recorded due to the exchange of bonds series, increase in pension costs and increase in advertising costs.

Tax expenses

The Leumi Group's provision for income tax in 2019 totaled NIS 1,830 million, compared with NIS 1,619 million in 2018. The rate of provision for pre-tax profits in 2019 was 33.9 percent compared with 33.0 percent in 2018, a 0.9 percentage point increase.

Expenses and Investments Relating to the IT Function

Set forth below is a breakdown of expenses and investments relating to the IT function

	For the year ended December 31 2019			
	In NIS millions			
	Software	Hardware[a]	Other	Total
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	437	3	-	440
Expenses for acquisition or usage licenses not capitalized to assets	163	26	28	217
Outsourcing expenses	47	39	4	90
Depreciation expenses	395	94	9	498
Other expenses	44	22	2	68
Total expenses	1,086	184	43	1,313
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	300	-	-	300
Outsourcing costs	179	-	-	179
Costs of acquisition or usage licenses[b][c]	154	80	-	234
Costs of equipment, buildings and land	-	-	5	5
Total costs	633	80	5	718
Balances of assets for the IT function				
Total amortized cost	880	197	313	1,390

	For the year ended December 31 2018			
	In NIS millions			
	Software	Hardware[a]	Other	Total
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	486	25	-	511
Expenses for acquisition or usage licenses not capitalized to assets	173	31	31	235
Outsourcing expenses	76	31	4	111
Depreciation expenses	363	91	9	463
Other expenses	49	28	7	84
Total expenses	1,147	206	51	1,404
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	256	-	-	256
Outsourcing costs	167	-	-	167
Costs of acquisition or usage licenses[b][c]	146	124	-	270
Costs of equipment, buildings and land	-	-	9	9
Less held-for-sale assets	(73)	(25)	-	(98)
Total costs	496	99	9	604
Balances of assets for the IT function				
Total amortized cost	944	270	343	1,557
Less amortized cost of held-for-sale assets[d]	(205)	(48)	(2)	(255)
Total amortized cost	739	222	341	1,302

(a) Including communications infrastructures.
(b) Costs of acquisition or usage licenses for the IT function, which were not classified as property, plant and equipment (costs of equipment, buildings and land) in the financial statements, but rather as a prepaid expense.
(c) Including purchases of software and hardware licenses for usage by all banking corporation's divisions.
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.

Following is a Summary of the Comprehensive Income Statement:

	Other comprehensive income (loss) before attribution to non-controlling interests							
	Adjustments for presentation of available-for-sale securities at fair value	Adjustments from trans-lation[a], net after the effect of hedges[b]	Net gains (losses) for cash flow hedges	The Bank's ownership interests in other compre-hensive income of investees accounted for under the equity method	Adjustments in respect of employee benefits[d]	Total	Other compre-hensive income (loss) attributable to non-controlling interests	Other compre-hensive income (loss) attributable to the Bank's share-holders
	In NIS millions							
Balance as at January 1 2017	(60)	(54)	-	(33)	(2,169)	(2,316)	(4)	(2,312)
Net change during the year	164	(116)	-	(6)	(781)	(739)	-	(739)
Balance as at December 31 2017	104	(170)	-	(39)	(2,950)	(3,055)	(4)	(3,051)
Net change during the year[c]	(421)	110	-	30	1,187	906	18	888
Sale of equity in subsidiaries to non-controlling interests	-	(13)	-	-	-	(13)	(44)	31
Balance as at December 31 2018	(317)	(73)	-	(9)	(1,763)	(2,162)	(30)	(2,132)
Net change during the year	**968**	**(126)**	**(2)**	**(4)**	**(2,208)**	**(1,372)**	**(17)**	**(1,355)**
Sale of subsidiaries' equity	**-**	**-**	**-**	**-**	**23**	**23**	**4**	**19**
Cumulative effect for first-time application of US GAAP[e]	**(27)**	**-**	**-**	**-**	**-**	**(27)**	**-**	**(27)**
Balance as at December 31 2019	**624**	**(199)**	**(2)**	**(13)**	**(3,948)**	**(3,538)**	**(43)**	**(3,495)**

(a) Adjustments from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

(b) Net gains (losses) for hedging of a net investment in foreign currency.

(c) Including balances classified as held-for-sale assets. For more information, please see Note 36F to the financial statements as at December 31 2018.

(d) The adjustments for employee benefits are net of the adjustments in respect of plan assets, including the effect of the transition to an annuity paying provident fund for the retirees.

(e) Cumulative effect in respect of first-time application of US GAAP for banks on financial instruments (ASU 2016-01), including related revisions. Please see Note 1.X.

Structure and Development of Assets and Liabilities, Equity and Capital Adequacy

The **total assets** of the Leumi Group as at December 31 2019 amounted to NIS 469.1 billion, compared to NIS 460.8 billion at the end of 2018, a 1.8 percent increase; as at December 31 2019, the Bank's total assets amounted to NIS 449.3 billion compared with NIS 433.5 billion at the end of 2018, a 3.7 percent increase.

The value of assets denominated in, and linked to, foreign currency out of the Group's total assets is approximately NIS 101.1 billion, approx. 21.6 percent of total assets. In 2019, the shekel appreciated against the US dollar by 7.8 percent, appreciated against the euro by 9.6 percent, and appreciated against the pound sterling by 4.9 percent. The change in the shekel's exchange rate against all foreign currencies contributed to a 1.6 percent decrease in the Group's total assets.

Total assets under the Group's management – total balance sheet and securities portfolios of customers, provident funds and study funds for which operational management and deposit management services are provided - reached NIS 1,621 billion, compared with a total of NIS 1,434 billion as at the end of 2018, a 13.0 percent increase.

1. Following are the changes in the main balance sheet items:

	Consolidated			
	December 31			
	2019	2018	Change	
	In NIS millions			In %
Total assets	**469,134**	460,780	8,354	1.8
Cash and deposits with banks	**76,213**	80,113	(3,900)	(4.9)
Securities	**84,949**	74,571	10,378	13.9
Loans to the public, net[(a)]	**282,478**	272,602	9,876	3.6
Buildings and equipment	**3,043**	2,853	190	6.7
Deposits by the public	**373,644**	364,714	8,930	2.4
Deposits by banks	**6,176**	5,210	966	18.5
Bonds, promissory notes and subordinated bonds	**19,958**	17,798	2,160	12.1
The Bank's shareholders' equity	**35,406**	35,305	101	0.3

(a) Including the credit for Leumi Card, which has been classified as a held-for-sale asset in 2018. For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

2. Changes in the main off-balance-sheet items

	Consolidated			
	December 31			
	2019	2018	Change	
	In NIS millions			In %
Documentary credit, net	**727**	1,359	(632)	(46.5)
Loan guarantees, net	**5,219**	5,143	76	1.5
Guarantees for apartment buyers, net	**21,230**	18,655	2,575	13.8
Guarantees and other liabilities, net	**16,099**	16,231	(132)	(0.8)
Derivatives[(a)]	**763,365**	737,779	25,586	3.5
Options - All types	**218,622**	208,519	10,103	4.8
Customers' off-balance-sheet monetary assets	**1,152,027**	972,855	179,172	18.4

(a) Including forward transactions, financial swap contracts, swaps, futures and credit derivatives.

For more information, please see Note 28A and 28B.

Loans to the Public, Net

Net loans to the public in the Leumi Group as at the end of 2019 totaled NIS 282.5 billion versus NIS 272.6 billion as at the end of 2018, a 3.6 percent increase. Net of the effect of the change in the shekel's exchange rate against all foreign currencies, the credit as at December 31 2019 increased year-on-year by 4.8 percent.

Total loans to the public, net constitute 60.2 percent of total assets, compared with 59.2 percent at the end of 2018.

In addition to loans to the public, the Group invests in corporate securities, which total - as at the end of 2019 - NIS 18,141 million compared to NIS 20,487 million as at the end of 2018, and which also embody credit risk.

The Group's loans to public in its domestic operations totaled NIS 259.5 billion as at the end of 2019, compared with NIS 247.2 billion in the same period last year.

Net non-linked shekel loans to the public constitute as at December 31 2019 approx. 70.1 percent of total loans compared with 68.6 percent in the same period last year. Linked loans constitute, as at December 31 2019, 15.5 percent of total loans, compared with 15.4 percent as at December 31 2018.

Following are the changes in loans to the public, after loan loss provision by main economic sectors[(a)]

	December 31			
	2019	2018	Change	
	In NIS millions			In %
Private individuals - Housing loans	**83,954**	80,412	3,542	4.4
Private individuals - Other	**27,398**	27,412	(14)	(0.1)
Construction and real estate	**62,187**	58,676	3,511	6.0
Commercial	**28,212**	28,673	(461)	(1.6)
Industry	**20,134**	19,540	594	3.0
Other	**60,593**	57,889	2,704	4.7
Total	**282,478**	272,602	9,876	3.6

(a) Data as at December 31 2018 do not include the credit for Leumi Card, which was classified as a held-for-sale asset in 2018. For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

For more information regarding changes in loans and credit risk by economic sector, please see "Credit Risks".

Troubled Credit Risk

Following is the troubled credit risk after specific and collective provisions

	December 31					
	2019			2018		
	Balance-sheet	Off balance-sheet	Total	Balance-sheet	Off balance-sheet	Total
	In NIS millions					
Impaired non-performing credit risk, net	**1,997**	**253**	**2,250**	2,181	86	2,267
Substandard credit risk, net	**333**	**108**	**441**	297	45	342
Special mention credit risk, net	**2,106**	**271**	**2,377**	3,137	743	3,880
Less troubled credit risk of balances classified as held-for-sale assets[(a)]	-	-	-	(293)	(4)	(297)
Total	**4,436**	**632**	**5,068**	5,322	870	6,192

(a) For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

	December 31	
	2019	2018
	In NIS millions	
Troubled credit risk - Commercial	**4,920**	6,168
Troubled credit risk - Retail	**1,460**	1,889
Less troubled credit risk of balances classified as held-for-sale assets[(a)]	-	(372)
Total	**6,380**	7,685
Balance of loan loss provision	**1,312**	1,568
Less balances of loan loss provision of balances classified as held-for-sale assets[(a)]	-	(75)
Troubled credit risk after loan loss provision	**5,068**	6,192

(a) For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

For more information regarding troubled credit, please see the section entitled "Credit Risks".

Securities

Policy for management of investments in securities (own portfolio)

The Group's policy for management of investment in securities (own portfolio) is set out in the Group's annual and multi-year work plan. The policy defines the approved risk appetite for achieving the Group's business targets. The risk appetite includes principles and quantitative limits for the losses which the Group is willing to absorb under scenarios representing different risk levels. The main limits pertain to investment amounts, risk levels (credit rating, average duration, interest, etc.), exposure to the issuing entity, exposure to investment manager/fund manager, geographical exposure, etc. All investments are made using a list of approved investment instruments.

Management of the Group's own portfolios is carried at the Bank and Group level, since the Bank's own (nostro) portfolios play a crucial role in the management of liquidity and market risks.

Therefore, the Group prefers investments with a partial/low correlation with other activities of the Bank and the Group. Accordingly, the Group takes into account the inherent advantage of its own investments in foreign securities, which contribute to diversifying the risks arising from investment outside Israel.

Risk diversification in the Group's own portfolios is multi-dimensional: By geographic regions, economic sectors, issuing entities, investment managers, investment instruments, etc.

Investments are carried out with a view to obtain on risk-adjusted profitability taking into account the adequate capital requirements.

Avoiding tail risks (leading to significant losses) plays a significant role in the Group's investment management decisions.

The Bank's own activity focuses mainly on key markets, which operate in a developed and effective regulatory environment.

The decision to approve the Bank's use of an investment instrument takes into account various aspects, such as transparency and accessibility to an independent and reliable source for revaluation/pricing of instruments and minimizing the complexity and the operating and legal risks.

As at December 31 2019, the Group's investments in securities amounted to NIS 84.9 billion, compared to NIS 74.6 billion as at the end of 2018, a 13.9 percent decrease.

The Group's securities are divided into four classes: Held-for-trading securities, not held for trading equity securities (2018 - available-for-sale equity securities), available-for-sale bonds and held-to-maturity bonds.

Securities purchased by the Bank are classified, on the date of their purchase, to one of the following portfolios: Held-for-trading securities, available-for-sale bonds, not held-for-trading equity securities (2018 - available-for-sale equity securities), or held-to-maturity bonds - according to the manner in which the Bank intends to use the securities. Securities purchased for trading purposes (or for the purpose of hedging other components of the held-for-trading portfolio), for market making purposes or as part of the trading room activity are classified to the held-for-trading portfolio. Securities purchased as part of managing the Bank's assets and liabilities are classified to the available-for-sale portfolio or as not held-for-trading equity securities (as at January 1 2019). Securities purchased to be held to maturity are classified to the held-to-maturity portfolio.

Held-for-trading securities are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is recorded in the income statement. Available-for-sale bonds are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is stated under a separate item entitled "adjustments for presentation of available-for-sale securities at fair value" less related tax, in other comprehensive income. As at January 1 2019, not held-for-trading equity securities with an available fair value are presented in the balance sheet at fair value and the difference between the fair value and amortized cost is stated in a separate item under "noninterest finance income" in profit and loss and entitled "unrealized net gains (losses) on not held-for-trading equity securities". In case of an other-than-temporary impairment, the difference is charged to profit and loss. Held-to-maturity bonds are stated in the balance sheet at amortized cost.

Fair value calculation method

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources.

Non-tradable Israeli bonds denominated in NIS are revalued using a fair value model, since these bonds do not have an active market.

As part of adopting an update to accounting standards, the US subsidiary classified bonds totaling USD 216 million from a held-to-maturity portfolio to the held-for-sale portfolio. As at the transition date, a balance of USD 8 million was recognized in "other comprehensive income".

Following is the classification of the securities item in the consolidated balance sheet:

	December 31									
	2019					2018				
	Held-to-maturity secu-rities	Avai-lable-for-sale bonds[(a)]	Not held-for-trading equity secu-rities	Held-for-trading secu-rities[(b)]	Total	Held-to-maturity secu-rities	Avai-lable-for-sale bonds[(a)]	Avai-lable-for-sale equity secu-rities[(a)]	Held-for-trading secu-rities[(b)]	Total
	In NIS millions									
Bonds										
Of the Israeli government	3,080	33,132		2,715	38,927	2,334	30,573		5,677	38,584
Of foreign governments[(c)]	-	18,121		213	18,334	-	5,904		52	5,956
Of Israeli financial institutions	-	-		101	101	-	-		119	119
Of foreign financial institutions[(d)]	-	9,597		201	9,798	-	9,707		132	9,839
Asset-backed (ABS) or mortgage-backed (MBS)	1,543	7,748		154	9,445	1,596	9,433		271	11,300
Of other Israeli entities	-	140		53	193	-	242		290	532
Of other foreign entities	822	3,530		87	4,439	946	3,517		220	4,683
Equity securities and funds			3,712	-	3,712			3,556	2	3,558
Total securities	5,445	72,268	3,712	3,524	84,949	4,876	59,376	3,556	6,763	74,571

(a) Including unrealized gains from fair value adjustments of NIS 1,090 million recorded in other comprehensive income (December 31 2018 - NIS (494) million).
(b) Including unrealized gains from fair value adjustments of NIS 25 million recorded in profit and loss (December 31 2018 - losses of NIS (24) million).
(c) Of which: The US government - NIS 12,690 million (December 31 2018 – NIS 2,362 million).
(d) Most bonds of foreign financial institutions are rated Supranational or are state-backed.

As at December 31 2019, approx. 85.1 percent of the Group's own (nostro) portfolio was classified as available-for-sale, approx. 4.1 percent as held-for-trading portfolio, approx. 4.4 percent - as not held-for-trading equity securities and 6.4 percent - as held-to-maturity. Approximately 4.4 percent of the securities' value are investments in corporate shares that are not equity-accounted, but rather stated at cost or according to the listed share price.

For more information regarding the value of securities by type of measurement, please see Note 33A.

Available-for-sale portfolio

1. In 2019, other comprehensive income for available-for-sale securities totaled NIS 1,468 million (before tax), compared to another comprehensive loss for available-for-sale securities of NIS 634 million (before tax) in 2018.
2. Net gain on sale of available-for-sale bonds totaling NIS 191 million was carried to income or loss, compared with losses totaling NIS 10 million in 2018.

The net accumulated balance of fair value adjustments of available-for-sale securities as at December 31 2019 totaled a negative NIS 624 million (after tax effect) compared to a positive NIS 317 million as at the end of 2018. These amounts represent net unrealized gains (losses) as at the reporting date.

For information regarding fair value adjustments of available-for-sale securities recognized in equity, please see Note 12.

Investments in equity securities and funds

As at December 31 2019, investments in shares and funds totaled NIS 3,712 million, of which NIS 2,395 million was tradable and NIS 1,317 million - non-tradable. The entire investment of NIS 3,712 million is classified to the not held-for-trading equity securities portfolio.

As at December 31 2019, the capital required in respect of these investments is NIS 510 million.

For more information, please see Note 12.

Held-for-trading portfolio

As at December 31 2019, the held-for-trading portfolio has NIS 3.5 billion in bonds, compared with NIS 6.8 billion as at December 31 2018. As at December 31 2019, the held-for-trading portfolio constitutes 4.1 percent of the Group's total nostro (own) portfolio, compared with 9.1 percent as at December 31 2018.
Realized and unrealized gains totaling NIS 148 million were recorded in the income statement for tradable bonds, compared to losses of NIS 25 million in 2018; realized and unrealized losses totaling NIS 3 million were recorded for shares and funds, compared with gains of NIS 85 million in 2018.

For more information on the portfolio's composition, please see Note 12.

Investments in foreign securities

A. Investments in foreign asset-backed securities

The Group's asset-backed (mortgage and non-mortgage) securities portfolio, all investment-grade, amounted to NIS 9.4 billion (approx. USD 2.7 billion) as at December 31 2019, compared to NIS 11.3 billion as at the end of 2018. Out of the above portfolio, as at December 31 2019, NIS 7.7 billion (about USD 2.2 billion) was classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios.

As of December 31 2019, the available-for-sale foreign asset-backed securities, including investment in mortgage-backed bonds, totaled NIS 6.1 billion. 93.5 percent of all mortgage-backed bonds in the available-for-sale portfolio was issued by US federal agencies (FNMA, FHLMC, GNMA) and all were rated AAA as of the reporting date.
As of December 31 2019, the aggregate net appreciation carried to equity from the mortgage-backed bonds portfolio totaled approx. NIS 31 million.

Total mortgage-backed bonds that are neither government-backed (USA) nor backed by US federal institutions total NIS 434 million.

The weighted average maturity for the entire mortgage-backed bond portfolio is 3.54 years (average duration). In addition to the mortgage-backed bonds, the Group's available-for-sale portfolio also includes other non-mortgage asset-backed bonds totaling NIS 1.7 billion, of which CLO bonds account for NIS 1.2 billion. The weighted average maturity for the entire non-mortgage asset-backed bond portfolio is 4.2 years.

For more information on investments in asset-backed bonds, please see Note 12.

B. Investments in foreign non-asset-backed securities

As of December 31 2019, the Group's securities portfolio includes NIS 38.7 billion (USD 11.2 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 36.5 billion (USD 10.6 billion) is classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios. 98.9 percent of the total securities are investment-grade and include mainly securities of the US government, banks and financial institutions as well as bonds of investment-grade corporations, and the remainder are mainly securities issued by the Israeli government.

For more information regarding exposure to foreign financial institutions, please see the section entitled "Credit Risks".

As at December 31 2019, the aggregate increase in the value of common stock for securities which are not backed by assets issued abroad within the available-for sale portfolio amounted to NIS 494 million (NIS 325 million after tax).

As aforesaid, in addition to the available-for-sale portfolio, the held-for-trading portfolio and held-to-maturity portfolio also include non-asset-backed securities. The held-for-trading portfolio mainly includes securities issued by governments, banks and financial institutions. 95.4 percent of the securities in the held-for-trading portfolio are investment-grade.

As at December 31 2019, the value of the non-asset-backed held-for-trading portfolio was NIS 0.5 billion (USD 0.1 billion). The difference between the fair value and the amortized cost, if any, is recorded in the income statement.

Investments in bonds issued in Israel

As at December 31 2019, investments in bonds issued in Israel amounted to NIS 36.0 billion, of which NIS 35.7 billion was in shekel-denominated bonds issued by the Israeli government and the remainder - corporate bonds. Approx. 47.6 percent of corporate bonds investments - which are NIS 0.1 billion - were included in the available-for-sale portfolio, and the remainder - in the held-for-trading portfolio.

The available-for-sale portfolio corporate bonds - which total NIS 0.1 billion - include a positive capital reserve of NIS 1 million.

All corporate bonds in the held-for-trading portfolio are listed and traded on the Tel Aviv Stock Exchange.

For more information regarding pledging of securities, please see Note 27.

Deposits by the Public

As at the end of 2019, the deposits by the public with the Group amounted to NIS 373.6 billion, compared to NIS 364.7 billion as at the end of 2018, a 2.4 percent increase. Net of the effect of the change in the exchange rates, the deposits by the public as at December 31 2019 increased year-on-year by 5.0 percent.

Set forth below is the mix of deposits by the public by type and linkage segments

	December 31			
	2019	2018	Change	
	In NIS millions			In %
NIS:				
Non-linked	**244,462**	229,114	15,348	6.7
CPI-linked	**13,877**	16,696	(2,819)	(16.9)
Foreign currency:				
Including foreign currency-linked	**113,937**	118,572	(4,635)	(3.9)
Non-monetary	**1,368**	403	965	+
Less balances classified as held-for-sale liabilities[(a)]	-	(71)	71	-
Total	**373,644**	364,714	8,930	2.4

(a) For more information please see Note 36F to the financial statements dated December 31 2018.

Set forth below are the developments in the different classes of deposits

- Deposits by the public in non-linked shekels increased by NIS 15.3 billion, compared with December 31 2018, mainly in demand deposits.
- Deposits by the public denominated in, and linked to, foreign currency declined by NIS 4.6 billion, a 3.9 percent decrease compared to December 31 2018.
- CPI-linked deposits by the public declined by NIS 2.8 billion, compared with December 31 2018, mainly in fixed deposits.

Customers' Off-Balance-Sheet Monetary Assets

Following are the changes in customers' balance of off-balance-sheet financial assets in the Leumi Group

	December 31			
	2019	2018	Change	
	In NIS millions			In %
Securities portfolios[a]	**815,120**	665,268	149,852	22.5
Assets for which operating services are provided:[a][b][c]				
Mutual funds	**56,280**	47,536	8,744	18.4
Provident and pension funds	**150,291**	146,187	4,104	2.8
Study funds	**130,336**	113,864	16,472	14.5

(a) Including changes in the market value of securities and value of securities of mutual funds and provident funds in the Group's custody, for which operational management and custody services are provided.
(b) The Group does not manage mutual funds, provident funds or study funds in Israel.
(c) Assets of customers to which the Group provides operational management services, including provident fund balances of customers who receive consulting services from Leumi.

Deposits by governments

Deposits by governments amounted to approx. NIS 315 million at the end of 2019, a NIS 394 decrease compared to 2018.

This item includes deposits by foreign governments with foreign offices, amounting to approx. NIS 131 million at the end of 2019 compared to NIS 502 million at the end of 2018.

Deposits with Banks and by Banks

A. Deposits with banks (central and commercial)

	December 31			
	2019		2018	
	With central banks	With commercial banks	With central banks	With commercial banks
	In NIS millions			
NIS:				
Non-linked	**61,183**	**2,208**	63,647	2,008
CPI-linked	**-**	**-**	-	-
Foreign currency including foreign currency-linked	**839**	**9,344**	2,047	9,934
Less balances classified as held-for-sale assets[a]	**-**	**-**	-	(35)
Total deposits with banks	**62,022**	**11,552**	65,694	11,907

(a) For more information please see Note 36F to the financial statements dated December 31 2018.

Total deposits with banks decreased by 5.2 percent.

B. Deposits by banks (central and commercial)

	December 31			
	2019		2018	
	By central banks	By commercial banks	By central banks	By commercial banks
	In NIS millions			
NIS:				
Non-linked	-	**2,281**	-	2,970
CPI-linked	-	-	-	-
Foreign currency including foreign currency-linked	**133**	**3,762**	-	3,390
Less balances classified as held-for-sale liabilities[(a)]	-	-	-	(1,150)
Total deposits by banks	**133**	**6,043**	-	5,210

(a) For more information please see Note 36F to the financial statements dated December 31 2018.

According to the law, the Bank of Israel may extend loans to the banking corporations against collaterals. The Bank uses its deposits with the Bank of Israel and its pledged securities portfolio as collaterals for the abovementioned loans.

On December 31 2019 the Group's deposits with the Bank of Israel totaled NIS 61 million; the Bank of Israel did not extend any loans to the Bank against those deposits.

As evident from these tables, the Group's level of liquidity is very high, and the Group has net deposits with banks amounting to NIS 67.3 billion.

Bonds, Promissory Notes and Subordinated Bonds

	December 31			
	2019	2018	Change	
	In NIS millions			In %
Bonds and capital notes	**9,559**	8,949	610	6.8
Subordinated bonds	**10,399**	10,118	281	2.8
Less balances classified as held-for-sale liabilities[(a)]	-	(1,269)	1,269	-
Total	**19,958**	17,798	2,160	12.1

(a) For more information please see Note 36F to the financial statements dated December 31 2018.

Shelf prospectus and bonds issue

On May 25 2018, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority.

According to a shelf prospectus as at January 30 2019, the Bank issued, on January 31 2019, a total of NIS 1.69 billion in Bonds Series 180. The bonds are repayable in two equal installments on February 28 2023 and February 28 2025 and carry an annual interest rate of 2.02 percent, payable annually on February 28 of each year from 2020 to 2025 (inclusive).

The Series 180 Bonds are not recognized for regulatory capital purposes.

Furthermore, the Bank issued on the same date Subordinated Bonds (Series 403) totaling NIS 664.2 million.

According to a shelf prospectus dated March 12 2019, the Bank issued, on March 13 2019, an extension of Series 403, under which the Bank issued a total of NIS 777 million par value in subordinated bonds in consideration of NIS 798.4 million.

The Subordinated Bonds Series 403 are repayable by a lump sum on February 28 2030, with an early repayment option for the issuer exercisable not before January 31 2025 and no later than February 28 2025. The Subordinated Bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 2.42 percent until February 28 2025. At that date, if the Bank does not exercise its early repayment option, the bond's nominal interest rate for Subordinated Bonds Series 403 shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at the interest revision date.

If circumstances of a trigger event (a trigger event for non-occurrence or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the subordinated bonds shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued or according to the set minimum rate (NIS 11.53, subject to adjustments), the highest of the two.

According to a shelf offering report as at July 4 2019, which was amended on July 9 2019, the Bank made two exchange tender offers, as follows: 1) Offer to all holders of Series 201 Subordinated Capital Notes, whereby the Bank will purchase from them all Series 201 Subordinated Capital Notes held by them, by way of an unlimited exchange tender offer, in exchange for the issue of units of NIS 50,000 p.v. each of Series 404 Subordinated Bonds of the Bank, carrying an annual interest rate of 1.95 percent, at an exchange rate of 50,000:49,262, as detailed in the Shelf Offering Report. 2) Offer to all holders of Series N Subordinated Capital Notes, whereby the Bank will purchase from them all Series N Subordinated Bonds held by them, by way of an unlimited exchange tender offer, in exchange for the issue of units of NIS 50,000 p.v. each of Series 404 Subordinated Bonds of the Bank, carrying an annual interest of 1.95 percent, at an exchange rate of 50,000:44,445, as detailed in the Shelf Offering Report.

According to the investors' response to said exchange tender offers, on July 15 2019, NIS 139.9 million p.v. in Series 201 Subordinated Capital Notes were exchanged for NIS 142 p.v. in Series 404 Subordinated Bonds and NIS 976.9 million p.v. in Series N Subordinated Bonds were exchanged for 1,099 million p.v. in Series 404 Subordinated Bonds, bringing the total issued Series 404 Subordinated Bonds to NIS 1,241 million p.v. As a result of the exchange, an accounting loss of NIS 54 million was recorded.

The Subordinated Bonds Series 404 are repayable by a lump sum on September 30 2029, with an early repayment option for the issuer exercisable not before September 19 2024 and no later than September 30 2024. The Subordinated Bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 1.95 percent until September 30 2024. At that date, if the Bank does not exercise its early repayment option, the bond's nominal interest rate for Subordinated Bonds Series 404 shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at the interest revision date.

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Series 404 Subordinated Bonds shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued or according to the set minimum rate (NIS 12.54, subject to adjustments), the highest of the two.

According to a shelf prospectus dated January 29 2020, the Bank issued a total of USD 750 million in Subordinated Notes Series Leumi $ 2031. The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

Subordinated Notes Series Leumi $ 2031 are repayable in one lump sum, 11 years after their issue date, with the Bank having an early repayment option exercisable 6 years after the issue date, subject to certain terms and conditions.

Subordinated Notes Series Leumi $ 2031 carry a fixed annual interest rate of 3.275 percent per year, until January 29 2026, to be paid bi-annually. On that date, if the Bank does not exercise its early repayment option, the nominal interest rate of Subordinated Notes Series Leumi $ 2031 shall be updated, such that as from that date, the annual interest shall be equal to the sum of the 5-year treasury yield rate at the interest rate change rate and a spread of 1.631 percent, as outlined in the issue documents.

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Series Leumi $ 2031 Subordinated Notes shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice (translated into USD according to the rate as of that date) was issued or according to the set minimum rate (USD 3.6048, subject to adjustments), the highest of the two.

These Subordinated Notes (Series 403, 404 and Series Leumi $ 2031) are eligible for inclusion in Tier 2 capital as of the issue date.

On February 17 2020, the Bank reported it was considering issuing a new series of ordinary bonds of the Bank and listing them on the TASE. For more information, please see the immediate report dated February 17 2020.

Early redemption of subordinated capital notes

On February 10 2019, the Bank's Board of Directors decided to fully redeem in April-May 2019, NIS 1 billion p.v. in (non-tradable) subordinated capital notes linked to the Consumer Price Index and issued in 2009. Accordingly, a total of NIS 1.2 billion in subordinated bonds were redeemed in April and May 2019.

Equity and Capital Adequacy

Equity attributable to the Bank's shareholders totaled NIS 35,406 million as at December 31 2019 compared with NIS 35,305 million as at the end of 2018.

The change in shareholders' equity was effected by the profitability during the year, from a dividend distribution, share buyback and by other comprehensive loss, following an increase in the net negative adjustments in respect of employee benefits mainly as a result of a decrease in the discount rate and effect of the actuarial changes arising from the salary agreement and efficiency plan.

This capital serves as the basis for calculating the regulatory capital which, in turn, is used to calculate the Bank's capital adequacy ratio with the addition of capital instruments and regulatory adjustments as set out in the Supervisor of Banks, Proper Conduct of Banking Business Directive No. 202.

The capital to balance sheet ratio reached 7.5 percent as at December 31 2019, compared to 7.7 percent as at December 31 2018.

Capital Adequacy Structure[a]

	December 31	
	2019	2018
	In NIS millions	
Capital base for capital ratio purposes		
CET1 capital, after regulatory capital deductions and adjustments	**37,603**	35,190
Tier 2 capital, after deductions	**11,987**	11,033
Total capital	**49,590**	46,223
Balances of risk-weighted assets[b]		
Credit risk	**288,340**	288,862
Market Risks	**5,008**	6,295
Operational risk	**23,116**	22,713
Total balances of risk-weighted assets	**316,464**	317,870
Capital to risk-weighted components ratio		
Ratio of CET1 capital to risk-weighted components[c]	**11.88%**	11.07%
Total capital to risk-weighted components ratio[c]	**15.67%**	14.54%
Minimum CET 1 capital ratio set by the Banking Supervision Department	**10.27%**	10.25%
Minimum total capital ratio set by the Banking Supervision Department	**13.77%**	13.75%

(a) For more information regarding the capital adequacy structure, please see Note 25B.
(b) Including balances of Leumi Card, which was classified as a held-for-sale asset in 2018. For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Year" and Note 36F to the financial statements as at December 31 2018.

(c) CET1 capital ratio and total capital ratio based on the Pro Forma Information Excluding Leumi Card, as at December 31 2018 is 11.22 percent and 14.66 percent, respectively.

Regulatory capital structure

In May 2013, the Banking Supervision Department published the final directives for the implementation of Basel III in Israel, by amending Proper Conduct of Banking Business Directives Nos. 201-211 (hereinafter in this section - the "Directives"). The Directives went into effect on January 1 2014, subject to the transitional provisions included in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 299.

Pursuant to the Directives, the Group's capital components for the purpose of calculating capital adequacy are attributed to two tiers:

1. Tier 1 capital, which includes Common Equity Tier 1 capital (CET1) and Additional Tier 1 capital.
2. Tier 2 capital.

The sum of these tiers is also known as "capital basis for capital adequacy purposes" or "regulatory capital" or "total capital."

Common Equity Tier 1 capital and Additional Tier 1 capital

Common Equity Tier 1 capital includes the banking corporation's shareholders' equity, with the addition of some of the minority interests (non-controlling interests of consolidated subsidiaries) less goodwill, other intangible assets and regulatory adjustments and additional deductions.

Additional adjustments to Common Equity Tier 1 capital arising from the implementation of operational efficiency plans and the method of calculating the discount rate used to calculate the employee benefits liability, as detailed below.

Additional Tier 1 capital includes capital instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202. The Leumi Group has no equity instruments in this tier.

Tier 2 Capital

Tier 2 capital mainly includes capital instruments and the balance of the Group's loan loss provisions, subject to the ceiling prescribed by the directives.

As at December 31 2013, equity instruments included in Tier 2 capital are subject to transitional provisions and a recognition ceiling, as prescribed by the Directives, such that the amount recognized in effect for the equity instruments is the lower of the amortized amount of the instruments and the recognition ceiling based on the balance of the equity instruments included in Tier 2 capital as at December 31 2013, which is amortized at the beginning of each year by 10 percent until January 1 2022. The recognition ceiling for 2019 is 30 percent.

From the beginning of 2014, capital instruments must comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202 in order to be included in capital. The main criteria are that the instrument must include: (1) a mechanism for absorbing reserve losses by way of conversion to ordinary shares or amortization of the instrument when the banking corporation's Common Equity Tier 1 capital ratio falls below 5 percent; (2) a clause determining that, on the occurrence of the defining event for non-viability (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument shall be immediately converted to ordinary shares or written off.

For more information regarding subordinated bonds issued by the Bank in 2019 which are eligible for inclusion in Tier 2 capital, please see section entitled "Bonds, Capital Notes and Subordinated Bonds".

For a description of the main features of issued regulatory equity instruments, please see the Bank's website at: https://english.leumi.co.il.

Capital Adequacy

Capital ratios are calculated as the ratio of capital to the risk-weighted assets. The Common Equity Tier 1 capital ratio is calculated as the ratio of Common Equity Tier 1 capital to the risk-weighted assets, and the total capital ratio is calculated as the ratio of total capital to the risk-weighted assets.

The Bank of Israel's capital adequacy targets

Under Proper Conduct of Banking Business Regulation No. 201, Capital Measurement and Adequacy - Introduction, Application and Calculation of Requirements, a large banking corporation whose consolidated balance sheet assets total at least 20 percent of the Israeli banking system's total balance sheet assets, is required to meet a Common Equity Tier 1 capital ratio of at least 10 percent and a total capital ratio of at least 13.5 percent, beginning on January 1 2017. This requirement applies to Leumi.

Additionally, under Amendment to Proper Conduct of Banking Business Directive No. 329, "Restrictions on Granting Housing Loans", a banking corporation is required to increase its Common Equity Tier 1 capital target and total capital target by a rate which reflects 1 percent of outstanding housing loans. The effect of this requirement on the capital ratio in the reporting period is 0.27 percent.

As a result, the minimum capital requirements applicable to the Bank as of December 31 2019 are 10.27% for the Common Equity Tier 1 capital ratio and 13.77% for the total capital ratio.

The Bank's capital planning and capital adequacy targets

The Leumi Group's capital planning reflects a forward-looking view of its risk appetite and profile, business strategy and the capital adequacy required as a result. The capital plan is approved by the Bank's management and Board of Directors and takes into account the Group's various P&L centers and other factors that affect the Bank's compliance with the capital requirements, such as: Profit forecasts, changes in other comprehensive income, regulatory adjustments, the effect of the transitional provisions and the rate of increase in risk-weighted assets. The capital ratios forecast is also subject to various sensitivity tests and stress scenarios.

The Group's policy, which was approved by the Board of Directors, is to maintain a capital adequacy level that is higher than the minimum threshold set by the Bank of Israel from time to time and no less than the rate of capital required to cover the risks as assessed using the ICAAP process. In addition, the Group has set capital targets in case of a stress scenario event.

Under the regulatory review process, the Banking Supervision Department instructed the banks to set internal capital targets that would match each Bank's risk profile. As a result, the Bank's Board of Directors approved an increase in the Bank's internal Tier 1 capital threshold to 10.5 percent, as of December 31 2017.

Adjustments to Common Equity Tier 1 capital:
Measurement of the employee benefits liability

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's Common Equity Tier 1 capital, mainly due to the fact that the liability is measured in accordance with market interest rates - which are at historical lows, and also due to the considerable volatility that such measurement generates in the Bank's regulatory capital.

In July 2016, the Bank received specific approval from the Bank of Israel regarding the method of calculating the discount rate to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the discount rate is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented from the financial statements for the period ended June 30 2016.

On January 13 2020, the Bank of Israel approved the extension of the validity until the financial statements as at December 31 2024 (inclusive).

The method change significantly moderates the volatility of the Bank's regulatory capital resulting from changes in the discount rate.

For more information regarding the discounting methodology, please see "Critical Accounting Policies and Estimates".

Easement for operational efficiency plans

In January 2016, the Banking Supervision Department published a circular entitled "Operational Efficiency of the Banking System in Israel". Pursuant to the circular, a banking corporation which meets the prescribed conditions will be granted an easement, according to which it may spread the effect of the plan on the capital adequacy and leverage ratios on a straight-line basis, over a period of five years.

In June 2016, the Bank's Board of Directors approved an efficiency plan, for a total cost of NIS 438 million (after tax). As of December 31 2019, 70 percent of the plan's costs are attributable to regulatory capital.

In June 2017, the Banking Supervision Department published an additional circular entitled “Increasing Operational Efficiency of the Banking System in Israel - Increasing Efficiency in Real Estate.” The circular extended the relief for improving manpower efficiency to the end of June 2018.

In July 2017, the Bank’s Board of Directors approved an additional efficiency plan, for a total cost of NIS 204 million (after tax). As of December 31 2019, 50 percent of the plan’s costs are attributable to regulatory capital.

In September 2018, the Banking Supervision Department published a circular regarding the extension of the validity of the two circulars by another year and a half, until December 31 2019, in an effort to allow for additional efficiency plans.

On July 29 2019, the Bank signed a special collective agreement for 2019-2022 with the workers’ union. As a result, the Bank has incurred a one-time increase in its actuarial liability totaling NIS 526 million before tax (about NIS 329 million after tax). The estimated effect of the agreement on the Bank’s Capital Adequacy Ratio is a decrease of 0.1 percent in the CET1 capital ratio.

As part of the understanding regarding the collective agreement, the Bank’s Board of Directors approved a voluntary retirement plan, the effect of which on the regulatory capital, estimated at a decrease of 0.07 percent in the capital ratios, will be spread on a straight line basis over a five-year period. As of December 31 2019, 10 percent of the plan’s costs are attributable to regulatory capital.

In December 2019, the Banking Supervision Department published a letter regarding the extension of the validity of the two letters by an additional two years, until December 31 2021, in an effort to allow for additional efficiency plans.

For more information, please see Note 25A.

Regulatory and other changes in measuring the capital requirements

Developments in measuring capital adequacy in the rules of the Basel Committee on Banking Supervision

In December 2017, the Basel Committee on Banking Supervision completed its revision of the overall capital adequacy framework. As part of the revisions, also known as Basel IV, significant revisions were made in the manner of calculating risk-weighted assets for the purpose of the Tier 1 capital requirements. Inter alia, changes were made in the method of calculating capital requirements according to the standardized approach to credit risk, a uniform standardized approach was prescribed with regard to operational risk, and changes were made in market risk measurement. Under the rules of the Basel Committee, these changes are due to take effect gradually from January 1 2022 to January 1 2027. Presently, the Bank does not know how and when these rules will be adopted by Israel’s Banking Supervision Department.

In April 2019, the Banking Supervision Department announced plans to begin implementing the Basel 2014 Guidelines on “The Standardized Approach for Measuring Counterparty Credit Risk Exposures” as at June 1 2021 or one year after the actual EU implementation date, whichever is later. To the best of the Bank’s knowledge, the actual implementation by the EU is expected in June 2021. The Bank is preparing to implement the directives.

Circulars on amendment of Proper Conduct of Banking Business Directives following the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (the “Strum Law”)

In July 2018, the Bank of Israel published circulars on the amendment of Proper Conduct of Banking Business Directives, with the objective of granting the credit companies reliefs immediately following their split from the banks. According to one of the amendments, the banks would weight credit granted to credit card companies similarly to credit granted to banks, even after their split from the banking corporation under the Strum Law, i.e., the credit card company’s risk weight will be one rank lower than the weight of the risk derived from the State of Israel’s rating. In addition, the risk of a debt whose original maturity is up to three months will be weighted at 20 percent.

Circular regarding the revision of Proper Conduct of Banking Business Directive No. 203, “Measurement and Capital Adequacy - The Standardized Approach - Credit Risk” and Proper Conduct of Banking Business No. 313, “Limitations on Indebtedness of a Borrower and a Group of Borrowers”

On November 13 2018, the Bank of Israel published a circular revising Proper Conduct of Banking Business Directives Nos. 203 and 313. According to the circular, the conversion coefficient for loans on collateral for guaranteeing investments of apartment buyers granted pursuant to the Sale Law (Apartments), 1974, shall be 30 percent in lieu of 50 percent if the apartment has yet to be delivered to the buyer. The application of the circular resulted in a 0.1 percent improvement in the CET1 capital ratio.

Circular Revising Proper Conduct of Banking Business Directive No. 332, “Buybacks by Banking Corporations”

On February 28 2019, the Bank of Israel published the Circular Revising Proper Conduct of Banking Business Directive No. 332, “Buybacks by Banking Corporations”. The Circular revokes the prohibition on performing buybacks and allows banking corporations to purchase their own shares subject to certain terms and conditions. The Circular also revises the restrictions on granting loans guaranteed by securities issued by the banking corporation.

Circular draft regarding the revision of Proper Conduct of Banking Business Directive No. 201, “Measurement and Capital Adequacy” - “Calculation of Minimum Capital and Amendment to Proper Conduct of Banking Business Directive No. 218, Leverage Ratio“.

On February 5 2020, the Bank of Israel published the Circular Draft Revising Proper Conduct of Banking Business Directive No. 201, “Measurement and Capital Adequacy” - “Calculation of Minimum Capital and Amendment to Proper Conduct of Banking Business Directive No. 218, Leverage Ratio“. The draft proposes the following amendments: A banking corporation whose total consolidated assets constitute more than 24 percent (in lieu of 20 percent according to the current directives) of the Israeli banking sector’s total assets shall have a CET1 capital to risk-weighted asset ratio of no less than 10 percent, in the ratio of total capital to risk-weighted assets shall not fall below 13.5 percent and in the leverage ratio - shall not fall below 6 percent. The proposed change is not expected to affect Leumi’s minimum capital requirements.

Sale of Leumi Card Ltd.

In accordance with the provisions of the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (Legislative Amendments), 2017, the transaction for the sale of the Bank’s interests in Leumi Card was completed on February 25 2019.

For more information regarding the said sale agreement, please see section “Major Investees - Leumi Card”.

Following is a sensitivity analysis of the main factors affecting the capital adequacy of the Leumi Group:

- Change in the volume of risk-weighted assets – Leumi's risk-weighted assets amounted to NIS 316.5 billion at the end of December 2019. Every 1 percent increase in risk-weighted assets (about NIS 3.2 billion) will reduce the Common Equity Tier 1 capital ratio by 0.12 percent, and the total capital ratio by 0.16 percent.
- Accrued profit or a change in the capital reserve – Leumi's Common Equity Tier 1 Capital was NIS 37.6 billion at December 31 2019. Total capital amounts to NIS 49.6 billion. Accrual of net income and/or positive change in the capital reserve of each NIS 1 billion will improve the Common Equity Tier 1 capital ratio and the total capital ratio by 0.32 percent.
- Liabilities for employee benefits – The actuarial liability for employees is discounted according to an eight-quarter moving average of market yields, which are affected by the Government of Israel’s bond curve and by the US AA corporate bond spread. A change of 0.1 percent across the discount rate curve, under the assumption that the curve rises and falls uniformly, signifies a cumulative effect of 0.09 percent on the Common Equity Tier 1 capital ratio and total capital ratio. Of which, according to a moving average calculation for eight quarters, an effect of approximately 0.01 percent in the Common Equity Tier 1 Capital ratio and the total capital ratio for the current quarter.

The above information regarding capital adequacy and its management refers to the Bank's future activities and constitutes forward-looking information. For the meaning of the term, please see under “Forward-Looking Information.“

Dividend Distribution Policy

On November 20 2017, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 40 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution.

On March 6 2019, the Bank's Board of Directors approved a change in the Bank's dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions being passed by the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

On February 26 2020, the Board of Directors approved, for Q4 2019, a dividend consisting of 40 percent of the quarter’s net income. The dividend approved amounted to NIS 297 million, which is 20.251 agorot per share of NIS 1 par value. The final per-share dividend amount is subject to changes following the share buyback’s and following the share issue after the vesting of the PSUs, and subject to meeting the conditions of the PSUs. If the said PSUs vest, the dividend per NIS 1 p.v. share will be 20.248 agorot, subject to changes due to the share buyback. The Board of Directors designated March 12 2020 as the record date for purposes of payment of the dividend and March 23 2020 as the payment date.

For more information about the vesting of the PSUs, please see Note 25A.

Details of paid dividend

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
March 6 2018	March 28 2018	22.41	342
May 24 2018	June 19 2018	19.18	292
August 14 2018	September 6 2018	23.96	361
November 12 2018	December 10 2018	25.08	375
March 6 2019	April 3 2019	18.40	275
May 26 2019	June 23 2019	29.27	437
August 13 2019	September 8 2019	24.95	369
November 26 2019	December 22 2019	20.87	306

The Bank's share buyback plan

During 2019, the Bank implemented a share buyback program in the amount of NIS 700 million, by way of the safe harbor protection mechanism published by the Israel Securities Authority (Legal Position No. 199-8). The buyback was carried out in two stages. In the first phase, according to the said program - which began on May 28 2019 and ended on August 1 2019 - 11,961,092 shares totaling approximately NIS 301 million were bought through an external member of the Tel Aviv Stock Exchange. In the second phase, which began on August 15 2019, an additional NIS 399 million were remitted to the external member of the Stock Exchange to continue the share buyback program’s execution. On November 21 2019, the share buyback program ended, after a total of 27,923,659 shares for approximately NIS 700 million were purchased through the external Stock Exchange member.

As of the report publication date, the Bank owns 58,336,237 treasury shares.

On February 26 2020, the Bank's Board of Directors approved a share buyback plan for a total of up to NIS 700 million, from March 1 2020 to February 26 2021. The share buyback plan will take place as part of the trading on the Tel Aviv Stock Exchange (TASE) and/or through transactions outside the TASE, through an external, independent member of the TASE, which will act under an irrevocable power of appointment, in accordance with the safe harbor mechanism published by the Israel Securities Authority. The buyback plan will take place in three separate stages, each of which shall be irreversible, in accordance with the safe harbor mechanism (hereinafter: “Stage A”, “Stage B” and “Stage C”). Stage A will begin on March 1 2020 and will end on the earlier of (a) May 3 2020; or (b) Purchase of the Bank’s shares in the amount of NIS 250 million. After the completion of Stage A, if the Bank decides to proceed to Stage B, it shall give the Tel Aviv Stock Exchange member an irreversible order to initiate Stage B on the second trading day following the publication date of the first financial statements after the decision to go forward with Stage B has been made. In such a case, Stage B will end on the earlier of: (a) August 2 2020; or (b) Purchase of the Bank’s shares in the amount of additional

NIS 250 million the total amount purchased as part of Stage A, beyond the amount actually purchased in Stage A. After the completion of Stage B, if the Bank decides to proceed to Stage C, it shall give the Tel Aviv Stock Exchange member an irreversible order to initiate Stage C on the second trading day following the publication of the first financial statements after the decision to go forward with Stage C has been made. In such a case, Stage C will end on the earlier of: (a) February 26 2021; or (b) Purchase of the Bank's shares in the amount of NIS 700 million, less the total amount purchased as part of Stage A and Stage B. If, following the end of Stage A or Stage B, a decision will be made not to proceed with Stage B or Stage C, *mutatis mutandis*, the Bank will publish an immediate report to that effect.

Approval of the Banking Supervision Department to carry out the buyback plan, as required under Proper Conduct of Banking Business Directive No. 332, was received subject to meeting the restrictions and capital targets, including the condition whereby the plan will be discontinued effective immediately if, during the plan term, the most recent financial statements published by the Bank will not comply with a Common Equity Tier 1 capital ratio of at least 10.9 percent

Leverage Ratio

Leverage ratio is expressed as a percentage and defined as measured regulatory capital divided by the measured exposure. The regulatory capital for the purpose of leverage ratio measurement is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive No. 202, according to regulatory adjustments regarding the capital calculation. A banking corporation's exposure is the sum of the balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and off-balance-sheet items. The leverage ratio complements the capital ratio and constitutes yet another restriction on the banking sector's leverage level.

The leverage ratio may be affected by changes in the Bank's regulatory capital. When calculating the leverage ratio, the following were taken into account, inter alia: The effect of the implementation of the efficiency plan and adjustments for the application of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, for certain actuarial liabilities.

	December 31	
	2019	2018
	In NIS millions	
Consolidated data		
Tier 1 capital	**37,603**	35,190
Total exposures	**512,173**	499,412
Leverage ratio		
Leverage Ratio	**7.34%**	7.05%
Minimum total leverage ratio set by the Banking Supervision Department	**6.00%**	6.00%

For more information on capital adequacy and leverage, please see Note 25B.

Operating Segments - Management Approach

An operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial information is available for operating segments.

Operating segments reporting according to management approach presents the Bank's results by business line, in accordance with the Bank's organizational structure.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activity in Israel is managed as follows:

1. Banking – provision of banking services to private customers and small businesses. This business line includes the mortgage activities and the Private Banking activities. This line of business comprises four departments: Small Businesses, Private Banking, Premium Banking and Retail Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.
2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
3. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.
4. Real estate – providing banking and financial services to the construction and real estate sector.
5. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.
6. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

- Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price for deposits raised net of interest paid to customers.
- Noninterest income (finance income that do not arise from interest, fees and commissions and other income) – are attributed to the business lines according to the customer's activity.
- Business line expenses – include the direct expenses of business lines; expenses of corporate units providing services to those business lines are also charged to the business lines.

The results of business lines' activities, both in terms of their balance sheets and in terms of their income statements, are regularly reviewed by the Board of Directors and management. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

Following is a summary of financial performance according to management approach:

	For the year ended December 31 2019											
	Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail, Premium and Private Banking	Small businesses	Mortgages	Banking - total	Commercial	Corporate	Real estate	Capital markets	Other			
	In NIS millions											
Interest income, net:												
Interest income from external	927	1,271	2,311	4,509	972	888	821	522	1	81	1,047	8,841
Interest income (expenses) - Inter-segmental	1,224	43	(1,294)	(27)	305	(255)	(194)	192	3	12	(36)	-
Interest income, net	2,151	1,314	1,017	4,482	1,277	633	627	714	4	93	1,011	8,841
Noninterest income	1,294	454	3	1,751	413	205	323	1,366	420	324	279	5,081
Total income	3,445	1,768	1,020	6,233	1,690	838	950	2,080	424	417	1,290	13,922
Expenses (income) for loan losses	231	329	7	567	80	(124)	71	(37)	(13)	7	58	609
Total operating and other expenses	2,870	1,097	278	4,245	721	350	133	371	1,059	204	825	7,908
Profit (loss) before tax	344	342	735	1,421	889	612	746	1,746	(622)	206	407	5,405
Provision for tax (benefit)	118	117	251	486	304	209	255	597	(141)	48	72	1,830
Net income (loss) attributable to the Bank's shareholders	226	225	484	935	585	403	491	1,151	(481)	141	297	3,522
Balance as at December 31 2019												
Loans to the public, net	29,192	25,110	85,390	139,692	40,661	37,696	26,387	8,358	5,760	958	22,966	282,478
Deposits by the Public	156,934	39,125	-	196,059	53,313	20,632	6,940	74,326	10	-	22,364	373,644
Assets under management	186,261	18,175	-	204,436	24,183	21,766	2,294	547,613	20,734	313,901	17,100	1,152,027

	For the year ended December 31 2018											
	Bank									Subsi-diaries in Israel	Foreign subsi-diaries	Total
	Retail, Premium and Private Banking	Small busi-nesses	Mortgages	Banking - total	Com-mercial	Cor-porate	Real estate	Capital markets	Other			
	In NIS millions											
Interest income, net:												
Interest income (expenses) - From external	1,012	1,335	2,441	4,788	1,039	827	748	(23)	6	390	1,115	8,890
Interest income (expenses) - Inter-segmental	1,043	10	(1,529)	(476)	123	(242)	(207)	844	(2)	(4)	(36)	-
Interest income, net	2,055	1,345	912	4,312	1,162	585	541	821	4	386	1,079	8,890
Noninterest income	1,322	487	10	1,819	408	217	315	485	147	1,180	300	4,871
Total income	3,377	1,832	922	6,131	1,570	802	856	1,306	151	1,566	1,379	13,761
Expenses (income) for loan losses	213	270	30	513	28	(70)	(172)	23	(8)	113	92	519
Total operating and other expenses	2,733	1,099	274	4,106	713	276	132	363	958	896	893	8,337
Profit (loss) before tax	431	463	618	1,512	829	596	896	920	(799)	557	394	4,905
Provision for tax (benefit)	147	158	211	516	283	204	306	315	(254)	158	91	1,619
Net income (loss) attributable to the Bank's shareholders	284	305	407	996	546	392	590	611	(545)	383	284	3,257

Balance as at December 31 2018												
Loans to the public, net	29,594	26,478	81,524	137,596	38,262	33,532	24,384	6,901	5,946	560[(a)]	25,421	272,602
Deposits by the Public	158,593	38,046	-	196,639	49,671	19,592	6,597	66,033	274	-[(b)]	25,908	364,714
Assets under management	167,486	18,354	-	185,840	22,137	19,122	1,008	421,022	21,085	285,016	17,625	972,855

(a) Excluding balances classified as held-for-sale assets in the amount of NIS 8,042 million.
(b) Excluding balances classified as held-for-sale liabilities in the amount of NIS 71 million.

Regulatory Operating Segments

Regulatory operating segment – a component of the banking corporation engaged in certain activities or which pools certain customer classes defined by the Banking Supervision Department.

Set forth below is a description of the main operating segments set pursuant to the directives of the Bank of Israel

1. Households segment – private individuals excluding Private Banking customers.
2. Private Banking segment – private individuals with a financial assets portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Small and micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 50 million.
4. Mid-sized businesses segment – businesses whose turnover is equal to or higher than NIS 50 million and lower than NIS 250 million.
5. Corporate segment – businesses whose turnover is equal to or higher than NIS 250 million.
6. Institutional entities segment – including provident funds, mutual funds, pension funds, study funds, insurance companies, according to the definitions of the Banking Supervision Department.
7. Financial management segment – includes the following activities:
   a. Trading activities - investment in tradable securities, market-making activity involving securities and derivatives, activity in derivatives that are not designated as hedges nor part of the banking corporation’s Asset and Liability Management (ALM) activities, repurchase and lending transactions involving securities, short selling of securities, securities’ underwriting services.
   b. Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and held-to-maturity bonds not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges or protection for exchange rate differentials of investments in foreign offices, deposits with and by governments.
   c. Non-financial investment activity – investment in available-for-sale shares and investments in associate companies of businesses.
   d. Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
8. Other segment – including discontinued operations, gains from amounts funded for employee rights and other results related to employee rights which were not allocated to other operating segments, activities that were not allocated to the other segments and adjustments between the total amount of items allocated to segments and the total amount of items in the consolidated financial statements.

For more information, please see Note 29A.

Set forth below is a summary of activities by regulatory operating segments

	For the year ended December 31 2019									
	Activity in Israel								Activity outside Israel	Total
	Households	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutional entities	Financial management	Other		
	In NIS millions									
Interest income, net	2,568	115	2,199	864	1,457	174	448	5	1,011	8,841
Noninterest income	952	145	760	306	559	170	1,541	369	279	5,081
Total income	3,520	260	2,959	1,170	2,016	344	1,989	374	1,290	13,922
Expenses (income) for loan losses	157	-	372	31	27	(6)	(30)	-	58	609
Total operating and other expenses	3,064	100	1,581	502	497	253	273	813	825	7,908
Profit (loss) before tax	299	160	1,006	637	1,492	97	1,746	(439)	407	5,405
Tax expenses (income)	95	57	360	229	536	36	661	(216)	72	1,830
Net income (loss) attributable to the Bank's shareholders	204	103	646	408	956	61	1,070	(223)	297	3,522
Balance as at December 31 2019										
Loans to the public, gross	99,370	346	62,727	29,578	67,167	3,399	-	-	23,219	285,806
Deposits by the Public	106,796	23,717	57,988	40,919	53,531	68,329	-	-	22,364	373,644
Assets under management	68,416	46,867	52,402	26,786	75,156	819,923	45,377	-	17,100	1,152,027

	For the year ended December 31 2018									
	Activity in Israel								Activity outside Israel	Total
	Households	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutional entities	Financial management	Other		
	In NIS millions									
Interest income, net	2,685	108	2,223	794	1,327	165	507	1	1,080	8,890
Noninterest income	1,603	145	857	338	623	213	713	79	300	4,871
Total income	4,288	253	3,080	1,132	1,950	378	1,220	80	1,380	13,761
Expenses (income) for loan losses	266	-	288	(174)	22	4	21	-	92	519
Total operating and other expenses	3,481	104	1,636	535	488	269	260	671	893	8,337
Profit (loss) before tax	541	149	1,156	771	1,440	105	939	(591)	395	4,905
Tax expenses (income)	181	51	400	270	499	37	315	(226)	92	1,619
Net income (loss) attributable to the Bank's shareholders	314	98	753	499	938	69	663	(361)	284	3,257
Balance as at December 31 2018										
Loans to the public, gross[(a)]	103,004	325	63,421	27,470	63,504	687	-	-	25,753	284,164
Deposits by the public[(b)]	106,821	23,919	57,414	39,227	50,370	61,126	-	-	25,908	364,785
Assets under management	66,384	39,473	46,083	25,245	69,639	666,146	42,261	-	17,624	972,855

(a) Including balances classified as held-for-sale assets in the amount of NIS 8,210 million.
(b) Including balances classified as held-for-sale liabilities in the amount of NIS 71 million.

Information by Geographic Region[a]

Main figures by geographic region

	Total balance sheet			Loans to the public, net			Deposits by the Public		
	December 31			December 31			December 31		
	2019	2018	Change	**2019**	2018[b]	Change	**2019**	2018[c]	Change
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Israel	**439,276**	426,000	3.1	**259,512**	255,221	1.7	**351,280**	338,877	3.7
USA	**23,774**	26,413	(10.0)	**17,777**	18,939	(6.1)	**19,137**	20,950	(8.7)
United Kingdom	**6,058**	7,263	(16.6)	**5,189**	5,793	(10.4)	**3,227**	4,322	(25.3)
Romania	**-**	1,071	(100.0)	**-**	690	(100.0)	**-**	636	(100.0)
Other foreign operations	**26**	33	(21)	**-**	1	(100.0)	**-**	-	-
Total	**469,134**	460,780	1.8	**282,478**	280,644	0.7	**373,644**	364,785	2.4

Following is a breakdown of the net income by geographic region

	Net income (loss)			
	For the year ended December 31			
	2019	2018	Change	
	In NIS millions			In %
Israel	**3,343**	2,874	469	16.3
USA	**228**	219	9	4.1
United Kingdom	**(64)**	131	(195)	-
Romania	**(13)**	31	(44)	-
Other foreign operations	**28**	2	26	+
Total	**3,522**	3,257	265	8.1

(a) Classified by office's location.
(b) Including balances classified as held-for-sale assets in the amount of NIS 8,042 million
(c) Including balances classified as held-for-sale liabilities in the amount of NIS 71 million.
For more information, please see sections "Major Investees", "Credit Risk" and Note 29A.D.

Major Investees[1]

Leumi Group operates both in Israel and overseas through subsidiaries, which are either banks or firms providing financing and financial services. In addition, the Group invests in corporations which do not engage in banking.

As of December 31 2019, the Bank's total investments in investees (including in capital notes) was NIS 12.0 billion, compared with NIS 11.8 billion as at December 31 2018, with the investees contributing NIS 333 billion to the Group's net income for 2019, compared with NIS 710 million in 2018.
For information regarding the investment and contribution of each major Group company to the Group's profit, please see Note 15.

Consolidated Companies in Israel

The Bank's total investments (including in capital notes) in its Israeli consolidated subsidiaries was NIS 8,062 million as at December 31 2019, compared with NIS 7,535 million as at December 31 2018. Their contribution to the Group's net income in 2019 was NIS 141 million, compared with NIS 383 million in 2018, a 63.2 percent decrease. In 2019, the Group's return on investment in the Israeli consolidated subsidiaries was 2.3 percent compared with 6.1 percent in 2018.

Max IT Finance (formerly "Leumi Card")

Max IT Finance (formerly "Leumi Card") (hereinafter - "Leumi Card" or the "Company") is a credit card company which issues credit cards, clears credit card transactions, operates credit cards and provides payment solutions and financial products.

Until the sale of the Company, the Bank held, through wholly-owned corporations, 80 percent of Leumi Card with the Azrieli Group holding 20 percent of the Company's equity.

According to the provisions of the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (Legislative Amendments), 2017, the Bank is required to sell its interests in the company by February 1 2020.

On February 25 2019, the sale of Leumi Card was completed, as detailed below.

Sale of Leumi Card

In accordance with the provisions of the said Law and after reviewing the various alternatives, and following a procedure for the disposal of the Bank's interests in the company - an agreement was signed between the Bank and Azrieli (hereinafter: The "Sellers") and Warburg Pincus Financial Holdings (Israel LTD.), a corporation under the control of investment fund Warburg Pincus (hereinafter: The "Buyer"), for the sale of the Bank's entire interests in Leumi Card. On February 25 2019, the sales transaction was completed, after the conditions precedent were fulfilled (hereinafter - the "Completion Date" or "Transaction Completion Date").

Following are the main points of the agreement:

1. The consideration for the entire sale is NIS 2.5 billion (with the Bank's share being NIS 2 billion).
2. The said consideration was adjusted, inter alia, for a dividend distributed by Leumi Card to its shareholders until the transaction completion date. The total adjustment amount (for the dividends) was NIS 558 million.
3. The consideration was and will be paid to the sellers in three installments and will be divided between the Bank and the Azrieli Group according to their relative holdings in the said Company). Two deferred payments, which shall be completed after the completion date, are guaranteed by an autonomous guarantee by international insurers, which was delivered to the sellers at the completion date to guarantee the abovementioned payments.

   Following are details of the payments to the sellers after the adjustments detailed in Section 2 above:

   - A total of NIS 517 million was paid on the transaction completion date.
   - A total of NIS 342 million shall be paid 12 months after the transaction completion date.
   - A total of NIS 1,111 million shall be paid after two years have elapsed since the transaction completion date.

[1] For a definition of investees, please see Note 1.B.

4. The agreement includes representations typical of company sale transactions, as well as an indemnification mechanism for breach of representations. The reimbursement mechanism determines a 1.5 percent minimum for activating the mechanism and is restricted to a maximum total reimbursement rate of 10 percent of the transaction amount (excluding for breach of material representations or in case of fraud).

5. According to the agreement, Leumi Card entered into a financing agreement with the Bank in respect for part of its liquidity needs.

As part of the negotiations with the Acquirer, the Bank has agreed to include several terms and conditions which were added to the operating agreement between the Bank and Leumi Card on October 11 2018 (hereinafter: The "Operating Agreement"). In exchange to the Bank's agreement to include these terms and conditions, and subject to meeting the terms and conditions of the agreement, the Bank shall be paid - six years from the effective date of the operating agreement - a total of NIS 50 million to NIS 128 million.

Subject to overachieving the results of Leumi Card outlined in the business model presented to the Acquirer as part of the sale procedure, the Bank shall be paid - five years after the Operation Agreement will have come into effect - a total of an additional NIS 145 million. Under certain circumstances, provided the Bank is eligible for the additional payment, the said payment may be postponed for a period of up to two years, and shall bear interest.

For more information regarding the activity agreement, please see Note 26H.

Leumi Partners Ltd.

Leumi Partners serves as the Leumi Group's investments banking arm.

Leumi Partners ended 2019 with a NIS 141 million gain, mainly on the back of investments and income from fees and commissions, compared to a gain of NIS 174 million in 2018.

Shareholders' equity totaled NIS 1,961 million as at December 31 2019, compared with NIS 1,832 million as at the end of 2018.

As at December 31 2018, Mr. Yaron Bloch ended his tenure as Leumi Partners' CEO. He was replaced by Dr. Avi Ortal on February 1 2019.

Leumi Partners focuses on four main areas of activity:

1. Managing the Leumi Group's non-banking investment portfolio;
   Leumi Partners (hereinafter - the "Company") initiates, identifies and executes direct and indirect investments in companies, projects and private equity funds.

   The Leumi Group's non-banking investment policy is in line with the Group's risk appetite and the restrictions of the Banking (Licensing) Law and therefore only includes minority interests (up to 20 percent for each means of control, with no controlling interest). The Company focuses on mid-term and long-term investments, according to its policy. The non-banking investment strategy dictates a preference for private companies and high probability of disposal.
   On March 31 2017, the Bank of Israel approved the request to gradually increase the Leumi Group's non-banking investments up to a total of NIS 3.5 billion.

   During 2019, the Company invested NIS 492 million in companies and extended mezzanine loans totaling NIS 307 million. It further committed to additional investments and loans for a total of NIS 265 million. The Company's outstanding commitments for investment in private equity funds totaled NIS 509 million as of December 31 2019. The Company's balance of non-banking investments as of December 31 2019 is NIS 2.9 billion.

   On May 7 2019, the transaction for the sale of Leumi Partners Ltd.'s interests in Super-Pharm Israel Ltd. (hereinafter: The "Company") to Union Investments and Development Ltd. was completed. The sold shares constituted 15 percent of the Company's issued and paid up share capital. The Bank recorded a NIS 71 million pre-tax gain from the transaction. For more information, please see the immediate report dated May 7 2019.

On June 25 2019, Leumi Partners completed the acquisition of 20 percent of Taavura of the Nesher Israel Cement Enterprises Ltd. group, for NIS 251.1 million. On the same date, entities from the Phoenix Group acquired another 20 percent of Taavura's shares. For more information, please see the immediate report dated June 25 2019.

2. Underwriting, consulting and management of private and public offerings
The Company provides a wide range of underwriting and consulting services to companies and shareholder through Leumi Partners Underwriters Ltd.

   In 2019, Leumi Partners Underwriters participated in several public offerings for a total of NIS 28.4 billion and led 22 public offerings for a total of NIS 8.6 billion.

3. Consulting for and management of M&As and capital raising
The services are provided to Israeli and foreign companies wishing to expand strategically through mergers and acquisitions or to investors or controlling shareholders wishing to sell or reduce their holdings.
The services offered in this field include: Assistance in characterizing the client's strategic needs and objectives; characterizing the optimal investment or investor to meet them; identifying investment objectives or target investors globally; assisting in contacting the target company; assisting throughout the negotiation process; deal structuring so as to meet the client's objectives; and support in accessing financing resources for the transaction.

   Leumi Partners cooperates with investment houses and other entities in Israel and abroad.

   In December 2019, Leumi Partners signed an unbinding agreement in principle with the investment banking division of the international bank Macquarie for exclusive cooperation in the domain of investment banking. The cooperation will apply to offerings and mergers and acquisitions of Israeli companies and Israel-related companies in which the counterparty is not Israeli.

4. Conducting economic analyses and preparing valuations
Through its subsidiary Leumi Partners Research, the Company performs economic analyses and valuations mainly for the Leumi Group and for external economic entities.

Foreign Consolidated Companies (Offices)

The Bank's total investments (including in capital notes) in its foreign offices as at the end of 2019 was NIS 3,874 million, compared with NIS 4,190 million as at the end of 2018. In 2019, the foreign offices' contribution to the Group's shekel net income was NIS 189 million, compared with NIS 322 million in 2018.

The Bank has affiliates in the US and UK. During the reporting period, the Bank also held an affiliate in Romania, which was sold on July 10 2019. The Bank also has a field office in China.

For more information regarding the affiliates' contribution to the Group's profit, please see Note 15.

Bank Leumi USA

Incorporated in 1968, Bank Leumi USA (BLUSA) has a commercial banking license from the State of New York and is a member of the Federal Deposit Insurance Corporation (FDIC).
BLUSA wholly owns LISI, a securities trading company which primarily serves BLUSA's customers.

BLUSA focuses on Commercial banking, primarily extending commercial loans to local middle-market companies and to Israeli companies active in the US, as well as to private banking services to US- and nonresidents. Most of the commercial activity is in the following areas: Real estate, high-tech, elderly care homes, and commerce. BLUSA has five branches located in the states of New York, California, Florida and Illinois as well as an office in Israel.

On May 22 2019, Bank Leumi USA distributed USD 60 million in dividends. Bank Leumi's pro-rata share in BLC is USD 50.8 million.

On January 30 2020, a decision was made to distribute a dividend of USD 73 million. The actual distribution is set to take place in early March 2020. Bank Leumi's pro-rata share in BLC is USD 61.8 million.

BLUSA's net income in 2019 was USD 75 million, compared with USD 63 million in the same period last year, a 19.1 percent decrease.

The increase in net income stems mainly from an increase in net interest income on the back of the increase in the LIBOR spread and a decrease in tax expenses. Last year, the tax expenses included an increase in the tax provision following the tax reform in the US, which reduced the corporate tax rate in the United States from 35 percent to 21 percent beginning in the 2018 tax year.

Return on equity in 2019 was approx. 9.00 percent compared to 8.11 percent in 2018.

BLUSA's total assets in 2019 was USD 6,884 million, compared to a total of USD 7,079 million in 2018, a 2.8 percent decrease.

Bank Leumi UK (BLUK)

Bank Leumi (UK) PLC Bank Leumi (UK) plc was founded in 1959 and continues the Group's activity in England which commenced in 1902. Leumi UK has full control over Leumi ABL Ltd., which is mainly engaged in accounts receivable factoring.

Bank Leumi UK is engaged in commercial banking. Its activity includes financing of real estate, global commerce and goods as well as extending credit to Israeli companies active in Europe and particularly in the UK. The real estate financing activities include funding of a range of activities in the UK and Western Europe, including investments and development of residential real estate projects and funding of commercial real estate projects (mainly hotels, elderly care homes and student dormitories). Funding is extended both to domestic customers and to nonresidents (mainly Israeli).

Bank Leumi UK is regulated by the Prudent Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which are regulatory arms of the Bank of England.

On November 2 2017, a scoping meeting was held with the Enforcement Division of the Financial Conduct Authority (FCA) regarding Bank Leumi UK (BLUK), on controls and systems for the implementation of anti-money laundering regulations - a procedure undertaken under the powers conferred upon FCA. On July 11 2019, the FCA confirmed that the procedure had ended and that it would not take any action against BLUK.

BLUK's net income in 2019 was GBP 10 million, compared with GBP 10.9 million in the same period last year, an 8.3 percent decrease.

Return on equity in 2019 was approx. 4.5 percent, compared to 5.1 percent in 2018.

BLUK's total assets in 2019 was GBP 1,334 million, compared to a total of GBP 1,537 million in 2018, a 13.2 percent decrease.

Bank Leumi Romania (BLROM)

On July 10 2019, the transaction for the sale of the Bank's interests in Leumi Romania to First Bank S.A - a Romania-based bank controlled by Investment Fund JC Flowers - was completed. The completion of the transaction does not have a material effect on the Bank's financial results. For more information, please see the immediate report dated July 10 2019.

Risk Exposure and Management Thereof

Risk Management at Leumi

The Bank’s business activity involves management of financial and non-financial risks. The key financial risks managed by the Bank are as follows: Credit risks, which are integral to the Bank’s core business, as well as market and liquidity risks. In addition to financial risks, the Bank’s activity poses non-financial risks, the management of which is a necessary precondition to meeting the Group’s ongoing and long-term goals. These risks include operational risks, such as technological and cyber risks, regulatory risk, compliance risk, legal risk, reputational risk, strategic risk, model risk, environmental risk, conduct risk, and macroeconomic risk.

Leumi’s risk strategy management is to maintain the Group’s stability and support the achievement of its business objectives. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Bank’s business activity. The risk management framework includes mechanisms for identifying and estimating risks, defining the corporate structure and areas of responsibility for managing risk as well as putting in place adequate control and reporting mechanisms.

The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

Organizational Structure of Leumi Group’s Risk Management Function

Leumi’s risk management is based on three lines of defense, as required by Proper Conduct of Banking Business Directive No. 310 - “Risk Management”.

1. First line of defense – the managements of the business lines, including supportive functions such as IT, bear full responsibility for managing the risks embodied in the products, operations, processes and systems under their purview, and for implementing an adequate control environment over their activities, through processes of identification, measurement, monitoring, control, mitigation and reporting

2. Second line of defense – The Risk Management Division is an independent function responsible for planning and developing a comprehensive risk management framework for the Bank. The Risk Management Division's main areas of responsibility conform to the requirements of the Proper Conduct of Banking Business Directive No. 310, including: Responsibility for risk management at the Group and Bank levels; creating an up-to-date overall picture of each risk for decision-making purposes; leading the drafting of Leumi's risk policy for all major risks; assisting the Board of Directors in determining the Bank's risk appetite; and leading the process of evaluating the Internal Capital Adequacy Assessment Process (ICAAP), including its various components.

   The second line of defense involves additional functions, such as: The Bank's Chief Legal Counsel - who is responsible for the management of legal risk and compliance risk, and the Chief Accountant - who is responsible for financial reporting and SOX.

3. The third line of defense is the Internal Audit Division, which reports directly to the Board of Directors. The Internal Audit Division is responsible for conducting an independent, objective audit and for challenging controls, processes and automated systems in the banking corporation. The audit is usually performed retrospectively on the first and second lines, ensuring implementation of the legal provisions and instructions of management and the Board of Directors

The Bank's Board of Directors is responsible, inter alia, for developing the overall risk strategy, including: The risk appetite; supervision of the Group’s risk management framework; approval of the corporate structure; approval of the risk management policy for each material risk; overseeing and challenging the risk levels to which the Group and the Bank are exposed, while ensuring compliance with the risk appetite and the provisions of the law and regulations.

The Chief Risk Officer, who is a member of the Bank's management and heads the Risk Management Division, is responsible for managing the Group's and Bank's main risks.

Reporting to the Chief Risk Officer are a department manager and managers of the following risk management units, which report to the Risk Management Division – Credit Risk Unit, Market Risk Unit, Operational Risk Unit, and Model

Risk Unit, as well as the head of the Special Credit Department. A chief risk officer is appointed for each Israeli and foreign subsidiary, reporting to the subsidiary's CEO and professionally (dotted line) to the Group's Chief Risk Officer.

Changes in the Risk Environment and their Effect on the Group

There were no significant changes in the various risk environments, risk or threat map, but the relative intensity of the various risks has changed. The banking system in Israel and worldwide, including the Leumi Group, is highly affected by risks related to regulation and legislation, the volatile macroeconomic environment, and changes in the business model - including the transition to e-banking and new social and consumer trends.

The Internal Capital Adequacy Assessment Process (ICAAP)

The Capital Adequacy Assessment Process (ICAAP) is aimed at calculating the capital required to support the various risks to which the Group is exposed - both in the ordinary course of business and under stress scenarios. According to the process, the Bank is in possession of adequate capital and liquidity to handle all of the risks identified - both in the ordinary course of business and under extreme stress scenarios.
The products of the process are summarized in the ICAAP paper submitted to the Banking Supervision Department in February 2020.

For more information regarding risk exposure and assessment, please see the Risk Management Report.

The Group's Risk Appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to Leumi's strategy and to the boundaries of its current and future business focal points. The risk appetite addresses Leumi's risk identification, measurement, control, management and mitigation practices, which have direct impact on the Group's residual risk profile. The risk appetite boundaries are re-examined each year and approved at the Board of Directors' level as part of the ICAAP process. In February 2020, the Group's risk appetite was re-approved as part of the ICAAP paper.

The risk appetite paper constitutes a reference point for all risk-specific policy papers, which outline additional risk boundaries and risk management guidelines.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. Quantitative and qualitative measures were set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

Using Stress Testing as Part of Risk Management

Using a uniform stress test is an accepted global practice. It is required under the Basel Committee rules and contributes to understanding the risks to which the banking system and a single bank is exposed to. The process strengthens the banking system's transparency, allows to examine the robustness of banking corporations under adverse market conditions and draw comparisons. The process supports methodology improvements and the understanding of the risk factors by banking corporations as well as by the Banking Supervision Department.

During Q4 2019, the uniform stress scenario for 2019 - a cyber-stress test - was implemented.

The Leumi Group also implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's environment.

The impact of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group's compliance with all of the regulatory and internal restrictions set for the realization of the various scenarios.

For more information regarding risk exposure and assessment, please see the Risk Management Report.

Credit Risks

Credit provision is a core activity of the Bank and the Group, which is conducted in a decentralized manner by various business lines.

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.

Activities which increase credit risk include balance sheet credit risk and off-balance-sheet credit risk, including: Loans to the public, loans to banks, loans to governments, deposits with banks, investments in bonds.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, “Credit Risk Management”, and Proper Conduct of Banking Business Directive No. 314, “Sound Credit Risk Assessment and Valuation for Debts”, including the accountability of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department’s directives, implementing corporate governance which includes the three lines of defense.

The Bank’s credit policy paper reflects the risk appetite in this area and is in line with the Bank’s strategy.

A review of the exposure to credit risks and a snapshot of meeting restrictions is presented to Management and the Board of Directors at least once a quarter.

The Bank’s credit policy is a key component of the Bank’s credit management and is based on the Leumi Group’s risk appetite in the credit domain. The Bank’s credit policy is derived from the Group’s credit policy, which serves as a master document outlining the governing principles for the Bank’s policy framework both in Israel and for its foreign operations. The paper also includes a set of credit restrictions, which are defined and managed at the group level, alongside the existing procedures for identifying, measuring, monitoring, supervision and control over the credit risk. Credit policy and existing procedures which relate to the credit risk inherent in all of the Bank’s activities and applies to each loan as well as to the entire loan portfolio.

Management and Control Processes

When it comes to managing credit risks, there are procedures for controlling and monitoring the risks. The procedures are adapted to the customers’ characteristics as well as to the organizational units in which they are handled. In 2019, following measures taken in recent years, emphasis was placed, inter alia, on adapting the management and control processes to the transition to e-banking.

In addition to handling and control at the individual loan level, significant resources are devoted to managing the quality of the loan portfolio as a whole, including the overall adequacy of loan loss provision to cover the losses embodied in the loan portfolio, as well as segments thereof, including following and monitoring the relevant concentration focal points and complying with regulatory and internal restrictions.

For more information and details regarding developments in the credit portfolio and the qualitative indicators characterizing the portfolio, please see below in this section as well as in the Risk Management Report.

Credit Risk Management Tools - Risk Measurement Systems

To manage credit risk, quantitative models are used to internally rate borrowers’ risk and evaluate and monitor risk at the portfolio level. The internal rating of borrowers is a key player in the credit granting decision-making process and in monitoring its quality over time.

The Bank uses two main tools to assign internal ratings to customers:

- A rating system for retail customers (including housing loans), based on the characteristics of the customer’s activity in the account over time.
- A rating system designed for business-commercial borrowers, based on structured expert questionnaires.

The models used to perform the ratings in said systems are validated and monitored on a regular basis.

Credit risk and non-performing assets

	December 31 2019			
	Commercial	For housing	Private individuals - Other	Total
	In NIS millions			
1. Credit risk in credit performance rating:[(a)]				
Balance-sheet credit risk	189,787	83,117	26,644	299,548
Off balance-sheet credit risk	84,484	2,573	16,751	103,808
Total credit risk in credit performance rating	274,271	85,690	43,395	403,356
Credit risk not in credit performance rating				
A. Non-troubled	1,972	472	781	3,225
B. Total troubled[(b)]	4,175	830	613	5,618
Special mention	1,524	830	229	2,583
Substandard	426	-	73	499
Impaired non-performing	2,225	-	311	2,536
Total balance-sheet credit risk	6,147	1,302	1,394	8,843
Off balance-sheet credit risk	865	-	16	881
Total credit risk not in credit performance rating	7,012	1,302	1,410	9,724
Of which: Unimpaired debts in arrears of 90 days or more[(c)]	114	830	58	1,002
Total credit risk incl. of the public	281,283	86,992	44,805	413,080

More information on non-performing assets				
A. Non-accrual impaired non-performing debts	1,910	-	234	2,144
B. Assets received for settled loans	8	-	-	8
Total non-performing assets of the public	1,918	-	234	2,152
Percentage of non-accrual impaired non-performing loans to the public (NPL) out of total loans to the public				0.75%

(a) Credit risk whose credit rating at the reporting date is in line with the credit rating for granting new credit in accordance with the Bank's policy.
(b) Credit risk that is impaired non-performing, substandard or special mention.
(c) Including for housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.

Credit risk and non-performing assets (cont.)

	December 31 2018			
	Commercial	For housing	Private individuals - Other	Total
	In NIS millions			
1. Credit risk in credit performance rating:[(a)]				
Balance-sheet credit risk	189,278	79,538	33,663	302,479
Off balance-sheet credit risk	75,713	1,923	28,650	106,286
Less credit risk in credit performance rating of balances classified as held-for-sale assets[(d)]	(743)	-	(18,754)	(19,497)
Total credit risk in credit performance rating	264,248	81,461	43,559	389,268
Credit risk not in credit performance rating				
A. Non-troubled	1,947	460	947	3,354
B. Total troubled[(b)]	5,093	893	976	6,962
Special mention	2,358	862	512	3,732
Substandard	347	-	79	426
Impaired non-performing	2,388	31	385	2,804
Total balance-sheet credit risk	7,040	1,353	1,923	10,316
Off balance-sheet credit risk	1,301	-	22	1,323
Less credit risk in credit performance rating of balances classified as held-for-sale assets[(d)]	(7)	-	(368)	(375)
Total credit risk not in credit performance rating	8,334	1,353	1,577	11,264
Of which: Unimpaired debts in arrears of 90 days or more[(c)]	110	862	51	1,023
Total credit risk incl. of the public	272,582	82,814	45,136	400,532
More information on non-performing assets				
A. Non-accrual impaired non-performing debts	2,147	-	373	2,520
B. Assets received for settled loans	9	-	-	9
Less impaired non-performing debts of balances classified as held for sale assets[(d)]	(1)	-	(44)	(45)
Total non-performing assets of the public	2,155	-	329	2,484
Percentage of non-accrual impaired non-performing loans to the public (NPL) out of total loans to the public				0.91%

(a) Credit risk whose credit rating at the reporting date is in line with the credit rating for granting new credit in accordance with the Bank's policy.
(b) Credit risk that is impaired non-performing, substandard or special mention.
(c) Including for housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.
(d) For more information regarding the held-for-sale operation, please see Note 36F to the financial statements as at December 31 2018.

Change in Outstanding Impaired Non-Performing Loans

Change in balance of impaired non-performing debts for loans to the public

	December 31							
	2019				2018			
	In NIS millions							
	Com-mercial	For housing	Private indivi-duals - Other	Total	Com-mercial	For housing	Private indivi-duals - Other	Total
Outstanding impaired non-performing debts as at the beginning of the year[e]	**2,380**	**31**	**340**	**2,751**	3,049	29	377	3,455
Loans classified as impaired non-performing debts during the year	**1,476**	**-**	**180**	**1,656**	893	2	292	1,187
Debts reclassified to performing	**(33)**	**-**	**(1)**	**(34)**	(340)	-	-	(340)
Written-off impaired non-performing debts	**(654)**	**-**	**(69)**	**(723)**	(374)	-	(118)	(492)
Repaid impaired non-performing debts	**(885)**	**(14)**	**(138)**	**(1,037)**	(766)	-	(167)	(933)
Adjustments from translation of financial statements	**(41)**	**(2)**	**-**	**(43)**	41	-	-	41
Other	**-**	**-**	**-**	**-**	(122)	-	-	(122)
Less balances classified as held-for-sale assets[a]	**-**	**-**	**-**	**-**	(1)	-	(44)	(45)
Leaving consolidation	**(23)**	**(15)**	**(1)**	**(39)**	-	-	-	-
Outstanding impaired non-performing debts as at the end of the year	**2,220**	**-**	**311**	**2,531**	2,380	31	340	2,751

Of which: Change in troubled debts under restructuring

	December 31							
	2019				2018			
	In NIS millions							
	Com-mercial	For housing	Private indivi-duals - Other	Total	Com-mercial	For housing	Private indivi-duals - Other	Total
Balance of troubled debts under restructuring as at the beginning of the year	**1,318**	**8**	**319**	**1,645**	1,753	8	331	2,092
Restructurings carried out during the year	**310**	**-**	**168**	**478**	388	-	216	604
Debts reclassified to performing following subsequent restructuring	**-**	**-**	**-**	**-**	(162)	-	-	(162)
Written-off restructured debts	**(159)**	**-**	**(46)**	**(205)**	(102)	-	(43)	(145)
Repaid restructured debts	**(702)**	**-**	**(150)**	**(852)**	(576)	-	(167)	(743)
Adjustments from translation of financial statements	**(20)**	**(1)**	**-**	**(21)**	17	-	-	17
Less balances classified as held-for-sale assets[(a)]	**-**	**-**	**-**	**-**	-	-	(18)	(18)
Leaving consolidation	**(18)**	**(7)**	**(1)**	**(26)**	-	-	-	-
Balance of troubled debts under restructuring as at the end of the year	**729**	**-**	**290**	**1,019**	1,318	8	319	1,645

(a) Including balances classified as held-for-sale assets. For more information regarding the held-for-sale operation, please see Note 36F to the financial statements as at December 31 2018.

Disclosure, Measurement, Classification and Loan Loss Provision Rules

For loan loss expenses and classification of troubled debts, the Bank is following the Banking Supervision Department's directives, which became effective on January 1 2011 and the revised directives published subsequent to that date. The Bank estimates, assesses and revises the loan loss provision on a regular basis, based on past experience, analysis of individual borrowers, as well as according to economic forecasts and assessments of the various markets and business sectors.

Change in the outstanding loan loss provision in the balance sheet for impaired non-performing debts

	December 31							
	2019				2018			
	In NIS millions							
	Com-mercial	For housing	Private indivi-duals - Other	Total	Com-mercial	For housing	Private indivi-duals - Other	Total
Balance of loan loss provision for impaired non-performing debts as at the beginning of the year	**459**	**4**	**150**	**613**	447	5	61	513
Income for loan losses	**158**	**-**	**(44)**	**114**	(202)	(1)	77	(126)
Accounting write-offs	**(654)**	**-**	**(69)**	**(723)**	(375)	-	(117)	(492)
Collection of debts recorded as accounting write-offs in previous years	**423**	**-**	**130**	**553**	590	-	138	728
Adjustments from translation of financial statements	**(2)**	**-**	**-**	**(2)**	-	-	-	-
Leaving consolidation	**(12)**	**(4)**	**-**	**(16)**	-	-	-	-
Less balances classified as held-for-sale assets[(a)]	**-**	**-**	**-**	**-**	(1)	-	(9)	(10)
Balance of loan loss provision for impaired non-performing debts as at the end of the year	**372**	**-**	**167**	**539**	459	4	150	613

(a) For more information regarding the held-for-sale operation, please see Note 36F to the financial statements as at December 31 2018.

For more information regarding the methodology for calculating the collective provision, please see under "Critical Accounting Policies".
For more information regarding provisions, please see Note 13.

Breakdown of credit risk indicators

	December 31	
	2019	2018[(a)]
	In %	
Percentage of impaired non-performing loans to the public out of outstanding loans to the public	**0.89**	0.98
Percentage of performing loans to the public in arrears of 90 days or more out of outstanding loans to the public	**0.35**	0.36
Percentage of troubled credit risk to the public out of the overall credit risk for the public	**1.54**	1.92
Percentage of expenses for loan losses out of the average outstanding loans to the public	**0.22**	0.19
Percentage of net write-offs for loans to the public out of average balance of loans to the public	**(0.24)**	(0.09)
Percentage of balance of the loan loss provision for loans to the public out of outstanding loans to the public	**1.30**	1.41
Percentage of balance of the loan loss provision for loans to the public out of outstanding impaired non-performing loans to the public	**146.74**	142.95
Percentage of balance of the loan loss provision for loans to the public out of outstanding impaired non-performing loans to the public and the outstanding loans to the public in arrears of 90 days or more	**105.12**	104.66
Percentage of net write-offs for loans to the public out of the outstanding loan loss provision for loans to the public	**(17.96)**	(6.40)

(a) Including balances classified as held-for-sale assets. For more information regarding the held-for-sale operation, please see Note 36F to the financial statements as at December 31 2018.

For more information regarding measurement and disclosure provisions for impaired non-performing debts, credit risk and loan loss provision, please see under "Critical Accounting Policies", "Loan Loss Provision and Classification of Troubled Debts".

Credit Concentration

Concentration risk is defined as a single exposure or group of exposures having a common attribute and the potential to cause significant losses. Concentration risk is mainly managed by setting limitations and monitoring and controlling compliance therewith.

The sources of concentration relevant to the Bank's loan portfolio are as follows: Economic sectors, single borrowers and groups of borrowers.

The concentration risk is managed by ensuring compliance with all regulatory restrictions, as well as by defining and regularly monitoring compliance with all internal restrictions (which are more stringent than regulatory ones), while maximizing the effective use of the internal and regulatory restrictions in this area.

Credit portfolio diversification among various economic sectors

To diversify the risk embodied in a high concentration in one sector, the Bank's credit portfolio is split between the various economic sectors. In relatively low risk sectors, we aim to reach a higher share than our share of the banking system.

The Bank's credit policy on various operating segments and economic sectors changes from time to time in accordance with the business environment, the Bank's business focus and risk appetite, as well as the Bank of Israel's general and specific directives.

Total Credit Risk to the Public by Economic Sector

	December 31 2019						
					Loan losses[c]		
	Total credit risk[a]	Of which: Credit perfor-mance rating[e]	Of which: Troubled credit risk[d]	Of which: Non-perfor-ming credit risk	Expenses (income) for loan losses	Net accoun-ting write-offs	Balance of loan loss provision
	In NIS millions						
For borrowers activity in Israel - Public-commercial							
Industry	24,938	24,029	640	388	89	189	(409)
Construction and real estate - construction[f]	52,689	52,222	294	118	29	24	(356)
Construction and real estate - real estate activity	30,837	30,401	436	331	(128)	(37)	(273)
Trade	30,151	29,343	776	433	235	210	(357)
Financial services	33,866	33,848	18	5	(6)	12	(168)
Other industries	45,177	44,057	1,047	366	48	37	(543)
Commercial - Total[g]	217,658	213,900	3,211	1,641	267	435	(2,106)
Private individuals - Housing loans	86,786	85,491	830	-	22	29	(466)
Private individuals - Other	44,393	42,984	629	311	135	111	(656)
Total loans to the public - activity in Israel	348,837	342,375	4,670	1,952	424	575	(3,228)
Banks and governments in Israel	43,616	43,616	-	-	(1)	-	(2)
Total activity in Israel	392,453	385,991	4,670	1,952	423	575	(3,230)
For borrowers activity outside Israel							
Total, public - Activity outside Israel	64,243	60,981	1,710	919	186	92	(486)
Foreign banks and governments	47,688	47,688	-	-	-	-	-
Total activity outside Israel	111,931	108,669	1,710	919	186	92	(486)
Total activity in and outside Israel	504,384	494,660	6,380	2,871	609	667	(3,716)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debts,[b] bonds, securities borrowed or purchased under reverse repurchase agreements, assets for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 298,888, 81,237, 1,470, 10,970 and 111,819 million, respectively.
(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under other liabilities).
(d) Balance-sheet and off-balance-sheet credit risk that is impaired non-performing, substandard or special mention, including housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.
(e) Credit risk whose credit rating at the reporting date is in line with the credit rating for granting new credit in accordance with the Bank's policy.
(f) Including housing loans extended to certain purchasing groups currently in the process of construction.
(g) The commercial credit risk includes an outstanding NIS 2,902 million extended to purchasing groups currently in the process of construction.

Total Credit Risk to the Public by Economic Sector (cont.)

	December 31 2018						
					Loan losses[c]		
	Total credit risk[a]	Of which: Credit performance rating[e]	Of which: Troubled credit risk[d]	Of which: Non-performing credit risk	Expenses (income) for loan losses	Net accounting write-offs	Balance of loan loss provision
	In NIS millions						
For borrowers activity in Israel - Public-commercial							
Industry	24,348	23,488	857	470	9	(76)	(513)
Construction and real estate - construction[f]	47,548	46,616	765	282	7	10	(348)
Construction and real estate - real estate activity	28,764	28,159	604	433	(107)	(80)	(372)
Trade	29,798	28,644	1,091	277	136	131	(322)
Financial services	27,964	27,948	14	8	(13)	(6)	(185)
Other industries	45,597	43,994	1,317	553	151	56	(544)
Commercial - Total[g]	204,019	198,849	4,648	2,023	183	35	(2,284)
Private individuals - Housing loans	82,339	81,028	862	-	32	4	(473)
Private individuals - Other	63,531	61,612	979	383	234	165	(807)
Less outstanding held-for-sale loans to the public[h]	(19,869)	(19,497)	(372)	(45)	-	-	184
Total loans to the public - activity in Israel	330,020	321,992	6,117	2,361	449	204	(3,380)
Banks and governments in Israel	44,346	44,346	-	-	-	-	(3)
Less outstanding held-for-sale loans to the public[h]	(33)	(33)	-	-	-	-	-
Banks and governments in Israel	44,313	44,313	-	-	-	-	(3)
Total activity in Israel	374,333	366,305	6,117	2,361	449	204	(3,383)
For borrowers activity outside Israel							
Total, public - Activity outside Israel	70,515	67,276	1,568	616	70	52	(433)
Foreign banks and governments	32,999	32,999	-	-	-	-	-
Less balances classified as held-for-sale[h]	(2)	(2)	-	-	-	-	-
Total activity outside Israel	103,512	100,273	1,568	616	70	52	(433)
Total activity in and outside Israel	477,845	466,578	7,685	2,977	519	256	(3,816)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debts,[b] bonds, securities borrowed or purchased under reverse repurchase agreements, assets for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 290,254, 71,013, 1,257, 12,756 and 102,565 million, respectively.
(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under other liabilities).
(d) Balance-sheet and off-balance-sheet credit risk that is impaired non-performing, substandard or special mention, including housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.
(e) Credit risk whose credit rating at the reporting date is in line with the credit rating for granting new credit in accordance with the Bank's policy.
(f) Including housing loans extended to certain purchasing groups currently in the process of construction.
(g) The commercial credit risk includes an outstanding NIS 2,732 million extended to purchasing groups currently in the process of construction.
(h) For more information regarding the held-for-sale operation, please see Note 36F to the financial statements as at December 31 2018.

Activity and risk boundaries in the construction and real estate industry

The construction and real estate sector is the area of activity to which the Bank has the greatest exposure out of all the business economic sectors. As with other economic sectors, the credit policy outlines internal methodologies and criteria for financing transactions in each of the real estate industry's sub-industries.

Leumi's focus on real estate financing is reflected, inter alia, in the fact that a significant part of the Bank's activity is concentrated in a dedicated function specializing in serving customers in this area. The Construction and Real Estate Department finances some of the most extensive and/or complex transactions in this field, leveraging its credit officers' expertise and practical experience.

A significant portion of construction and infrastructure loans are extended under the construction loan model, which is characterized by periodic assessment and close monitoring of relevant criteria (such as: Sales, construction progress, staying within budget, etc.). This is done by relying in part on certified outsourced construction supervisors.

Credit granted to the real estate sector is in line with the Bank's risk appetite, according to the adequate risk level and pricing. As a result, and in an effort to continue being a dominant player in real estate financing, the Bank strives to make optimal and effective use of the internal and regulatory restrictions in this domain.

The Bank closely monitors the real estate credit portfolio, while following macroeconomic trends and the development of the industry's risk characteristics.

The Bank also assesses the real estate industry risk under a central stress scenario, with credit losses broken down by sub-sectors and examined against the risk assessment and risk appetite.

In addition to the regulatory restriction and in order to effectively manage the internal credit risk mix, the Bank is careful to maintain geographical diversification of the projects, according to demand and across the various sub-sectors.

Following similar policies purchased in the past, a new insurance policy for the portfolio of guarantees was purchased in December 2019, pursuant to the Sales (Apartments) Law and for the commitment to issue such guarantees by international reinsurers with high global credit ratings. The policy insures the Bank against paying for the forfeiture of the guarantees, according to the terms and conditions of the policy. The purchase of the insurance policy enables the Bank to reduce the capital held for the credit risk arising from the issuance of the guarantees, while using the policy as a credit risk mitigator (the reduction is in line with the rating of the reinsurers). The insurance is for projects commencing by December 31 2020.

On January 12 2020, the Bank of Israel published a revised Proper Conduct of Banking Business Directive No. 315, "Limit on Industry Indebtedness". The revised directive allows banks to grant additional credit of 4 percent of the credit portfolio to finance infrastructure projects which qualify as civil engineering works, beyond the 20 percent restriction to other real estate sectors.

Hereinafter Development of indebtedness for the construction and real estate industry (in and outside Israel)

	December 31		Change	
	2019	2018		
	In NIS millions			In %
Balance-sheet credit risk	**62,949**	59,557	3,392	5.7
Guarantees for apartment buyers[(a)]	**5,510**	4,655	855	18.4
Other off balance sheet credit risk[(a)]	**29,649**	27,361	2,288	8.4
Total credit risk	**98,108**	91,573	6,535	7.1

(a) In credit risk terms.

As of December 31 2019, the Bank complies with the regulatory and internal restrictions, which are in line with the Bank's assessment of the risk embodied in the various sub-sectors.

Following is the rate of each major subsector from the Bank's total indebtedness for real estate, as at December 31 2019:

- Residential real estate development: Approx. 47 percent.
- Real estate activities (mainly rental properties) - Approx. 37 percent.
- Other: Approx. 16 percent.

Below are additional data regarding the overall credit

Following is a breakdown of total loans to the public and off-balance-sheet credit risk by individual borrowers' loan amount

Maximum credit in NIS thousands		December 31 2019 % of total no. of borrowers	% of total balance-sheet credit	% of total off-balance-sheet credit	2018 % of all borr-owers(c)	% of total balance-sheet credit(c)	% of total off-balance-sheet credit(c)
From	To	In %			In %		
-	80	**71.3**	**3.8**	**11.0**	80.8	5.9	20.1
80	600	**22.9**	**19.6**	**11.2**	15.7	20.3	11.8
600	1,200	**3.9**	**14.6**	**3.9**	2.4	13.9	3.6
1,200	2,000	**1.1**	**7.0**	**2.7**	0.6	6.4	2.2
2,000	8,000	**0.6**	**8.3**	**5.4**	0.4	8.5	5.0
8,000	20,000	**0.1**	**6.7**	**4.6**	0.1	6.5	4.9
20,000	40,000	**0.06**	**7.0**	**5.3**	0.04	7.0	5.6
40,000	200,000	**0.06**	**19.0**	**19.6**	0.04	17.7	17.9
200,000	800,000	**0.01**(a)	**9.1**	**17.9**	0.01(a)	9.5	16.0
Over 800.000		**0.001**(b)	**4.9**	**18.4**	0.001(b)	4.3	12.9
Total		**100.0**	**100.0**	**100.0**	100.0	100.0	100.0

(a) In 2019 - 125 borrower and in 2018 - 121 borrowers.
(b) In 2019 - 22 borrower and in 2018 - 20 borrowers.
(c) The percentage of balance-sheet credit held-for-sale out of total balance-sheet credit is 3 percent.
The percentage of off-balance-sheet credit held-for-sale out of total off-balance-sheet credit is 11 percent.
The percentage of borrowers for held-for-sale asset is 38 percent.

For more information regarding credit granting by size - please see Note 30.C.

Following is the credit risk by size of credit totaling more than NIS 800 million extended to a borrower

Maximum credit in NIS millions		December 31 2019 No. of borrowers	Balance-sheet credit	Off balance-sheet credit risk	2018 No. of borrowers	Balance-sheet credit	Off balance-sheet credit risk
From	To		In NIS millions			In NIS millions	
800	1,200	**9**	**4,404**	**3,769**	11	5,426	5,090
1,200	1,600	**4**	**1,971**	**3,387**	4	2,079	3,670
1,600	2,000	**5**	**3,863**	**5,016**	3	2,548	2,787
2,000	2,400	**2**	**1,538**	**3,046**	1	1,067	1,325
2,400	2,800	**1**	**1,125**	**1,458**	1	1,469	1,017
2,800	3,200	**-**	**-**	**-**	-	-	-
3,200	3,943	**1**	**1,335**	**2,607**	-	-	-
Total		**22**	**14,236**	**19,283**	20	12,589	13,889

There are no related parties with credit and off-balance credit risk exceeding NIS 800 million.

Groups of Borrowers[1]

Restrictions on indebtedness of a borrower and a group of borrowers

The Group conducts orderly monitoring processes to ensure it complies with the restrictions imposed by Proper Conduct of Banking Business Directive No. 313, "Restrictions on Indebtedness of a Borrower or Group of Borrowers".

On August 1 2018, the Banking Supervision Department issued an amendment to said directive. According to the amendment, a bank's exposure to a credit card company type group of borrowers shall not exceed 15 percent of the banking corporation's capital, similarly to the restriction applicable to the exposure to a banking borrower group. The Directive will become effective gradually, within 3 years of a credit company's split from the banking corporation.

On October 27 2019, the Banking Supervision Department issued an amendment to said directive. The amendment states that a borrower's net indebtedness for speculative and non-supervised activity will be limited to 10 percent of the banking corporation's capital (in lieu of 15 percent). This limitation will also apply to the cumulative indebtedness of said borrowers belonging to a group of borrowers engaged in speculative activity (in lieu of the 25 percent limitation for an ordinary group of borrowers).

The effective date of the Directive for a bank that meets the restrictions is the date of its publication. A bank that does not meet the restrictions is required to reduce the deviation of the exposure at fixed quarterly rates until July 1 2020.

For more information, please see Laws and Regulations Governing the Banking System.

As at December 31 2019, the Bank complies with these Directive's restrictions.

1 A group of borrowers are all of the following together: the borrower, a person controlling it and all those controlled by them. If a corporation is controlled by more than one person, it is necessary to include in the same group of borrowers the controlling parties for which the controlled corporation is material (such as from an equity standpoint), including the corporation or any other entity under their control. An investee that is material to a non-controlling owner and any entity under their control; borrowers that are associated with the investee in such a manner that harming the financial stability of any one of them could affect the financial stability of the other or that the same factors could affect the financial stability of both.

Exposure to Foreign Countries

Part A - Information regarding total exposure to foreign countries and to countries where the total exposure to each country is the lower of the following: More than 1 percent of total assets or more than 20 percent of total capital for the purpose of calculating the capital ratio:

	December 31					
	2019			2018		
	Exposure[(a)(b)]			Exposure[(a)(b)]		
	Balance sheet	Off balance-sheet[(c)]	Total	Balance sheet	Off balance-sheet[(c)]	Total
	In NIS millions					
USA	**29,086**	**6,771**	**35,857**	24,195	6,704	30,899
United Kingdom	**13,232**	**8,660**	**21,892**	10,897	6,983	17,880
France	**3,604**	**1,756**	**5,360**	2,794	1,654	4,448
Switzerland	**1,070**	**1,762**	**2,832**	1,227	1,064	2,291
Germany	**5,486**	**1,356**	**6,842**	4,451	1,086	5,537
Other	**17,484**	**2,069**	**19,553**	13,922	2,300	16,222
Total exposure to foreign countries[(g)]	**69,962**	**22,374**	**92,336**	57,486	19,791	77,277
Of which: Total exposure to GIPS countries[(d)]	**1,108**	**206**	**1,314**	455	221	676
Of which: Total exposure to LDC countries[(e)]	**1,412**	**827**	**2,239**	2,038	1,072	3,110
Of which: Total exposure to countries with liquidity issues[(f)]	**406**	**150**	**556**	386	325	711

(a) Exposure to foreign countries is presented based on the final risk.

(b) Balance-sheet and off-balance-sheet credit risk, troubled commercial credit risk and impaired non-performing debts are stated before the effect of the loan loss provision and the effect of collaterals that are deductible for the purpose of specific and general indebtedness of a borrower and a group of borrowers and before the effect of bilateral offsetting for derivatives.

(c) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of per-borrower credit indebtedness limitations, before the effect of bilateral offsetting for derivatives.

(d) Exposure to the GIPS countries includes: Greece, Italy, Portugal, and Spain.

(e) The exposure to LDCs line item includes total exposure to countries defined as Less Developed Countries (LDCs), which are classified by the World Bank as low or mid-income countries.

(f) Exposure to foreign countries with liquidity issues as defined by the Bank of Israel (a country receiving financial support from the IMF or whose liabilities are rated CCC or lower). The amount relates to 13 countries (in 2018 - to 13 countries).

(g) In 2018, including balances classified as held-for-sale assets in the amount of NIS 1.3 million.

Part B - As at December 31 2019 and December 31 2018, there is no aggregate balance sheet exposure to foreign countries, the total exposure to each of which ranges between 0.75 percent and 1 percent of total consolidated assets or between 15 percent and 20 percent of equity, whichever the lower.

Credit Exposure to Foreign Financial Institutions

Credit exposure to foreign financial institutions refers to commercial banks, banking holding entities, investment banks, insurers and financial entities.

The Bank closely monitors the position of banks worldwide and frequently analyzes their financial robustness. The Bank maintains a shortlist of high-quality banks to which it has collective credit exposures.

Following is the credit exposure to foreign financial institutions[(a)]

	December 31 2019		
	Balance-sheet credit risk[(b)]	Current off-balance-sheet credit risk[(c)]	Current credit exposure
	In NIS millions		
Total current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	**18,673**	**762**	**19,435**
A- to A+	**4,563**	**470**	**5,033**
BBB- to BBB+	**220**	**177**	**397**
B- to BB+	**30**	**11**	**41**
Less than: B-	**-**	**-**	**-**
No credit rating	**148**	**-**	**148**
Total current credit exposure to foreign financial institutions	**23,634**	**1,420**	**25,054**
Troubled Credit Risk	**-**	**-**	**-**

	December 31 2018		
	Balance-sheet credit risk[(b)]	Current off-balance-sheet credit risk[(c)]	Current credit exposure
	In NIS millions		
Total current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	19,069	967	20,036
A- to A+	3,537	476	4,013
BBB- to BBB+	397	188	585
B- to BB+	26	8	34
Less than: B-	1	-	1
No credit rating	225	-	225
Total current credit exposure to foreign financial institutions[(e)]	23,255	1,639	24,894
Troubled Credit Risk	-	-	-

(a) Foreign financial institutions include the following: Banks, investment banks, brokers/dealers, insurers and institutional entities.
(b) As at December 31 2019, deposits with banks, credit to the public, securities borrowed or bought under reverse repurchase agreements, other assets in respect of derivatives (fair value of derivatives), and investments in bonds, including subordinated bonds of banks totaled NIS 476 million (as at December 31 2018 - NIS 345 million).
(c) Mainly guarantees and commitments to extend credit (excluding off-balance-sheet derivatives).
(d) To rate the foreign financial institutions to which it has credit exposure, the Bank relies solely on the ratings of Moody's and S&P.
(e) Including balances classified as held-for-sale assets and liabilities in the amount of NIS 1.3 million.

Comments:
1. The credit exposures do not include investments in asset-backed securities (for more information, please see Note 12).
2. Some of the banks received various forms of government support, including by way of direct investment in the bank's equity, government guarantees for certain asset portfolios, guarantees for raising funding for the banks, etc.
3. For more information regarding the composition of credit exposures for derivatives with banks and brokers/dealers (local and foreign), please see Note 28B.C.

Housing Loans Portfolio Risks

Credit risk developments

During 2019, the granting of new loans ("performance") increased in relation to demand for housing loans in Israel both by homeowners and investors.

Following trends in recent years, and to ensure effective risk management, the Bank monitors its housing loan portfolio on a regular basis, while analyzing trends in risk characteristics and concentrations, placing main emphasis on the following: Loan-to-value (LTV) ratios, monthly repayment capacity, credit ratings pursuant to the Bank's internal statistical model.

The Bank adheres to a balanced underwriting policy that takes into account the borrower's repayment capacity, linkage base and interest, loan-to-value ratio, etc., while complying with all of the provisions of the Banking Supervision Department.

The Bank also extends individual housing loans to members of housing purchase groups. Extending loans to members of housing purchase groups answers market demand by private organizations, historical landowners, etc. From a risk standpoint, the loans are extended to various, geographically diversified populations, following close scrutiny of each borrower's capacity to repay the loan.

Following are data on the performance of new loans and refinancing loans for the purchase of residential apartments and mortgaging of residential apartments in Israel

	2019	2018	
	Total for the year	Total for the year	Rate of change
	In NIS millions		In %
By the Bank	**13,703**	11,762	16.5
By the Government of Israel	**145**	114	27.2
New loans	**13,848**	11,876	16.6
Recycled loans	**2,856**	1,822	56.8
Total performance	**16,704**	13,698	21.9

Disclosure on housing loans

Following are data regarding the development of the housing loans portfolio:

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Rate of change
	In NIS millions	In %
December 31	77,005	(1.5)
December 31	79,944	3.8
December 31	**83,746**	**4.8**

2018 saw an increase in the volume of housing loans, due to an increase in the number of loans granted and the conclusion of the joint venture for extending loans with an institutional entity. This trend continued also in 2019, inter alia, due to the rallying of the real estate market as a result of the maturing of affordable housing projects.

Development of the outstanding housing loans portfolio based on linkage bases and as a percentage of the Bank's outstanding loans portfolio

	Non-linked segment				CPI-linked segment				Foreign currency segment		
	Fixed interest		Variable interest		Fixed interest		Variable interest		Variable interest		
	Outs-tanding balance in NIS millions	Percen-tage of the loans port-folio	Outs-tanding balance in NIS millions	Percen-tage of the loans port-folio	Outs-tanding balance in NIS millions	Percen-tage of the loans port-folio	Outs-tanding balance in NIS millions	Percen-tage of the loans port-folio	Outs-tanding balance in NIS millions	Percen-tage of the loans port-folio	Total loans port-folio, in NIS millions
December 31 2017	13,858	18.0	31,730	41.2	12,002	15.6	18,405	23.9	1,010	1.3	77,005
December 31 2018	14,848	18.6	33,038	41.3	12,596	15.8	18,503	23.1	959	1.2	79,944
December 31 2019	**16,182**	**19.3**	**34,311**	**40.8**	**13,509**	**16.1**	**19,012**	**22.9**	**732**	**0.9**	**83,746**

Development of new housing loans by interest track, in Israel

The following table outlines the development of the new credit performance by variable and fixed interest tracks (a variable-interest loan's interest rate may change over the loan period):

	2019				2018	2017
	Q4	Q3	Q2	Q1	Annual average	Annual average
	Rate of performance					
	In %					
Fixed - Linked	**20.3**	20.3	22.0	19.7	17.1	15.3
Variable every 5 years or more - Linked	**18.1**	19.4	19.0	20.4	17.2	16.4
Variable up to 5 years - Linked	**0.1**	-	-	-	-	0.1
Fixed - Non-linked	**26.5**	24.4	23.2	23.2	28.1	29.6
Variable every 5 years or more - Non-linked	**2.9**	3.3	3.0	3.7	5.3	6.9
Variable up to 5 years - Non-linked	**31.9**	32.3	32.6	33.0	32.0	31.3
Variable - Foreign currency	**0.2**	0.3	0.2	-	0.3	0.4

The percentage of new variable-interest housing loans granted by the Bank during in 2019 was 55.0 percent, similar to 2018. The data refer to all variable interest tracks and the various linkage segments, including loans in which the interest rate changes every 5 years or more. Excluding loans in which the variable interest rate changes every 5 years or more - which do not qualify as a variable interest loan under the Banking Supervision Department's directive - the percentage of variable-rate housing loans extended during 2019 is 32.6 percent compared to 32.4 percent in 2018.

Data on new housing loans in Israel

During 2019, the Bank granted new housing loans totaling NIS 13.78 billion out of its funds.

The average loan extended by the Bank in 2019 was NIS 728 thousand, compared to NIS 732 thousand in 2018 and NIS 529 thousand in 2017.

It should be noted that on December 31 2017, the Bank's joint loan venture with an institutional partner came to an end (hereinafter: The "**Joint Venture**"). The data for 2017 relate to the Bank's exposure during the Joint Venture period and do not take into account the customers' exposure, which was higher (in 2017, the customer's exposure was NIS 708 thousand). Following the conclusion of the Joint Venture, the customer's exposure is identical to the Bank's.

Following is a balance of the housing loans portfolio and balances in arrears of over 90 days, in Israel

	Recorded outstanding debt	Amount in arrears	Percentage of amount in arrears
	In NIS millions		In %
December 31 2017	77,448	722	0.93
December 31 2018	80,417	862	1.07
December 31 2019	**84,212**	**830**	**0.99**

As of December 31 2019, the outstanding loan loss provision, which includes the collective provision for housing loans (hereinafter - the “collective provision”), is NIS 466 million, constituting 0.56 percent of the housing loans’ outstanding balance, compared with NIS 473 million as at December 31 2018, which constitutes 0.59 percent of the outstanding housing loan balance.

Development of LTV ratio for new loans over 60 percent, in Israel

Following is the development in new credit granted by the Bank at a loan-to-value ratio of over 60 percent, (LTV is the ratio of the total loan granted to the borrower - even if it has not yet been actually granted either in full or in part - out of the value of the mortgaged property during the approval of the credit line).

	2019				2018	2017
	Q4	Q3	Q2	Q1	Annual average	Annual average
LTV ratio	In %(a)					
Over 60 and up to 70, inclusive	**17.2**	17.9	18.0	16.9	17.4	18.0
Over 70 and up to 80, inclusive	**17.6**	17.5	19.3	16.5	15.6	16.0
Over 80	**0.2**	0.1	0.2	0.2	0.1	0.1

(a) Out of total new credit granted by the Bank.

Development of the loan-to-value (LTV) ratio, outstanding loans portfolio in Israel

The average LTV of the outstanding loan portfolio as at December 31 2019 stands at 45.1 percent, compared with 45.6 percent in 2018.

Development of new loans, in which the repayment ratio is lower than 2.5, in Israel

Repayment ratio is defined as the ratio between the monthly available income and the monthly repayment amount.
The percentage of loans with a repayment ratio of less than 2.5 on the loan approval date in 2019 was 0.5 percent of the total number of new loans granted compared with 0.6 percent in 2018.

The calculation is in accordance with the Bank of Israel’s Reporting Directive No. 876.

Development of new loans, for which the loan term is longer than 25 years, in Israel

The percentage of new housing loans in which the loan term under the loan agreements are longer than 25 years, stood at an average of 36 percent of the total new loans granted during 2019, compared with an average of 36 percent in 2018 and 35 percent in 2017.

Credit Risk for Loans to Private Individuals (Excluding Housing Loans)

Credit granted to private individuals whose repayment capacity is largely based on their household's earning capacity is characterized by a very significant diversification of borrowers and a variety of credit products (various types of loans, current accounts, credit cards) and - to a lesser extent (on average) - credit per individual customer.
Individual customers' activity is almost entirely concentrated in the Retail Banking Division.

To address the increase in credit granted to private individuals and given the wide span of control required to manage it, and with the aim of implementing adequate corporate governance, several functions have been extended and enhanced, both in the Retail Banking Division - which constitutes the first line of defense, and in the Risk Management Division - which constitutes the second line of defense.

In recent years, the Retail Banking Division has operated special-purpose units. Following are the key ones:

Credit and risk management centers, which coordinate all the loan applications that do not come within the purview of the branches, while separating between account managers and parties which challenge the granting of the loan; serve as a professional resource for loan officers at the branches; regularly monitor and control the provision of credit at the branches, with lessons drawn and conveyed both to the field (branches) and to the Division's management.

Early collection units and troubled debt centers - coordinate the handling of debts in arrears before classifying the borrower as troubled as well as handling borrowers classified as troubled. These units provide professional services of handling, making arrangements and collection, including through external law firms.

The Risk Management Division monitors and maintains a second line of defense, which includes - inter alia - identification of trends and segments in the private loans portfolio; monitoring the prediction quality of risk estimation models for borrowers; examining the quality and integrity of business entities' control procedures; reviewing samples of individual portfolios, as needed, etc.

The retail credit policy, formulated by the Risk Management Division in collaboration with the Retail Banking Division, constitutes a key element in outlining the risk appetite and ongoing management of this domain. The following are some of the key principles of the Bank's consumer credit policy: Assess each borrower's credit risk; base underwriting decisions primarily on the borrower's debt service capacity, especially his/her income and or based on the account behavior and/or data from the Central Credit Register; create a well-defined, structured chain of command for authorizing credit; adhere to fair business conduct practices (integrity; transparency; match products to customers' needs; fair pricing; address customer complaints); match the credit to the customers' needs and capacity; and increase awareness of the compliance aspects that could arise from credit provision.

Due to the increased debt levels of Israeli households in recent years, the Bank extended and boosted the ongoing monitoring of its entire consumer credit portfolio, while adhering to strict underwriting, management and control processes at the individual borrower and aggregate level, based inter alia on an internal set of measures.
During 2019, the set of internal measures was revised, both for developments of the entire portfolio ("inventory") and the new credit risk profile, which are monitored on a regular basis, at least quarterly. The developed parameters address numerous aspects and characteristics which reflect diverse and complementary points of view about the new credit risk profile. Although these are red flags rather than restrictions (as they are formally defined), they do express the desirable risk appetite at the individual loan portfolio level. In 2020, due to the continued private consumption trends in the Israeli economy and, as a result, in the leverage level of households, the Bank boosted its close monitoring of the developments in this portfolio.

Following are developments in outstanding credit risk (excluding derivatives) for loans granted to private individuals (in Israel, excluding housing loans)

	Balance of credit risk
	In NIS millions
December 31 2017	46,325
December 31 2018	44,407
December 31 2019	**44,387**

Following is a distribution of the balance sheet credit risk (excluding derivatives) for loans to private individuals, by term to maturity (in Israel, excluding housing loans)

	December 31			
	2019		2018	
	In NIS millions	% of portfolio	In NIS millions	% of portfolio
Up to one year	**5,158**	**18.6**	5,282	19.3
Over one year to 3 years	**4,992**	**18.0**	4,844	17.7
Over 3 years to 5 years	**10,464**	**37.8**	9,551	34.9
Over 5 years to 7 years	**4,117**	**14.9**	4,816	17.6
Over 7 years	**385**	**1.4**	410	1.5
No repayment term[(a)]	**2,561**	**9.3**	2,463	9.0
Total	**27,677**	**100.0**	27,366	100.0

(a) The amount includes outstanding overdrafts in current accounts and outstanding loans in arrears.

Following is a distribution of the total credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by individual borrower's indebtedness (in Israel, excluding housing loans)

Credit risk amount in NIS thousands		December 31			
		2019		2018	
From	To	In NIS millions	% of portfolio	In NIS millions	% of portfolio
-	25	**5,155**	**11.6**	4,986	11.2
25	50	**6,526**	**14.7**	6,669	15.0
50	75	**5,939**	**13.4**	6,131	13.8
75	100	**5,226**	**11.8**	5,427	12.2
100	150	**7,758**	**17.5**	7,845	17.7
150	200	**5,480**	**12.3**	5,043	11.4
200	300	**4,637**	**10.4**	4,779	10.8
Over 300		**3,666**	**8.3**	3,527	7.9
Total credit risk		**44,387**	**100.0**	44,407	100.0

Following is a distribution of the total credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by main credit products (in Israel, excluding housing loans)

	December 31			
	2019		2018	
	In NIS millions	% of portfolio	In NIS millions	% of portfolio
Current balances and utilized credit card balances	**6,454**	**14.4**	6,710	15.1
Car purchase loans (secured)	**1,368**	**3.2**	1,731	3.9
Other loans	**19,855**	**44.9**	18,925	42.6
Total balance-sheet credit risk	**27,677**	**62.5**	27,366	61.6
Unutilized current account credit	**6,564**	**14.8**	6,659	15.0
Unutilized credit card facilities	**9,971**	**22.1**	10,103	22.8
Other off-balance-sheet credit risk	**175**	**0.6**	279	0.6
Total off-balance-sheet credit risk	**16,710**	**37.5**	17,041	38.4
Total credit risk	**44,387**	**100.0**	44,407	100.0

Following is a distribution of the balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by linkage segments and interest tracks (in Israel, excluding housing loans)

	December 31 2019				
	Non-linked	Linked	Foreign currency	Total balance-sheet credit risk	% of portfolio
	In NIS millions				In %
Variable interest loans	**26,201**	**41**	**60**	**26,302**	**95.9**
Fixed interest loans	**1,326**	**29**	**20**	**1,375**	**4.1**
Total balance-sheet credit risk	**27,527**	**70**	**80**	**27,677**	**100.0**

	December 31 2018				
	Non-linked	Linked	Foreign currency	Total balance-sheet credit risk	% of portfolio
	In NIS millions				In %
Variable interest loans	25,937	42	70	26,049	95.2
Fixed interest loans	1,252	39	26	1,317	4.8
Total balance-sheet credit risk	27,189	81	96	27,366	100.0

Balances of financial assets portfolio of private individuals with the Bank, with an overall credit risk (in Israel, excluding housing loans)

	December 31	
	2019	2018
	In NIS millions	
Deposits by the Public	**83,167**	90,500
Securities portfolios	**56,885**	56,094
Total financial asset portfolio	**140,052**	146,594
Total indebtedness to customers with financial asset portfolios	**34,227**	35,569

Distribution of the balance sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by fixed income amount[(a)] (in Israel, excluding housing loans)

	December 31			
	2019		2018	
Income	In NIS millions	In %	In NIS millions	In %
Accounts without fixed income	**1,852**	**6.7**	1,993	7.3
Of which: Loan accounts[(b)]	**964**	**3.5**	1,344	5.2
Less than NIS 10 thousand	**7,959**	**28.8**	8,596	31.4
More than NIS 10 thousand and less than NIS 20 thousand	**9,831**	**35.5**	9,353	34.2
NIS 20 thousand or more	**8,035**	**29.0**	7,424	27.1
Total	**27,677**	**100.0**	27,366	100.0

(a) The fixed income amount deposited in a customer's current account (by ID number) includes the fixed credits to the customer's account, such as salary, transfers from another bank or bank account, cash deposits, checks, etc. The fixed monthly income is calculated according to the average income on several consecutive months, net of exceptional credits.

(b) A loan repayment account is an account whose only purpose is to repay a loan, while most of the customer's current account activity takes place in another bank.

As aforesaid, the Bank's credit policy towards private individuals is based on a borrower's repayment capacity in relation to his/her income. As a result, over 90 percent of balance-sheet credit is from fixed-income earners.

Distribution of the balance sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals (in Israel, excluding housing loans)

	December 31	
	2019	2018
	In NIS millions	
Non-troubled loans	**27,065**	26,769
Troubled performing loans	**302**	258
Troubled impaired non-performing loans	**310**	339
Total balance-sheet credit risk	**27,677**	27,366
Percentage of troubled debt risk out of total debt to private individuals	**2.2%**	2.2%
Accounting write-offs, net	**111**	99
Balance of loan loss provision	**641**	615

For more information, including regarding troubled debts and loan loss expenses, please see Note 13, Credit Risk, Loans to the Public, Loan Loss Provision (data on "Other private individuals"), Note 30, Additional Information on Credit Risk, Credit to the Public and loan loss provisions. In the "Credit Risk" section, please see "Total Credit Risk to the Public by Economic Sector".

The Bank's Exposure to Leveraged Loans

According to Proper Conduct of Banking Business Directive No. 311, the Bank's credit policy should also address leveraged loans. The Bank's credit policy for this segment is subject to unique principles, including with respect to financial covenants, credit authorizations, etc.

As of December 31 2019, leveraged finance is defined by the Bank in line with the Bank of Israel's directives, and includes loans, borrowers or borrower groups which meet one of the following criteria (the gross indebtedness of each of which does not exceed 0.5 percent of the Bank's Tier 1 capital):

1. Credit for the purpose of equity transactions as defined for the restriction in Proper Conduct of Banking Business Directive No. 323, with credit for acquiring a means of control or against means of control held without recourse is included in each LTV ratio (even if it is lower than prescribed by the Directive).
2. Financing for holding companies the sole purpose of which is to hold subsidiaries (without significant independent operations), as defined by the Bank's policy.
3. Financing for borrowers, by various predefined economic sectors, characterized by significant unusual values of certain parameters in relation to the norms in their respective economic sector.

As of December 31 2019, the gross outstanding balance of the leveraged credit, as defined by the Bank, stands at NIS 2.2 billion, a NIS 0.3 billion decrease compared with the previous year. The Bank complies with the Bank of Israel's directives.

Outstanding aggregated credit granted to leveraged borrowers

	December 31					
	2019			2018		
	Balance-sheet	Off balance-sheet	Total	Balance-sheet	Off balance-sheet	Total
Economic sector	In NIS millions					
Mining and quarrying	-	-	-	80	251	331
Industry and manufacturing	**320**	**200**	**520**	458	145	603
Power generation, gas, steam and air conditioning	-	-	-	211	76	287
Trade	**384**	**222**	**606**	335	61	396
Transportation and storage	**346**	**2**	**348**	171	15	186
Hotels, accommodation and food services	**247**	-	**247**	274	-	274
Construction and real estate	**80**	-	**80**	27	160	187
Public and community services	-	-	-	212	31	243
Water supply, sewage services, waste and garbage treatment and purification services	**361**	-	**361**	-	-	-
Total	**1,738**	**424**	**2,162**	1,768	739	2,507

For additional qualitative and quantitative information regarding credit risks, please see the Risk Management Report.

Market Risks

Market risk is defined as the risk of a loss arising from a change in the value of assets and liabilities due to changes in the price level in markets, interest rates, exchange rates, inflation rate and stock prices. Market risk exposure is reflected in the financial performance, in the fair value of the assets and liabilities, in shareholders' equity and in cash flows.

The market risks to which the Bank is exposed include the following (for more information, please see below):

a. Interest rate risk is the risk of loss as a result of changes in risk-free interest rates across various currencies.
b. Basis risk (foreign exchange rates and CPI) is the risk of loss as a result of changes in the consumer price index or foreign exchange rates, due to the difference between the value of the assets and the value of the liabilities, including for future transactions in each of the linkage segments.
c. Tradable credit risk, caused by credit spread volatility derived from the instrument issuer's repayment capacity or from changes in the overall risk of tradable debt instruments.
d. Risk of investment in shares and funds, caused by impairment of the investment in shares or funds or a decrease in profits or dividends paid to the Group.

The Bank complies with the Banking Supervision Department’s directives regarding the management of the Group's market risks, including Proper Conduct of Banking Business Directive No. 333, “Interest Rate Risk Management”, and No. 339, “Market Risk Management”. To implement these directives, the Bank established basic principles and control mechanisms for these risks, including defining the purviews of management and the Board of Directors, the means of control and tools for measuring risk and the means of control and oversight of these risks, while implementing corporate governance which includes three lines of defense.

Market Risk Management Policy

The Market risk management policy is an expression of the Group's market risk management strategy, alongside existing procedures for identifying, measuring, monitoring, developing and controlling market risk. The policy is designed, on the one hand, to support the achievement of business objectives while assessing the risks and rewards that may arise from exposure to the risks compared with the expected gains therefrom and, on the other hand, to mitigate the risk level arising from the Bank's ongoing activities, including by maintaining a high level of liquidity.

The policy constitutes an important tool for defining the Bank's risk appetite for its own (nostro) account, trading rooms and market exposure across the entire Leumi Group. The policy outlines the corporate governance, division of organizational responsibility and escalation mechanisms. The risk appetite is reflected in the established restrictions.

As part of the market risk management policy, the Board of Directors prescribed restrictions for each material market risk. In addition, restrictions were placed at the Chief Risk Officer level as well as additional restrictions complementing them. This purpose of the restrictions is to limit the damage that can be caused as a result of unexpected changes in various market risk factors, such as interest rates, inflation, exchange rates, tradable credit spreads and stock prices.

In the fourth quarter of 2019, the Board of Directors approved the inclusion of the interest exposures for the pension liabilities less plan assets in the management of the banking portfolio and beginning to measure the exposures based on fair value, with no change in the risk appetite. The new measurement became effective in 2020.

The market risks are routinely managed at the Group level. The foreign subsidiaries determine their own market risk management policies in line with the Group’s policies and its approved risk frameworks as well as in line with the local regulation and business environment in which they operate. Information on the actual exposure status according to the established frameworks is reported by the subsidiaries and taken into account in the overall management of the Group's exposures.

Market risk management is performed in two risk centers – the banking portfolio and the held-for-trading portfolio. The definition of the held-for-trading portfolio is derived from the Basel rules and includes the Bank's tradable securities portfolio and derivative transactions which form part of its trading activity but which are not necessarily for hedging purposes. The held-for-trading activity is conducted by designated units. The banking portfolio includes those trading transactions which are not included in the held-for-trading portfolio.

In order to oversee and monitor the implementation of the market risk management policy, the Board of Directors receives, at least once every quarter, a report on the main market risk exposures vs. the set limitation and the main risks according to the Group's business lines, products and risk centers, as well as reports on unusual incidents.

For more information regarding activities by portfolio, please see the Risk Management Report.

Exposure to market risks arising from the employee pension liabilities

The Bank applies US GAAP to employee benefits, as prescribed by the Bank of Israel. The long average duration actuarial obligation to employees is significantly impacted by changes in the discount rate. The discount rate, which is used for calculating the actuarial liabilities for employee rights, is based - according to the directives of the Bank of Israel - on the Government of Israel's bond yield curve plus the fixed spread curve of internally AA-graded corporate bonds which match the average durations of the liabilities for employee rights.

In 2016, the Bank received individual approval from the Bank of Israel, for capital adequacy measurement purposes, to discount the employee benefit liabilities according to an eight-quarter moving average of market yields, which are affected by the Government of Israel's bond curve and by the U.S. AA corporate bond spread. The approval significantly moderated the volatility of the regulatory capital resulting from changes in the discount rate. The approval was extended until December 31 2024, inclusive.

Against part of the actuarial liability, there is an investment in plan assets, which is designed to service that obligation, through investment in diversified assets such as equity securities and bonds. The investment is subject to regulatory restrictions and restrictions prescribed by the funds managing the plan assets.

Market Risks to which the Bank Is Exposed

A. Interest Rate Risk

Interest rate risk is the risk of gains or capital arising from interest rate fluctuations and stems from several sources, as follows: Repricing risk (timing differences in term to maturity and repricing dates of assets, off-balance-sheet liabilities and positions); yield curve risk (unexpected fluctuations in the yield curve; basis risk (less than perfect correlation between interest rate changes in various financial markets or in various instruments with similar repricing characteristics); and optionality risk (change in the timing or scope of cash flows from a financial instrument due to changes in market interest rates).

The Bank manages the sensitivity of the economic value of its capital to possible interest rate changes and examines the effect of changes in interest rate curves on the economic value, under various assumptions of interest rate changes, including interest rate stress scenarios based on historic scenarios and hypothetical simulations. The Bank also uses a model which estimates the change in the expected finance income as a result of changes in the interest rate and future interest rate spread as well as the sensitivity of the regulatory capital, which includes the effects on capital and capital reserve as a result of a sudden change in the interest rate. These indicators are restricted by various hierarchical levels.

In reality, the interest rate risk is measured and managed on the basis of various behavioral assumptions as to the repayment dates of the assets and liabilities. According to past experience, the Bank treats some of the current account balances as a long-term liability. In addition, there are assumptions referring to prepayments of mortgages, on the basis of a statistical model that attempts to forecast prepayments based on interest rates. These estimates are of great importance in managing interest rate risks, inter alia due to the significant increase in these balances in recent years.

Exposure to interest rate changes is measured both for an increase and decrease of interest in each linkage segment. The measurement is designed to test the sensitivity of the current structure of the value of assets and liabilities to a change in interest rates, and therefore the calculation is performed without changing the asset and liability structure.

LIBOR

In July 2017, Britain's Financial Conduct Authority (FCA) announced it would cease, as of the end of 2021, to require LIBOR panel banks to quote interest rates. As a result, it is assumed that LIBOR rates would no longer be published.

Following the announcement, various regulatory entities in England, Europe, Japan, and the United States have created teams dedicated to identifying and adopting an alternative benchmark to replace the LIBOR for each of the five currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc). In addition, the International Swaps and Derivatives Association (ISDA) is conducting fallback consultations to define final parameters to update the base rate and make adjustments if the fallbacks are triggered. Some of the leading alternatives are currently based on interest rates reflecting risk-free interest, contrary to the LIBOR interest rate, which also weights in the banks' credit risk. Accordingly, the transition to risk-free base rates may require the addition of a risk spread. The parameters for calculating that spread have yet to be defined and are currently unknown. Currently, overnight base rates have been developed and it is still unclear whether the new base rates will include a wide range of financing periods (such as in the case of the LIBOR), how they will be published, on which dates and by which means the interest rates will be converted in relation to the current LIBOR-based transactions.

Some regulators have already issued operative guidance for local market players, requiring them to increase the use of the new base rates with the aim of establishing a tradable market for these base rates.

The Bank has formed a team, led by the Head of Capital Markets Division, to prepare for the expected change derived therefrom. As part of the preparations, the Bank is mapping the relevant exposures and products, evaluating risks involved in discontinuing the LIBOR interest rates, considering the changes required in the Bank's systems to transition to the new interest bases, etc.

The Bank began by issuing a disclosure regarding the reform to relevant customers, and published Frequently Asked Questions - informing its customers about the expected changes - on its website. As part of the preparations, the Bank examines the existence of a mechanism, as part of the standard forms of the Bank, which would allow the Bank, under predefined circumstances, to replace LIBOR with alternative base rates, after there is certainty in financial markets regarding the accepted alternative base rates and subject to the directives of the Bank of Israel, and revises its forms as needed.

The transition to new base rates may affect the value of various products, such as: Interest rate derivatives, bonds, credit, etc., and as a result - affect the profits of the banking corporation and its exposures. According to the Bank's assessments, the Bank has no material balance sheet exposure to LIBOR-based contracts which extend beyond 2021. The Bank is exposed to LIBOR as part of activity in derivative transactions, which is anchored either in ISDA agreements (which, as aforesaid, should be treated in accordance with the provisions of the ISDA) or other arrangements, the exposure for which is immaterial. The Bank continues to follow publications overseas and in Israel as well as regulatory guidance regarding the reform.

Accounting implications

The discontinuation of the LIBOR and the transition to alternative base rates may have various accounting implications in several areas, such as:

- Hedge accounting - The Bank will need to examine the implications of the change on existing hedge ratios, the documentation in respect thereof and its extension so as to reflect the changes made, while adopting relevant accounting standards to allow the required adjustments to be made.
- Debt modification - Debt agreements which do not reference fallback may require modifications to be made. The Bank will need to examine whether these modifications should be treated as derecognition of the current contracts and initial recognition of the new contracts, with the difference stated in the income statement or alternatively, as a continuation of the current contracts by revising the effective interest rate.
- Discount rates - The transition to alternative base rates may cause changes in the discount rates which serve as input for various models, valuation of various assets and liabilities such as: Financial instruments, leases, derivatives, impairment of non-financial instruments.
- Fair value hierarchy - Some of the alternative base rates (such as the SOFR) were issued lately, and therefore, there is no active market for them. Therefore, it is expected that contracts related to these alternative base rates will be classified to Level 2 or Level 3 of the fair value hierarchy.

In this context, it should be emphasized that in October 2018, the FASB published ASU 2018-16, "Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes". In addition, in September 2019, the FASB published a proposed ASU that would provide easements in accounting for reference rate reform on financial reporting, which includes, inter alia, easements related to contract modifications and hedge accounting. According to the FASB, the final version is due during the first quarter of 2020.

Quantitative information about interest rate risk - Sensitivity analysis

Net adjusted fair value[(a)] of financial instruments of the Bank and its consolidated companies

	December 31					
	2019			2018		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	In NIS millions					
Adjusted net fair value[(a)]	**20,112**	**(1,526)**	**18,586**	21,720	(772)	20,948
Of which: Banking portfolio	**18,416**	**(1,576)**	**16,840**	15,378	(900)	14,478

(a) Fair value, net of the financial instruments, excluding non-monetary items and after the effect of the employee benefits liability and attribution of demand deposits to periods.

For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 34A to the financial statements.

The effect of scenarios of interest rate changes on the net adjusted fair value[(a)] of the Bank and its consolidated companies

	December 31					
	2019			2018		
	NIS	Foreign currency	Total*	NIS	Foreign currency	Total*
	In NIS millions					
Simultaneous changes						
Simultaneous increase of 1%	**1,488**	**197**	**1,685**	1,019	235	1,254
Of which: Banking portfolio	**1,501**	**192**	**1,693**	1,082	212	1,294
Simultaneous decrease of 1%	**(2,003)**	**(280)**	**(2,283)**	(1,398)	(389)	(1,787)
Of which: Banking portfolio	**(2,031)**	**(306)**	**(2,337)**	(1,461)	(368)	(1,829)
Non-simultaneous changes						
Steepening[(b)]	**648**	**19**	**667**	277	66	343
Flattening[(c)]	**(469)**	**(98)**	**(567)**	(163)	(15)	(178)
Short-term interest rate increase	**316**	**(49)**	**267**	344	129	473
Short-term interest rate decrease	**(340)**	**53**	**(287)**	(379)	(123)	(502)

Comment: The table presents the change in the net adjusted fair value of all the financial instruments, under the assumption that the noted change occurred for all interest rates in all linkage segments.

- The difference between the exposure to interest rate changes as reported in the above table and the one reflected in the detailed disclosure by period in the Risk Management Report as at December 31 2019 arises from the exposure to the interest rate in the above table being in a full change scenario of 1 percent in the curve, which is affected differently from models and the curve's convexity.
- The difference between the fair value exposure and the sensitivity of the economic value presented in the Risk Management Report as at December 31 2019 is NIS 2.7 billion. This difference arises mainly from the credit risk spread embodied in the fair value approach, as well as from a different treatment of pension liabilities.
- The revision of the current account rescheduling model, which was made during the year, increased the exposure to an interest rate decrease by NIS 270 million.
- The exposure of the fair value to a 1% change is to an interest rate decrease, and amounts to NIS 1.7 billion. In the past year, there was a NIS 0.4 billion increase as a result of the sharp drop in yields and its effect on the value of the pension liabilities and as a result of updating of the current account model, which were partially offset from the business activity and which was expressed in extending the assets' average duration.

Effect of scenarios of interest rate changes on net interest income and on noninterest finance income[d]

	December 31					
	2019			2018		
	In NIS millions					
	Interest income	Non-interest finance income	Total*	Interest income	Non-interest finance income	Total*
Simultaneous changes						
Simultaneous increase of 1%	**456**	**183**	**639**	591	226	817
Of which: Banking portfolio	**456**	**209**	**665**	591	281	872
Simultaneous decrease of 1%	**(456)**	**(135)**	**(591)**	(591)	(223)	(814)
Of which: Banking portfolio	**(456)**	**(209)**	**(665)**	(591)	(281)	(872)

(a) Fair value, net of the financial instruments, excluding non-monetary items and after the effect of the employee benefits liability and attribution of demand deposits to periods.

(b) Steepening - a short-term decrease in the interest rate and long-term increase in the interest rate.

(c) Flattening - increase in interest rate in the short-term and decrease in the long-term.

(d) Exposure to a 1 percent interest rate decrease is based on the interest rate on credit and deposits being reduced by the same rate. Since currently, the interest rate on most deposits is less than 1 percent, and there is low probability that the interest on deposits will fall below 0 percent, the above exposure calculation should be considered a measure in line with the accepted standards.

* After netting effects.

Capital exposure to an immediate increase or decrease in interest rates (before tax)

	Exposure in NIS			Exposure in foreign currency		
	As at December 31 2019					
	To a 1% increase	To a 1% decrease	To a 0.1% increase	To a 1% increase	To a 1% decrease	To a 0.1% increase
Capital exposure to an immediate increase/decrease in interest rates[(a)]	**2,060**	**(2,590)**	**228**	**(574)**	**529**	**(59)**
	As at December 31 2018					
	To a 1% increase	To a 1% decrease	To a 0.1% increase	To a 1% increase	To a 1% decrease	To a 0.1% increase
Capital exposure to an immediate increase/decrease in interest rates[(a)]	1,336	(1,685)	147	(519)	473	(52)

(a) The measurement includes exposure to an immediate change in the interest rate of the Bank's own portfolios, revalued according to market value and the actuarial liability for employees. This measurement does not include the sensitivity effect of the plan assets to changes in interest rates.

During 2019, the Group complied with all interest exposure restriction set by the Board of Directors.

For more information, please see the Risk Management Report.

B. Basis Risk (Foreign Currency and CPI)

Linkage basis risk is the risk of loss as a result of changes in the consumer price index or foreign exchange rates, due to the difference between the value of the assets and the value of the liabilities, including for future transactions in each of the linkage segments.

Leumi is active in currency markets through spot, forward and option transactions both for its customers and its own account. Transactions in derivatives in the banking portfolio are mainly used to financially hedge the balance sheet activity. These, however, are not considered a perfect hedge under accounting principles, and therefore affect the accounting profit and loss as a result of the difference in accounting for balance sheet assets and liabilities and derivatives. The effect is managed, monitored and reported to the Investment Committee and Assets and Liabilities Management committee.

The linkage basis exposure is managed according to the Board of Directors' restrictions.

The actual group-level economic exposure; the data are presented as a percentage of the active financial capital

	Actual situation	
	December 31	
	2019	2018
	In %	
Non-linked	**(26.3)**	(16.5)
CPI-linked[(a)]	**25.2**	14.3
Foreign currency	**1.1**	2.2

(a) The exposure does not account for the effect of index floors on the capital invested in the segment.

In 2019, the average percentage of capital invested in the CPI-linked segment was 20.4 percent; the rate fluctuated over the year between a surplus of 12.0 percent and 28.3 percent of the exposed capital. A relatively small percentage of capital was invested in the foreign currency segment; as a result, the effect of exchange rate changes on the profit is immaterial.

For quantitative information regarding balances in the linkage bases, please see Note 31.

The sensitivity to changes in the exchange rates of the main currencies as at December 31 2019. The measurement relates to the effect of the changes on the Bank's capital and includes the balance sheet and off-balance-sheet instrument activity

	USD	Euro	GBP	CHF	YEN
	In NIS millions				
10 percent increase in the exchange rate	**115**	**(4)**	**(1)**	**(1)**	**(5)**
10 percent decrease in the exchange rate	**24**	**29**	**1**	**0**	**2**

The sensitivity to changes in the CPI as at December 31 2019. The measurement relates to the effect of the changes on the Bank's capital and includes the balance sheet and off-balance-sheet instrument activity

	Effect of the changes on the
	In NIS millions
3% increase in the CPI	**246**
3% decrease in the CPI	**(444)**

C. Investment in Shares and Funds

The Bank has defined the Group's investment policy, including restrictions both on the overall investment amount and the amount per company, the investment mix and the different risk levels for various types of investments.

Exposure of the share and fund investments in the banking portfolio

	Book balance and fair value	
	December 31	
	2019	2018
	In NIS millions	
Not-for-trading equity securities and funds (2018 - available-for-sale portfolio)	**2,395**	2,477
Not-for-trading equity securities (2018 - available-for-sale portfolio)	**1,317**	1,079
Total	**3,712**	3,556

For additional qualitative and quantitative information regarding the share price risk, please see under "Share Price Risk" on the Bank's website.

For additional qualitative and quantitative information regarding market risks, please see the Risk Management Report.

Liquidity and Financial Risk

Liquidity Risk

Liquidity risk is the risk arising from uncertainty regarding the possibility of raising sources and/or disposal of assets, unexpectedly and within a very short time, without incurring substantial loss. The Leumi Group's liquidity risk management policy is part and parcel of its strategic business management and is adapted to the requirements of Proper Conduct of Banking Business Directive No. 342, Liquidity Risk Management, and the requirements of Proper Banking Management Directive No. 221, Liquidity Coverage Ratio, which adopts the recommendations of the Basel III Committee for calculating the liquidity coverage ratio (LCR), with adjustments for the Israeli economy. As at January 1 2017, the minimum liquidity coverage ratio for the Bank and the Group is 100 percent.

Leumi maintains a proper liquidity level by investing its own (nostro) portfolio for high-quality diversified assets in NIS and foreign currencies, so as to meet all liquidity needs under a variety of stress scenarios, as well as through a policy of raising diversified and solid sources with different time ranges, with emphasis on raising deposits from retail customers and issuing long duration bonds.

Leumi monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by way of a regulatory model, as well as internal models developed by Leumi in accordance with the Bank of Israel's directives and accepted international standards.

The banking corporation's liquidity coverage ratio (regulatory model) is based on an average of daily observations.

	As at December 31	
	2019	2018
	In %	
A. Consolidated data		
Liquidity coverage ratio	**123**	121
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
B. Banking corporation's data		
Liquidity coverage ratio	**121**	122
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

The Bank has a contingency plan in place for handling a liquidity crisis, which includes a system of warning signs that may indicate a shift in the Bank's liquidity position. On the appearance of warning signs, a special forum will convene to assess the situation and examine the need to activate the plan, based on the level of severity. The plan includes detailed operational measures outlining, among other things, the order of asset disposal, customer care policies, and systems of reporting to all business entities, the Board of Directors and the Bank of Israel.

For additional qualitative and quantitative information regarding liquidity risk, please see under "Liquidity Risk" in the Risk Management Report, as well as Note 32.

Financing risk is the risk of an insufficiently stable financing source structure which fails to serve its designated uses in the long term.

Over the years, the Bank has managed an extensive and diversified infrastructure of stable financing sources for various time periods. The Bank's main source of financing is deposits from retail customers. In addition, the Bank finances its activity through deposits made by commercial and business customers and by issuing notes payable. The sources are managed on an ongoing basis, separately for NIS and foreign currencies. About 30.5 percent of the deposits by the public are made in foreign currency. The Bank has a wide range of foreign currency sources from nonresidents, local retail, business and financial customers. In the past year, there was an increase in non-financial foreign currency deposits. The excess deposits over foreign currency credit is invested in liquid assets and short-term swaps. Sources of foreign operations are invested in credit and liquid assets, mainly low-risk bonds.

There was a slight increase in shekel retail deposits during the year, especially at its beginning. During the reporting period, the Bank issued bonds totaling NIS 1.7 billion net as well as subordinated bonds totaling a net NIS 0.4 billion.

The concentration of financing sources is managed and monitored using risk management indicators and models. The Bank performs follow-up on the composition and concentration of sources by several categories: Customer size and type, single depositor, deposit's life, typical behavior over time. The ongoing management of the sources' composition includes developing a policy for source diversification and financing periods. The concentration of the sources is controlled and managed by the Bank as part of its liquidity risk management. Ongoing daily measurement of the liquidity indicators, minimum coverage ratio, and monitoring of warning signs enable dynamic management and follow up to ensure that the sources are sufficiently diversified, and that the liquidity status and trends are adequately supervised and controlled.

For additional qualitative and quantitative information regarding financing risk, please see the Risk Management Report.

Linkage Status, Repayment Periods and Liquidity Position

A. Linkage Status

According to the policy of managing the linkage balances, available capital is defined as total capital resources plus certain reserves less investments in associates and fixed assets, invested mainly in non-linked shekel assets and CPI-linked assets.

Following is a summary of the linkage balances, according to Note 31 to the financial statements

	December 31					
	2019			2018		
	Non-linked	CPI-linked	Foreign currency[b]	Non-linked	CPI-linked	Foreign currency[b]
Total assets[a]	**308,527**	**47,018**	**125,433**	304,322	45,082	129,323
Total liabilities[a]	**280,548**	**44,602**	**128,051**	273,381	44,890	132,473
Surplus (deficit) of segment assets	**27,979**	**2,416**	**(2,618)**[c]	30,941	192	(3,150)[c]

(a) Including forward contracts and options.
(b) Including foreign currency-linked.
(c) The excess foreign currency liabilities stem mainly from an insurance coverage transaction against a tax exposure for investments in the Bank's foreign operations, investment in shares and funds classified as a non-monetary item.

The ongoing management and reporting of the Bank's exposure to basis risks are made in line with the economic approach, which includes adjustments and additions to the accounting approach presented above. The basis exposure calculated according to the economic approach is detailed in the section entitled "Risk Exposure and Management Thereof".

In 2019, the deposits by the public grew by a total of NIS 11.2 billion (including subordinated bonds and capital notes). The loans to the public increased by NIS 11.3 billion; investments in bonds increased by NIS 10.2 billion; deposits with banks, net, decreased by a total of NIS 6.2 billion.

B. Repayment Periods

In 2019, as in recent years. the Bank was characterized by a high level of shekel liquidity, mainly as a result of the Bank's express policy to raise funds from stable and diverse resources, by raising deposits from a large number of customers for various time frames, including long-term.

About 30.3 percent of the Bank's assets are deposited for short terms in banks and invested in tradable securities, especially government bonds.

In 2019, the Bank met all of the liquidity restrictions in the various scenarios, pursuant to the policy, which aims to secure robustness even under theoretical severe stress scenarios.

Following are the future cash flows of the assets and liabilities by repayment periods and linkage basis (including derivatives and excluding non-monetary items) (for more information, please see Note 32).
According to the directives of the Bank of Israel, cash flows for a liability with several repayment dates shall be classified according to management's assessment, at its discretion, or according to the earliest contractual payment date.

According to a circular published by the Bank of Israel in September 2013, a banking corporation is required to present its cash flows for assets and liabilities separately for shekels (including shekels linked to foreign currencies) and foreign currencies. In addition, cash flows for net settled derivatives shall be classified into shekels or foreign currencies according to the currency in which it is settled. Off-balance-sheet amounts of these derivatives may not be reported.

Excess assets over liabilities*

	As at December 31 2019		
	NIS	Foreign currency	Total
Term to maturity:	In NIS millions		
Up to one month	(99,115)	(56,435)	(155,550)
1-12 months	6,548	5,981	12,529
1-5 years	69,677	33,276	102,953
5-10 years	41,815	11,864	53,679
Over 10 years	48,180	9,016	57,196
Without repayment date	1,615	2,166	3,781
Total	68,720	5,868	74,588
	As at December 31 2018		
	NIS	Foreign currency	Total
Term to maturity:	In NIS millions		
Up to one month	(102,611)	(47,802)	(150,413)
1-12 months	16,894	(3,511)	13,383
1-5 years	67,125	33,467	100,592
5-10 years	40,347	14,120	54,467
Over 10 years	47,475	8,917	56,392
Without repayment date	1,585	2,754	4,339
Total	70,815	7,945	78,760

* Less excess (deficit) in balances for derivatives.

For information regarding the description of the main policy highlights, means of supervision and implementation of the policy, as well as the restrictions normally employed in managing market risks - including the basis and liquidity risks - please see section entitled "Market Risks".

C. Liquidity Position and Raising Financial Sources

Liquidity position and raising financial sources from the Bank

The liquidity surplus levels of the banking industry in Israel continued to be high in 2019. To absorb the surplus, the Bank of Israel conducts monetary tenders each day, week and liquidity period.

During 2019, the Bank of Israel purchased USD 3.9 billion in foreign currency. The Bank of Israel's foreign currency purchases had an expansionary effect on the shekel liquidity surplus in the banking industry.

The composition of the Bank's assets and liabilities continues to indicate a high level of liquidity, as a result of a policy intended to raise funds from stable and diverse resources, with emphasis on raising resources from a large number of customers, diverse customer segments, for different time frames and in various currencies.

Leumi monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by way of a regulatory model, as well as internal models developed by Leumi in accordance with the Bank of Israel's directives and accepted international standards.

The balances of the banking industry (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2019, was NIS 240 billion, compared with NIS 230 billion as at the end of December 2018.

Leumi's balances (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2019 was NIS 61 billion, compared with NIS 64 billion as at the end of December 2018.

The net balance of cash and deposits with banks as at December 31 2019 was NIS 70.0 billion, compared with NIS 76.0 billion as at the end of 2018.

In addition, the Bank has a securities portfolio valued at NIS 76 billion, which is invested primarily in Israeli government bonds, foreign government bonds and bonds of foreign-based banks, compared with a balance of NIS 66 billion as at December 31 2018.

During the reporting period, the off-balance sheet monetary assets were up by NIS 150 billion, amounting to a total of NIS 821 billion.

The deposit balances of the three largest depositor groups totaled NIS 26,465 million as at December 31 2019.

Main regulatory restrictions on the transfer of liquid means or regulatory capital between the Group's companies in Israeli and foreign operations are as follows:

1. The Bank of Israel does not restrict the Bank’s deposits with the Group's subsidiaries in Israel and abroad, but has imposed restrictions on the Bank’s capital investments and bonds in foreign companies abroad. Any increase in investment or a decrease in holding any type of means of control to less than 80 percent requires prior approval by the Bank of Israel.

2. The US subsidiary - The US authorities restrict local banks from any type and extent of exposure to related companies. The maximum allowed exposure rate to a related company is 10 percent of the Bank's equity capital in the United States, and the US subsidiary’s maximum allowed exposure to the Group is 20 percent of its equity capital.

3. The UK subsidiary (BLUK) - The UK authorities restrict local banks from any type and extent of exposure to related companies. BLUK’s maximum rate of exposure to the Group's companies (excluding Bank Leumi of Israel Ltd.) is 25 percent of the UK Bank's equity. Under a waiver issued by the British regulator, the UK subsidiary may increase its exposure to Bank Leumi of Israel Ltd. to 100 percent of the Bank's equity capital in England.

Operational Risks

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

The Leumi Group engages in a wide range of financial activities and is therefore exposed to operational risks which include, inter alia: Information security and cyber risks, technological risk, business continuity risk as well as embezzlement and fraud risks.

The risk management approach is consistent with the Leumi Group’s strategy, constitutes a basis for defining its risk tolerance, the manner of managing risk and corporate governance and determining the focus and emphases in operational risk management processes, allowing for informed and well-focused risk management as well as prioritizing tasks and resources.

The regulatory capital required for operational risks is calculated using the standardized approach in the capital adequacy measurement directives of the Banking Supervision Department.

To mitigate potential damage in the event of risks materializing, the Leumi Group has purchased a range of insurance policies covering various operational risks, including, inter alia, a directors’ insurance and officer insurance policy as well as a cyber insurance policy.

Corporate Governance Structure

The Group’s operational risk is managed through three lines of defense and involves an ongoing proactive process to identify, assess, measure, control, minimize, monitor and report the material risks performed by all divisions.

The operational risk policy and management framework

The Group's operational risk management policy outlines Leumi’s operational risk management principles, guidelines and framework, including: Risk-oriented management adapted to each business line and a focus on risks with potentially significant consequences.

To allow the Board of Directors and management to exercise appropriate corporate governance, operational risk tolerance was defined through quantitative restrictions and qualitative declarations.

The operational risk profile is periodically monitored and reported on a quarterly basis to the Bank's management and Board of Directors, serving as a basis for decision-making.

Main operational risk areas

Information security and cyber risk.

Leumi continues to promote the provision of financial services through digital platforms and expands the use of advanced technologies. As a result, the risk of cyber-attacks is growing, and Leumi’s exposure to the materialization of cyber risks grows, respectively.

Cyber-space is highly dynamic and characterized by uncertainty in terms of the type, scope and force of the attacks. A materialization of a cyber event may result in monetary damage, theft of sensitive banking information, disruption of activity and operational continuity and even damage to the Bank’s reputation.

Managing cyber risk and protection are implemented by investing significant resources. The resources are invested according to the business strategy and risk tolerance.

As part of the efforts to reinforce cyber- protection and manage cyber risk, Leumi developed a policy, drew up a cyber risk map, implements mitigating programs and recovery capabilities and conducts cyber incident and recovery drills. As part of its mitigation plans, Leumi established a cyber fusion center - in order to optimize the implementation of its cyber security approach and response to real-time events.

In 2019, no cyber incidents were discovered which affected the Bank's financial statements.

Technological and innovation risks

As a champion and leader of technological innovation, which provides its customers with advanced services across all channels, including digital ones, according their needs, the Bank requires technologically advanced, robust infrastructures. These infrastructures create business opportunities, while on the other hand, raise the level of exposure to technology risks in the business and operating processes.

Leumi attributes great importance to ensuring that the technology infrastructure servicing its customers and employees will enable business and operational availability and continuity, and invests considerable resources to that end.

In addition, Leumi plans to improve its IT systems infrastructure through the transformation project. As part of the project, the Bank is preparing to develop a business-technological plan to achieve its business goals in the coming years. The Bank devotes considerable management resources to the preparation and planning stages in order to ensure the project's success and to hedge risks. Senior management is focusing on preparations for the project, with close corporate governance.

Bank of Israel's letter entitled Encouraging Innovation in Banks and Acquirers

On June 24 2019, the Banking Supervision Department published a letter entitled "Encouraging Innovation in Banks and Acquirers". The letter seeks to encourage implementation of innovative banking technologies, as well as to clarify and outline the regulatory principles in this area, outlining the expectations from the banking corporations both in terms of adoption and assessment of new technologies and in terms of risk management aspects affected by the changing environment.

The implementation of the said provisions will allow the Bank to adopt innovative banking products and services as well as expand the use of advanced technologies, in order to adapt the Bank to the changing business and technological environment, while further boosting customer experience, optimizing the management of operational risks, streamlining its activity, and reducing costs.

In the past few years, Leumi has been leading a business strategy encouraging technological and digital innovation. The Bank implements a new product policy, which outlines the risk management processes involved in introducing new products, including new technological initiatives and innovation.

Business continuity risk

Leumi manages and implements processes with the purpose of allowing quick recovery in case of emergency and stress events, while minimizing the damage to the business activity. The processes include the following:

- A business continuity policy that defines corporate governance, principles, and the key processes in case of an emergency.
- Developing and implementing the overall work framework that includes business continuity plans, business impact analysis, recovery strategies and a drill methodology.
- Maintaining stability of technological infrastructures, providing recovery capabilities, including backup and recovery.

Outsourcing and supplier risk

Leumi contracts suppliers and sub-suppliers for various business needs and adopts new products and services developed by external entities. Its dependence on suppliers exposes the Bank to various risks, including business continuity, disruption and information leakage. Such risks are managed on an ongoing basis through the procurement, information security, business continuity and cyber security workflows.

Proper Conduct of Banking Business Directive No. 359A, "Outsourcing"

The purpose of Proper Conduct of Banking Business Directive, "Outsourcing" is to enable banking corporations to implement strategic objectives, increase availability to customers, continue to streamline processes and boost competition in the banking and payments domains, while prescribing the principles banking corporations are to follow in order to reduce their exposure to potential risks embodied in outsourcing. The Directive will become effective in March 2020. The Bank is preparing to implement the directive.

Embezzlement and fraud

The digital workplace environment increases the intensity of embezzlement and fraud risks in terms of identity, money and information theft as well as customer information leaks and misuse of information.
Leumi invests significant resources in identifying and mitigating these risks through focused, ongoing monitoring.

Risks arising from restructuring and process changes

For several years, Leumi has aimed to adjust its activity model. In this context, it has made significant changes to its corporate structure, and has altered areas of responsibility, work procedures, controls, supporting systems as well as its workforce. Such changes may increase the operational risks in the short term, with emphasis on human error. Leumi attributes great importance to maintaining a robust control environment. As a result, the Bank has developed principles and an up-to-date operational approach with the aim of reducing the number of errors and minimizing the potential damage to the business activity.

In 2019, the Operations Division was established. The Division is responsible for all operational matters and aims to unify, streamline and improve existing operational processes, taking on additional operational processes while using advanced technological tools.

For more information on operational risks, please see the section entitled “Operational Risks” in the Risk Management Report.

Other Risks

Regulatory and Compliance Risks

Regulatory Risk

Regulatory risk is the risk of legislative and regulatory changes affecting the income and expenses of the Group, its capital, areas of activity or the business environment in which it operates.

The Leumi Group operates in a complex and multi-dimensional environment. Continuous material changes in a variety of regulatory fields require adequate, ongoing preparations by the Bank.

Recently, emphasis has been placed on the following areas:

- Promoting competition in the financial sector

  In this context, the following regulatory actions may be mentioned: Easements for new banks, including a more lenient licensing process and establishment of a computer service bureau to serve new banks; easements for credit card companies split from banks for the purpose of establishing them as major players in the competition with banks; reform of transitioning accounts between banks aimed to allow easy and rapid transition from one bank to another, including transfer of full responsibility for the transitioning of accounts to the banks; the Credit Information Service Law and Central Credit Register, that allow information to be presented to various credit providers so that they can optimize their value propositions to customers; and opening the option to interface with payment systems to additional entities; continued regulation of the licensing procedures for regulated financial service providers and recommendations for increasing transparency in the securities brokerage domain.

- Encouraging innovation

  In this context, the following regulatory actions may be mentioned: The Banking Supervision Department's letter "Encouraging Innovation in Banks and Acquirers" (including encouraging a "Regulatory Sandbox"); option to issue bank guarantees digitally; the "Open Banking" reform; allowing banks to engage in the field of payment applications for merchants; continued provision of easements for opening online accounts; and the possibility of providing online power of appointment to portfolio managers.

- Customer-bank relationship and conduct

  In this context, the following regulatory actions may be mentioned: Professional Human Phone Answering Law (AKA the "6 Minute Law"); lowering fees and commissions for small and micro-businesses requiring banks to proactively move small and micro-businesses to appropriate fees and commission tracks; amendment of the Banking (Customer Service) Law regarding postponement of the monthly repayment dates for a housing loan under special circumstances (giving birth, illness, maternity leave, death); Fair Credit Law (formerly the "Nonbank Loans Arrangement Law") and the Proper Conduct of Banking Business Directive "Simplifying Customer Agreements" relating to its implementation and aiming to make it easier for customers to understand complex banking credit agreements; and a Payment Services Law that replaces the Debit Card Law and provides consumer protections for various means of payment.

- Financial crime prevention - Prohibition of money laundering, bribery and corruption

  In addition, banks are still seen as responsible for preventing economic crime. Banks are required to monitor suspicious activity and submit reports to the authorities. The Bank is implementing the FATCA and the OECD's Common Reporting Standard (CRS) for collecting and exchanging information on financial accounts, while continuing to implement the reported funds policy, and implementing the Law to Reduce the Use of Cash.

- Privacy protection and information security

  These issues are on the agenda in Israel and around the world and are gaining momentum with the transition to e-banking, outsourcing and the use of cloud computing by the financial system.

The abovementioned trends and changes affect, and are expected to continue to affect, the banking industry in the coming years. The Bank monitors and identifies relevant regulatory provisions, and examines its preparedness for the following: Changing market conditions; increased competition and transparency; entry of new players into traditional banking domains; the Bank's costs compared to those of other entities; use of databases and information of the Bank's customers by non-banking entities; and providing customers with tailored value propositions. At the same time, the regulation erodes income, increases compliance expenses and requires constant improvement of the service and innovation levels.

Compliance Risk

Compliance risk is the risk of a legal or regulatory sanction being imposed, or a material financial loss or a reputational damage incurred, by the banking corporation as a result of failing to comply with the provisions of the law or regulations.

Proper Conduct of Banking Business Directive No. 308, "Compliance and the Compliance Function in Banking Corporations", formally defines the compliance function's areas of responsibility at the Group level. The directive outlines the definition of compliance provisions and stipulates that compliance risk stems from laws, regulations, regulatory provisions, internal procedures, conduct rules and Israel Securities Authority's position papers. The directive stipulates that a bank must assess the effectiveness of its compliance risk management, and find means to measure it, with the compliance risk derived, as stated above, from the entire body of laws governing the Bank's activity.

According to the Bank's policy, compliance risk is managed at the Group level. In this context, various steps are taken to supervise and control and foreign offices and subsidiaries in order to monitor compliance issues as a whole and apply the Group's compliance policy.

A. Compliance risk, prohibition on money laundering and financing of terrorism

To effectively manage compliance risk, Leumi has in place a compliance and enforcement function, headed by the Chief Compliance Officer. The latter is responsible, among other things, for meeting the legal requirements on the prohibition on money laundering and financing of terrorism. The Chief Compliance Officer also serves as the securities law enforcement officer and the responsible officer for FATCA.

The activity of the Compliance Department is performed by a professional team with extensive knowledge and understanding in the field of compliance, and is based on work processes, risk-based controls and automated systems.

The Compliance and Enforcement Department reports to the Chief Legal Counsel.

The complexity of and developments in banking activity requires the Bank to strictly comply with all applicable requirements in its relations with customers, under primary legislation, regulations, ordinances, permits and the Bank of Israel's directives, as well as global regulations and standards governing the Bank's activities.

The compliance function is responsible for managing the compliance risk arising from the following compliance provisions and similar provisions: Conflict of interest, the Bank's conduct towards its customers, prohibition on money laundering and terrorism financing, providing advisory services to customers, privacy protection (excluding IT aspects thereof), taxation aspects relevant to products or services to customers - in accordance with the directives of the Banking Supervision Department on this topic. When the risk is derived from the other provisions applicable to the banking corporation, the risk may be managed by other functions in the second line of defense.

Pursuant to the directive, a comprehensive compliance policy paper is revised and approved by the Board of Directors each year. The policy paper includes corporate governance issues such as the purviews of and Board of Directors, management and Chief Compliance Officer, and the three defense lines' respective areas of responsibility.

A methodology was established for assessing risk embodied in regulatory directives (compliance directives as defined by the new directive). Pursuant to the directive, the Compliance Department prepares a multi-year risk-oriented work plan, including a schedule for tasks and activities.

Maintaining a fair compliance culture across the entire organization requires an effective control and enforcement framework, which is outlined in work processes and enables the organization to comply with all regulations. To this end, strict compliance and enforcement processes have been established for all workflows and their compliance risks. The purpose of the control and enforcement framework is, among other things, to identify existing and potential gaps and exposures in order to determine whether work processes, procedures, training program and assimilation requirements need revision. The control processes are based, inter alia, on an analysis of the compliance regulations, internal and external audit findings, complaints by the public, legal proceedings against the Bank or other banks that may indicate possible compliance exposures, as well as analysis of trends and events in Israel and around the world.

The Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance issues as a whole and implementation of the collective compliance policy.

Pursuant to the developing trends around the world, the Bank handles a range of compliance issues, including the prohibition on money laundering and on the financing of terrorism and taxation aspects. Among other things, the Bank focuses on risk areas in financial technology domains (such as FinTech, P2P, financial service providers, hedge funds, virtual currencies, etc.) – managing compliance risk and prohibition on money laundering risk in a developing financial technology environment characterized by a lack of well-defined and highly experienced regulation on the one hand, and on the other hand – by professional complexity and the lack of practices incorporated into the control processes due to the novelty of the issues at hand.

B. Administrative enforcement

In January 2011, the Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was passed into law by the Knesset. The aim of the law is to improve the enforcement efficiency in the field of securities laws. The law allows the regulator to impose various sanctions on a corporation, its officers and employees if they have violated the relevant provisions.

The Group’s Chief Compliance Officer also serves as the Chief Compliance Enforcement Officer, responsible for implementation of the internal enforcement program in the area of securities and investment management which was approved the Bank’s Board of Directors. In 2019, the enforcement plan was revalidated by an external expert.

C. CRS - Common Reporting Standard and FATCA - Foreign Account Tax Compliance Act

On July 14 2016, the Income Tax Ordinance Amendment Law (No. 227), 2016 was published on the implementation of the FATCA agreement between the State of Israel and the United States and agreements for information exchange between Israel and other countries, pursuant to the Standard for Automatic Exchange of Financial Account Information.

The Income Tax (Implementation of the FATCA Agreement) Regulations, 2016 were published on August 4 2016. Under the regulations, the Bank is required to authenticate customers and forward information on accounts held by American customers to the Israel Tax Authority, which will forward the information to the US's Internal Revenue Service.

The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations, 2019, were published on February 6 2019. Pursuant to the regulations, the Bank is required, to authenticate customers who are residents of foreign countries, and to report customers identified as residents of countries with which Israel has information exchange agreements to the Israel Tax Authority, which will forward the information to the competent authorities in the customers’ countries of residence.

The Bank reports to the Israel Tax Authority according to the provisions of the said law.

The Bank implements a reported funds policy while ensuring that no funds managed by the Bank that are not reported to the relevant tax authorities. In this context, various measures were taken to locate and identify the relevant target audiences. If needed, customers are required to provide various statements and approvals.

The Bank acts on several levels to ensure the compliance of Leumi Group and private individuals therein with the provisions of the law, including: Appointment of a compliance officer as the responsible party; adoption of appropriate policy and work procedures; development of automated tools supporting the working processes; formulation of training and assimilation, testing, control and operation mechanisms required for complying with the directives and instructing the Group’s subsidiaries on adequate preparations.

Legal Risk

Legal risk is defined as the risk of loss as a result of inability to legally enforce an agreement or contingent liabilities, including for claims against, and demands from, the Bank. The definition includes risks arising from legislation, regulations, court rulings and directives issued by authorities, risk emanating from activity that is not covered by adequate agreements, without legal advice or under faulty legal advice, as well as a result of interpretation of the rights of parties to agreements between the Bank and its customers.

Legal risks arise from five main areas:

- Legislation risk - risks attributable to the Bank's activity which does not comply with a primary or secondary legal provision, a Bank of Israel directive or a directive issued by other competent authorities.
- Contractual risk - risks attributable to the Bank's activity with customers, suppliers and other parties with whom the Bank contracts, if it is not backed by an agreement that fully establishes the Bank's interests, or the agreement is not fully enforceable or includes illegal terms and conditions.
- Court ruling risks – risks arising from the Bank's activity if it does not comply with case law.
- Risk attributable to legal proceedings conducted against the Bank.
- Risk arising from changes in enforcement policy.

Legal risk policy and management framework

The Chief Legal Counsel, who is a member of the Bank's management and Head of the Legal Counsel Division, is responsible for leading legal risk management.

The Group implements a program for managing legal risk, which aims to identify, prevent, manage and mitigate legal risk. The program includes policy papers and an interface between the Legal Counsel Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided within the Bank is professional and up-to-date. The policy document has been revised periodically over the years, including in 2019.

The Group drew up a general policy paper, applicable to all subsidiaries, for managing legal risks, according to which each company prepared an internal procedure for managing legal risk in line with its activity and the Group's policy. The internal procedures have been approved by the Legal Counsel Division and by the subsidiaries' board of directors. According to the policy papers, the subsidiaries are required to seek adequate legal advice for certain issues. In addition, the companies send periodic and immediate reports to the Legal Risk Manager, as required by the policy paper. The reports were sent in a uniform format prepared by the Legal Counsel Division. In 2019, the procedures for managing legal risk and related controls were revised. In addition, a legal risk stress scenario was challenged and revised.

In the context of the legal risk management program, the following points have been emphasized:

- Identifying and handling sources of material legal risks.
- Preventing and mitigating legal risk, inter alia, through:
- Preparing adequate agreements, guidelines and procedures.
- Reviewing statutory provisions (including case law) and regulatory directives, and their implications for the Bank.
- Drawing conclusions on various topics and implementing the conclusions drawn in legal documents used by the Bank, as well as providing opinions on these topics to the relevant units in the Bank.

The parties responsible for executing the legal risk management program include various officials and committees within the Legal Counsel Division, headed by the Chief Legal Counsel - who also serves as Legal Risk Manager - whose function is to review, coordinate and handle new legislation and rulings applicable to the Bank.
The Regulation Unit is engaged in identifying and, if necessary, handling new regulation (primary legislation, secondary legislation, directives issued by authorities), as early as the proposed law or regulation stage.

The activity of each of the abovementioned officials and committees is prescribed by internal work procedures of the Legal Counsel Division. The procedures stipulate, inter alia, the information interfaces between the various parties and the Division's management and legal risk team.

General legal exposure

There is a general exposure, which cannot be assessed or quantified, arising, inter alia, from the complexity of the services provided by the Bank and the consolidated companies to their customers. The complexity of these services embodies, inter alia, a potential for claims, interpretative and other, relating to several commercial and regulatory terms and conditions. It is impossible to foresee all of the types of claims which may be raised in this area and the exposure deriving from these and other claims in connection with the services provided by the Bank and the consolidated companies, which are filed, inter alia, via the procedural mechanism provided in the Class Action Law.

There is also exposure due to regulatory changes and directives issued by the Banking Supervision Department, the Israel Securities Authority and other regulators to which the Bank is subjected. Some engagements with customers last many years, in the course of which policies, regulations and legal trends, as well as court rulings, may change. The Bank and the consolidated companies use complex automated systems, which are adjusted on a regular basis in light of the changes as aforesaid. All the above create an increased operating and legal exposure.

There is also a general exposure arising from complaints filed from time to time with the Banking Supervision Department against the Bank and the consolidated companies, which may, under certain circumstances, result in legal proceedings against the Bank. It is currently impossible to assess whether there is exposure for such complaints and whether the Banking Supervision Department will issue an industry-wide decision about the complaints and/or whether class actions or other type of lawsuits will be brought as a result of such proceedings. It is therefore impossible to assess the potential exposure for the such complaints. As a result, no provision was made for the said exposure. Accordingly, no provision was included in respect of the said exposure.

Reputational Risk

Reputational risk is the risk of compromising various stakeholders' trust in the Leumi Group, such as customers, shareholders, etc., as a result of conduct, act, or omission by the Group, officers in the Group, its employees or other involved parties.
Reputational risk refers to the perceptions of the shareholders, stakeholders, the public, influencers and the media, whether they are based on facts or otherwise. Reputational risk is dynamic and changes depending on various topics and populations.

The reputational risk management policy was approved by the Bank's management and Board of Directors with the approach that trust is vital to business activity. The policy defines the organizational structure and areas of responsibility supporting the management of reputational risk.

Strategic Risk

Strategic risk is a business risk the damage of which is material and touches upon the Bank's business model or upon one of its business lines. In fact, this risk may not have a significant effect on the profit in the immediate term, but may become significant in the medium and long term. Strategic risks include threats which may arise from erroneous business decisions, inappropriate implementation of decisions or lack of response to industry-specific, economic, regulatory and consumer or technological changes.

The main strategic risk stems from the fact that the financial service industry is undergoing significant digitalization changes. The opening of the banking industry to competition and the entry of new players - such as BigTech (Google, Amazon, Facebook and Apple), FinTech companies, insurers and non-banking credit companies - requires adjustment of the business model. In addition, the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (the "Strum Law") includes components which could strategically impact the competitive map in Israel. One of its direct consequences for Bank Leumi is the sale of Leumi Card. Another strategic topic is Open Banking.

On April 12 2019, the Central Credit Register (CCR) was launched. The CCR was built by the Bank of Israel, with the support of the Ministry of Finance and Ministry of Justice, in order to increase competitiveness in the field of retail credit, both inside the banking system and by non-banking players. Specifically, the CCR was designed to help customers receive credit with optimized terms and conditions. The system may impact competition in the retail credit market.

Strategic risk is managed by several key units, such as the Data and Digital Division, the Strategy and Innovation Department, the Payments Department, with the involvement of the Risk Management Division and the Finance Division. These functions are in charge of identifying, mapping, assessing and monitoring this risk for all of the Bank's units and the Board of Directors.

In view of the new trends and significant changes introduced into its operating environment, Leumi adopted two main courses of action, the combination of which is at the core of the Group's strategy. On the one hand, the Bank strives to adapt its traditional banking models without compromising the high-quality professional services it provides to various customers across all segments according to their needs, preferences and willingness to adopt digital innovation; on the other hand, the Bank develops its New Banking model through digital and technological channels. These two courses of action depend on and are combined with the need to streamline the Bank's activity and maximize capital utilization while meeting capital adequacy targets.

For more information, please see under "Strategic Risk" in the Risk Management Report.

Models Risk

Models risk is the risk of a loss or harm to the Bank's reputation due to erroneous, model-based decision-making, as a result of using an erroneous model, errors in implementing the model or faulty use of the model.

The models risk management policy was approved by the Bank's management and Board of Directors with the approach that the nature and quality of models are vital to ongoing business activity. The policy covers principles of model risk management, definition of corporate governance, officers and reporting hierarchies.

Environmental Risk

Environmental risk is comprised of two areas:

- Environmental risk resulting from costs associated with implementing and enforcing environmental regulations. The Bank may be exposed to such environmental risk indirectly, in various aspects of its activity, including through its credit risk management, such as if a borrower's financial position is adversely affected by the need to make investments due to environmental provisions or as a result of impairment of exercised collateral, but also directly, if the Bank is found directly responsible for an environmental hazard, including the possibility of the Bank being required to incur the costs of removing an environmental hazard or found responsible for an environmental hazard towards a third party.
  The Bank may also be exposed to a reputational risk if an environmental hazard is attributed to the Bank, whether directly, as one who created the hazard, or indirectly - for having financed the hazard.
- Environmental risk as a result of climate change or natural hazard associated with it, such as: Extreme weather, rising of the sea level and as a result of transitioning to non-polluting energy.
  The Bank may incur direct harm to its facilities as a result of these changes, or indirectly through a borrower's credit risks.

The Bank is following these developments. From a regulatory point of view, no specific requirements have been established for the banks in Israel.

As part of monitoring risks on a regular basis, the Corporate Division also monitors the environmental risks in the loan portfolios of large borrowers, from the credit risk aspect.

As part of the process of assessing and management its environmental conduct, the Bank received ISO 14001 certification, which is renewed each year, through the Israel Standards Institution.

An extensive description of the subject is presented in Bank Leumi's Corporate Social Responsibility Report, which is published annually in accordance with the GRI.

Conduct Risk

Conduct risk is the risk that the Bank's conduct vis-à-vis its customers will lead, by act or omission, to an unwanted outcome for them, without the customer being able to take that outcome into account. As a result, the Bank may incur losses from legal claims, fines or reputational damage.

The Bank adheres to transparent and fair practices in an effort to provide its customers with valuable services and products. This principle is reflected in the Bank's vision – to champion proactive, innovative banking for its customers. In addition, the proactive and sale processes are subject to procedures and controls which ensure proper conduct. These processes are assessed on a regular basis, with the aim of continuously upgrading them.

Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including a low interest rate environment, global political power relations and their impact on international trade.
During the past year, various domestic and international economic entities have pointed at a global economic slowdown. The geopolitical tensions and trade disputes have increased uncertainty about the future of the world trade system, globalization, and international cooperation. As a small and open economy, Israel is exposed to changes in the global economy and may be affected by the developments in the world.

The outbreak of the coronavirus in January 2020 constitutes a global macroeconomic risk. So far, the Chinese economy has incurred most of the direct harm, in the form of a true slowdown in growth during the first quarter of 2020, due to the shutdown of numerous businesses in the area of manufacturing and services and a significant decrease in the scope of transport (inland, maritime and aerial) inside China and between China and other countries. The potential harm of the corona epidemic to the growth of the Chinese and global economies depends on the speed in which the outbreak is contained.

The Bank is assessing its ability to withstand adverse developments in the macroeconomic environment using systemic stress scenarios. In addition, ongoing monitoring and follow up of market developments are conducted in order to prepare in advance and adapt the activity, as needed.

Risk Profile - Defining Risk Factors' Severity

The methodology for classifying the severity of the exposures to various risks, as depicted in the risk factor severity table below, is based on quantifying the effect of various scenarios being realized on the Group's capital, i.e. its stability.
There are five levels of severity, with a highly severe risk defined as damage leading to a decrease of the capital adequacy ratio of Common Equity Tier 1 Capital under the risk appetite level (a CET1 capital ratio of 6.5 percent). The classification into other risk levels is made as a function of the potential damage to the Group's Common Equity Tier 1 capital adequacy and a relevant subjective assessment. Factors affecting the assessments include various considerations, such as: Risk management processes, effect of interaction with other risks and changes in the external risk environment which can increase or decrease the severity of the risks beyond the quantitative damage to the Bank's capital. The subjective assessment also includes expert assessments by relevant functions in the Bank. In cases where a specific quantitative scenario does not adequately express the severity of a risk factor, greater weight will be given to a qualitative estimate.

In light of the above, it should be emphasized that the effect of the various risk factors varies among the banks, so extra care should be exercised in making various comparisons.

Some of the information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information."

Risk factor severity table

	Risk	Definition	Level of severity*
1	Total credit risk	The Bank's risk of loss as a result of the possibility that a counterparty fails to meet its commitments towards the banking corporation. This relates to balance-sheet and off-balance-sheet credit risk.	Moderate
1.1	Borrowers and collaterals quality risk	Risk for default by a borrower or counterparty which causes them to fail to meet their contractual financial obligations, such as default by a borrower or counterparty in derivatives and the residual risk for failure to realize a collateral.	Moderate
1.2	Concentration risk of a large borrower or group of borrowers	The credit risk arises from the borrowers' relatively large portion of the Bank's loan portfolio.	Low
1.3	Concentration risk per industry or segment	The credit risk arises from concentration of loans to borrowers in certain economic sectors or segments.	Moderate
2	Total credit risk	Risk of exposure of the Group's assets to changes in foreign exchange rates, inflation and asset prices, the correlation between them and their volatility.	Low to moderate
2.1	Basis Risk	The risk arising from exchange rate fluctuations, including inflation (held-for-trading and banking portfolios).	Low
2.2	Interest rate risk	The risk arising from interest rate fluctuations (held-for-trading and banking portfolios).	Low to moderate
2.3	Interest spread and share price risk	The risk arising from fluctuations in share and bond prices in the commercial and banking portfolios for assets revalued to market prices.	Low to moderate
3	Liquidity Risk	The risk arising due to the inability to withstand uncertainty as to the ability to raise funding and/or dispose of assets, unexpectedly and within a very short time, without incurring a substantial loss.	Low
4	Pension Risk	Total risks related to various employee-related liabilities.	Low to moderate
5	Operational risk	The risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.	Moderate
5.1	Information security and cyber risk.	A risk arising from attack on the IT systems and/or IT infrastructure, which may result in information theft, in theft of financial assets (cash and cash equivalents) and/or disruption to the operational continuity (by disrupting information and/or compromising availability).	Moderate
5.2	Technological and innovation risk	The risk of loss as a result of malfunctions and mechanical failures, as a result of processes for advancing and implementing technological innovation/innovative products and services and/or projects	Moderate
6	Legal and regulatory risk	Total risks included in the legal risk and regulation risk outlined in the report.	Moderate
7	Compliance Risk	Risk arising from non-compliance with legal provisions and binding regulations.	Moderate
8	Reputational Risk	The risk that negative publicity will reduce the customer base, cause a decline in income or liquidity or lead to high legal expenses.	Low to moderate

	Risk	Definition	Level of severity*
9	Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.	Moderate
10	Global systemic risk	Risks caused due to global external events which may bring about the materialization of several risks at once.	Moderate
11	Local systemic risk	Risks resulting from local events which may lead to the materialization of several risks at once.	Moderate

* In reference to a possible damage to the capital adequacy and subjective assessment of risks that are not easily quantifiable. The level of risk does not express the probability for its occurrence but rather the damage to the Bank if the scenario were to materialize.

Critical Accounting Policies and Estimates

Overview

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and directives of the Banking Supervision Department requires Management to use of estimates and assessments which affect the reported amounts of assets and liabilities as well as income and expense amounts.

In most cases, the estimates and assessments are based on economic forecasts, assessments regarding different markets and past experience, while exercising discretion, and which Management believes to be reasonable at the time of signing the financial statements.

The actual results of these line items may differ from the estimates and/or assessments.

Note 1 provides a detailed description of the accounting policy applied by the Leumi Group.

Set forth below is a condensed description of principal critical accounting issues which required management to make estimates and assumptions and which were discussed by the Board of Directors, management and the joint auditors.

Loan Loss Provision and Classification of Troubled Debts

Measurement and disclosure of impaired non-performing debts, credit risk and loan loss provision

Collective provision

The collective provision reflects an estimate of loan losses based on past losses for debts with similar characteristics, with adjustments made for current risk assessments. This loan loss provision is made for large groups of relatively small and homogenous debts and for specifically-assessed debts that were found to be unimpaired.

The method of determining a collective loan loss provision is in accordance with the requirements of the Reporting to the Public Directives, the main points of which are as follows:

- Loans to the public are broken down by economic sectors. For each economic sector, two rates of collective provisions are determined: One for non-troubled debts, and the other - higher - for troubled debts (debt classified as “special mention" or "substandard").
- These rates are based on past losses (the average of the net write-offs in the current year and in the previous full calendar years, since 2011).
- The rate of past losses is added to the quality adjustment factor - an additional coefficient for environmental factors relevant to the prospects of collecting the credit (quality adjustments), such as: Sector-specific characteristics; the local economy’s characteristics; and the composition and quality of the loan portfolio. To calculate the quality adjustment factor, the Bank applies an internal formula which takes into account a wide range of indicators.

The provisions calculated and made for all the debts - both balance sheet credit and off-balance-sheet credit instruments - with the off-balance-sheet credit multiplied by a conversion coefficient according to the type of instrument and in accordance with the directives of the Banking Supervision Department.

According to the Bank of Israel’s guidance, the rate of adjustments for environmental factors shall be no less than 0.75 percent of the outstanding non-troubled performing loans to private individuals as at that date, and the rate of collective provision for housing loans shall be no less than 0.35 percent of the outstanding loans.

The Bank assesses the adequacy of the collective provision every quarter, based, among other things, on the assessment of the risks inherent in the loan portfolio and a forward-looking assessment, to the extent possible, of trends and developments in principal segments, while implementing the principles set in Proper Conduct of Banking Business Directive No. 314 “Adequate Assessment of Credit Risks and Adequate Measurement of Debts”.

Classification of troubled debts and specific provision

The Bank assesses the loan portfolio on an ongoing basis and in accordance with procedures in order to identify, as soon as possible, borrowers whose risk level and exposure increased and who require special supervision and close monitoring by management, either due to risk characteristics or as a result of economic/market conditions that might have an adverse effect on the borrowers, aiming to improve their condition. As to corporate customers, judgment is exercised by corporate department's employees dealing with the borrower in order to assess the extent of the problem, which is then assessed by the Credit Risk Management units of the Risk Management Division with the aim of making an objective assessment, to the extent possible, of the identified problems in order to determine the borrower's risk rating.

Retail Bank Division customers whose total indebtedness exceeds NIS 1 million are specifically identified and assessed by the Division in order to determine whether their debts should be classified as troubled debts. Other customers of the Division, with indebtedness under NIS 1 million and who are homogeneous, are identified and handled in an automated manner according to preset criteria.

As part of its credit risk management activities, the Bank applies measures to identify troubled debts across each business line (in accordance with its unique characteristics) as early as possible. In the Corporate Division, the assessment is based, inter alia, on criteria which constitute red flags for troubled debts. Accordingly, if needed, the risk rating is updated and the debt is defined as sensitive. The Retail Banking Division identifies sensitive customers mainly in an automated manner, based on criteria predefined for this type of customers.

Customers identified as sensitive are reassessed each quarter, prior to the publication of the financial statements.

The methodology for dealing with troubled debts requires, among other things, a methodical assessment of the adequacy of the loan loss provision for debts classified as impaired non-performing. The provision is assessed according to the difference between the recorded outstanding debt and the present value of the future cash flows expected to service the debt from the customer's activity and the realization of collaterals and other assets, discounted at the effective interest rate of the debt. For debts the repayment of which relies on collaterals (collateral-contingent debts) and there are no other available and reliable sources of repayment, the provision is determined based on the fair value of the collateral less costs of disposal and after triggering buffers for the collateral's value so that it will be possible to realize the collateral and have the debt repaid therefrom.
Similarly, to examining the adequacy of the classifications, the adequacy of the provision is also examined on a quarterly basis, in accordance with the requirements of the Bank of Israel.

According to revised Proper Conduct of Banking Business directives, the Risk Management Division is responsible for setting appropriate classifications and allowances for credit losses. In addition to the discussions held by business divisions' managements and by representatives of the Risk Management Division, the Bank's Provisions Committee, headed by the President and CEO, holds quarterly discussions as to the aggregate amount of the provisions required for that quarter and the classification of specific provisions (in excess for a stipulated threshold amount).

Derivatives

Pursuant to the Banking Supervision Department's Financial Reporting Directives, the Bank applies the provisions of Topics 815 and 820 as amended, in connection with accounting treatment applied to derivatives and the presentation thereof.

Fair value is the amount/price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable, willing parties at measurement date. Among other things, the standard requires to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Banking corporation's assumptions.

The standard requires the banking corporation to incorporate the credit risk and the non-performance risk into the fair value measurement of a debt, including derivatives, which were issued by the Bank and are measured at fair value. Non-performance risk includes, but is not limited to, the banking corporation's credit risk.

Specific guidelines were set as to the methodology and inputs to be used in calculation of derivatives' fair value. The Bank calculates the credit risk provision at customer level, using a credit quality index, based on internal valuation models or market inputs.

The credit risk provision in the 2019 financial statements was calculated using a model that takes into consideration various potential exposure scenarios.

In a few cases where the Bank does not have a mathematical model for revaluation derivatives, the fair value is determined according to quotes received from entities trading these instruments. Although quotes are received from reliable brokers with whom the Bank has elected to work, it is not certain that the quotes reflect the price obtainable in an actual transaction in any amount, and especially in large-amount transactions.

For more information regarding measurement of fair value, please see Note 1.G.

Securities

Securities, except for held-to-maturity bonds, are stated in the balance sheet at fair value. Shares for which no fair value is available are presented at cost

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. As to fair value of foreign securities, most of the portfolio is calculated on a daily basis by a reputable international entity engaged in fair value measurement of financial assets for purposes of disclosure in financial statements. This entity is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets and on revaluation of similar transactions. The calculation reflects the price that a willing buyer would pay for securities based on current observable market inputs. Since only some of the securities are traded worldwide on a daily basis, the revaluing entity establishes its data for purposes of determining a price by applying a pricing algorithm to actual transactions and quotes from global and domestic banks, brokers and stock exchanges. If little or no market inputs are available, the revaluing entity uses sophisticated valuation models, taking into consideration the issuing entity's identity and the relevant industry.

Fair value of non-tradable bonds of Israeli companies is based on inputs received from Fair Spread Ltd. The Bank validated the model and verified the fair value to a reasonable degree of certainty.
Sometimes, for reasons of conservatism, when there are indicators justifying such adjustments, the Bank adjusts the model and/or market price in order to establish a more accurate fair value.

For more information regarding measurement of fair value, please see Note 1.G.

At each reporting period, the Bank assesses the need to record losses for other-than-temporary impairment of the bonds comprising the available-for-sale portfolio and the held-to-maturity portfolio, according to established criteria.

For more information regarding impairment testing, please see Note 1.I.

For more information, please see under "Structure and Development of Assets and Liabilities, Equity and Capital Adequacy", under "Securities".

Liabilities for Employee Benefits

Retirement and pension benefits are determined according to a classification of different employment periods at the Bank: Employees who began working at the Bank from January 1 1999 make ongoing pension and severance pay contributions, for which the Bank has no pension liability, except for supplementary severance pay. Employees who began working at the Bank prior to January 1 1999 may choose, on reaching retirement age, to either receive severance pay and compensation from the Bank or a pension annuity, all in accordance with, and subject to, the provisions of the various agreements applicable to these employees. For these employees, the Bank deposits contributions for pension and severance pay in the Bank employees' provident fund, which is managed by a management company held by the fund's planholders (hereinafter: The "Fund").

In recent years, the Bank took several measures to mitigate the effect of these liabilities on the financial statements. Following these measures, the Bank began assessing alternatives to the current situation according to which all the funds are deposited in said Fund.
Following a former engagement, the Bank entered into an agreement with an additional institutional entity to transfer the severance pay and pension funds which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a social security arrangement to a paying fund. The Bank also entered into an agreement to purchase an insurance policy for the retirees, payable by the Bank. The Bank intends to enter similar agreements with additional institutional entities.

On July 29 2019, the Bank signed a special collective agreement with the Workers' Union for 2019-2022 and a special collective agreement regarding employees specializing in technological professions.

For more information on the subject, please see Note 23 and an immediate report dated June 25 2019.

The calculation of the pension liabilities amounts is based on actuarial models. The discount rate used to calculate the actuarial liabilities for employee benefits is based on market yields according to the alternative chosen by the Bank from among those prescribed by the Bank of Israel, according to which the yield curve is composed of yields of Israeli government bonds plus a spread curve of AA-graded corporate bonds which match the average durations of the liabilities for employee rights.

Based on past experience, the actuarial calculations also take into account the forecasted real pay raises that change according to the employee's age.

Set forth below is a quantitative sensitivity analysis of the impact of principal assumptions on the calculation of the actuarial liability:

A 1.0 percent decrease in the discount rate of the abovementioned liabilities will result in a NIS 3.4 billion increase in total liabilities. A 1.0 percent decrease in pay raises will result in a NIS 635 million decrease in total liabilities. A 5.0 percent increase in the life expectancy will result in a NIS 360 million increase in total liabilities. All amounts are stated before the tax effect.

The actuarial models include assumptions about: Life expectancy, disability rates, departure rates, exit rates with preferential terms and conditions, percentage of utilizing retirement benefits and percentage of withdrawal of pension and severance pay, etc. Although the criteria have been set with adequate caution and professionalism, a change in any or several of the actuarial criteria and/or discount rate and/or pay raise rates will alter the Bank's liabilities amount.

The actuarial assessment of the employees' benefits is available on the Israel Securities Authority's website, at www.magna.isa.gov.il.

As at December 31 2019, the balance of accumulated other comprehensive income for employee benefits amounted to a negative post-tax balance of NIS 3,948 million, a NIS 2,185 million decrease in the balance of other comprehensive income after taxes, compared with December 31 2018.

The outstanding liability for employee benefits as at December 31 2019, according to a discount rate based on Israeli corporate bonds ("deep market" according to the Israel Securities Authority's approach) is NIS 17 million higher than the actual outstanding balance of the liability.

Liabilities for Legal Claims

The Bank's liabilities include provisions for various legal claims ledged against the Bank, including motions to approve claims as class action. The provisions are determined based on management's estimates according to legal opinions.

The Bank's Provisions Committee, headed by the Company's President and CEO, and the Board of Directors' Audit Committee hold quarterly discussions on provisions for legal claims lodged against the Bank whose amounts exceeds a certain threshold.

In order to assess the risks arising from legal claims lodged against the Bank, management relies on the opinion of external legal advisors representing the Bank in those legal claims.

These legal opinions are issued by the external legal advisors according to the best of their judgment, based on the facts presented to them by the Bank and based on the legal position (set out in law and case law) as known on assessment date, and which are quite often subject to interpretation and to potential conflicting arguments.

The assessment of the risks inherent in motions to approve legal claims as class actions is a complex process since this is a developing field and laws and case law relating thereto are still being established, even with regard to important aspects thereof. Furthermore, in view of the preliminary stage of some legal claims, the legal advisors are unable to assess the risk arising therefrom, even under the aforesaid limitations.

In view of the above, the actual outcomes of the legal claims may be different than the provisions made in respect thereof.

Income Tax

Current and deferred taxes are carried to the income statement or directly to equity if they arise from items that are recorded directly in equity.

As from January 1 2017 the Group applies US GAAP to taxes on income pursuant to a circular published by the Banking Supervision Department on October 22 2015 on "Reporting by banking corporations in Israel according to US GAAP on the subject of taxes on income" and pursuant to a circular published on October 13 2016 on "Reporting by Banking Corporations Pursuant to US GAAP".

Current taxes

Current tax is the amount of income taxes payable (recoverable) for the taxable income for the tax year calculated at the applicable tax rates under tax laws that have been enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred taxes

Deferred taxes receivable/payable are recognized for temporary differences between the book value of assets and liabilities as reported in the financial statements and those taken into account for tax purposes. Deferred tax balances are measured at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and tax laws enacted as at the balance sheet date. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax assets for carried forward losses, tax benefits and deductible temporary differences are recognized in the books of accounts when it is more likely than not that the Group will have future taxable income against which it will be able to utilize its deferred tax assets.
The Group recorded deferred taxes for gains on investments in investees accrued since January 1, 2017, including gains on investments that the Group intends to hold and not to realize, and also for dividends that are not expected to be distributed by investees.

Controls and Procedures Regarding Financial Statements Disclosures

The directives of the Banking Supervision Department impose the requirements of Sections 302 and 404 of the SOX Act on banking corporations. The SEC and the Public Company Accounting Oversight Board have established provisions with regard to the abovementioned sections, on management's responsibility for instating and maintaining disclosure controls and procedures and for exercising internal control over financial reporting and the opinion of the independent auditors on the audit of internal controls over financial reporting.

The Banking Supervision Department's directives require the following:

- Banking corporations shall apply Sections 302 and 404 and the SEC directives issued thereunder.

  Adequate internal control requires an auditing system that follows a predefined, recognized framework. The 1992 COSO (Committee of Sponsoring Organizations of the Treadway Commission) meets these requirements and can be used to evaluate the internal controls.

The Bank regularly applies the directive to the Leumi Group.

During 2019, the Bank validated and updated material control processes and conducted effective evaluations of its entire system of internal control over financial reporting.

Evaluation of disclosure controls and procedures

The Bank's management, with the cooperation of the President and Chief Executive Officer and Head of the Finance Division and Chief Accountant, have evaluated the effectiveness of the Bank's disclosure controls and procedures as at the end of the reporting period. Based on this evaluation, the Bank's President and Chief Executive Officer and the Head of the Finance Division and Chief Accountant have concluded that, as at the end of the reporting period, the Bank's disclosure controls and procedures are effective for the purpose of recording, processing, summarizing and reporting the information the Bank is required to disclose in its financial statements pursuant to the Banking Supervision Department's Reporting to the Public Directives and as at the date prescribed by the Directives.

Internal control changes

In the quarter ended December 31 2019, no material change has occurred in the Bank's internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

The Board of Directors

In 2019, Leumi's Board of Directors held 50 plenum meetings and its committees held 98 meetings.

At a meeting held on February 26 2020, the Board of Directors resolved to approve and publish the Group's condensed consolidated audited financial statements as at December 31 2019 and for the period then ended.

The Bank's Board of Directors would like to express its appreciation and gratitude to the employees and managers of the Bank and the Group's subsidiaries - both in Israel and overseas - for their dedicated work and contribution to the Group's business.

סאמר

Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

February 26 2020

Certification

I, Hanan Friedman, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi of Israel Ltd. (hereinafter: the “Bank") for 2019 (hereinafter: the “Report").

2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding “Report of the Board of Directors and Management"). In addition:

    a. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;

    b. We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;

    c. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

    d. The Report discloses any change in the Bank’s internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ committees, based on our most recent evaluation of the internal control over financial reporting, the following:

    a. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

February 26 2020

Hanan Friedman
President and Chief
Executive Officer

Certification

I, Omer Ziv, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi of Israel Ltd. (hereinafter: the “Bank") for 2019 (hereinafter: the “Report").

2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directive, “Report of the Board of Directors and Management"). In addition:

    a. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;

    b. We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;

    c. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

    d. The Report discloses any change in the Bank’s internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ committees, based on our most recent evaluation of the internal control over financial reporting, the following:

    a. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

February 26 2020

Omer Ziv
First Executive Vice President
Head of Finance Division

Certification

I, Shlomo Goldfarb, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi of Israel Ltd. (hereinafter: the “Bank") for 2019 (hereinafter: the “Report").

2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directive, “Report of the Board of Directors and Management"). In addition:

   a. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;

   b. We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;

   c. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

   d. The Report discloses any change in the Bank’s internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ committees, based on our most recent evaluation of the internal control over financial reporting, the following:

   a. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

February 26 2020

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Report of the Board of Directors and Management regarding the Internal Control over Financial Reporting

The Board of Directors and management of Bank Leumi of Israel Ltd. are responsible for the creation and existence of adequate internal control over financial reporting (as defined in the Reporting to the Public Directive, "Reporting to the Public Directives and Management"). The Bank's internal control system was designed to provide a reasonable degree of assurance to the Bank's Board of Directors and management regarding adequate preparation and presentation of financial statements published in accordance with Generally Accepted Accounting Principles and the directives and guidance of the Banking Supervision Department. Regardless of the level of their design, all internal control systems have inherent limitations. As a result, even if it has been established that these systems are effective, they can provide only a reasonable degree of assurance regarding preparation and presentation of financial statements.

Management, under the Board of Directors' supervision, has in place a comprehensive system of controls designed to ensure that transactions are carried out in accordance with management's authorizations, that assets are protected and that the accounting entries are reliable. In addition, management, under the Board of Directors' supervision, takes steps to ensure that the information and communication channels are effective and monitors execution, including the execution of internal control procedures.

The Bank's management, under the Board of Directors' supervision, has assessed the effectiveness of the Bank's internal control over financial reporting as at December 31 2019, based on criteria established by the internal control model of the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Based on this assessment, management believes that, as at December 31 2019, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31 2019 was audited by the Bank's joint independent auditors - Kost Forer Gabbay & Kasierer and Somekh Chaikin, as noted in their report, which included an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at December 31 2019.

February 26 2020

Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Omer Ziv
First Executive Vice President
Head of the Finance Division

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi Le-Israel B.M. In accordance with the Reporting to the Public Directives of the Banking Supervision Department regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Bank Leumi Le-Israel B.M. and its subsidiaries (hereinafter, jointly - the "Bank") as at December 31 2019, based on criteria established by the 1992 Internal Control - Integrated Framework published by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) (hereinafter - "COSO"). The Bank's Board of Directors and management are responsible for the existence of effective internal control over financial reporting and for their assessment of the effectiveness of the internal control over the financial statements, which is included in the Report of the Board of Directors and Management regarding the Internal Control over the attached financial report. Our responsibility is to express an opinion regarding the internal control over the Bank's financial reporting based on our audit.

We have prepared our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and perform the audit so as to obtain a reasonable degree of assurance that effective internal control over financial reporting has been exercised, from all material respects. Our audit included obtaining an understanding regarding internal control over financial reporting, assessment of the risk of a material weakness as well as consideration and assessment of the effectiveness of the planning and operation of internal control based on the assessed risk. Our audit also included implementation of other procedures we believed necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department. A bank's internal control over financial reporting includes policies and procedures which: (1) Relate to management of records which, if reasonably detailed, precisely and adequately reflect the transactions and transfers of the Bank's assets (including their removal from its possession); (2) Provide a reasonable degree of assurance that transactions are adequately recorded in order to enable the preparation of financial statements in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department and that accepting and spending the bank's money is made only in accordance with the authorizations of the bank's Board of Directors and management; and (3) Provide a reasonable degree of assurance regarding the timely prevention or disclosure of an unauthorized purchase, use or transfer (including removal from possession) of the bank's assets, which may have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or identify misstatement. In addition, drawing conclusions regarding the future based on any current effectiveness assessment is exposed to the risk that the controls become inadequate due to changes in circumstances or that the level of compliance with the policies or procedures may adversely change.

In our opinion, the Bank has exercised, from all material respects, effective internal control over financial reporting as at December 31 2019, based on criteria determined by the 1992 Internal Control - Integrated Framework published by the COSO.

We have also, in accordance with Israeli GAAP and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department, audited the Bank's consolidated balance sheets as at December 31 2019 and 2018 and the consolidated income statements, consolidated comprehensive income statements and the consolidated statement of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years ended on December 31 2019 and our report dated February 26 2020 included an unqualified opinion regarding these financial statements.

Somekh Chaikin	**Kost Forer Gabay Kasierer**
CPAs	CPAs

Joint Independent Auditors

February 26 2020

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi of Israel Ltd. - Annual Financial Statements

We have audited the attached consolidated balance sheets of Bank Leumi of Israel Ltd. and its consolidated companies (hereinafter - the "Bank") as at December 31 2019 and 2018 and the consolidated income statements, consolidated comprehensive income statements, consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years ended on December 31 2019. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those standards set forth in the regulations for Certified Public Accountants (Modus Operandi of an Auditor), 1973 and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department. According to these standards, it is required that we plan and perform the audit in order to obtain a reasonable degree of assurance that the financial statements are not materially misstated. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also involves assessing the accounting principles used, and significant estimates made by the Bank's Board of Directors and management, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion, based on our audit, that the said financial statements adequately represent, in all material aspects, the Bank's financial position as at December 31 2019 and 2018 and the financial performance and changes in shareholders' equity and cash flows of the Bank for each of the three years ended December 31 2019, according to Israeli GAAP. It is also our opinion that the said financial statements are prepared in accordance with the directives and guidance of the Banking Supervision Department.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as at December 31 2019, based on criteria established by the COSO 1992 Internal Control - Integrated Framework, and our report dated February 26 2020 included an unqualified opinion of the effectiveness of the Bank's internal control over financial reporting.

Somekh Chaikin
CPAs

Kost Forer Gabay Kasierer
CPAs

Joint Independent Auditors

February 26 2020

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
Consolidated Income Statement
For the year ended December 31

	Note	2019	2018	2017
		In NIS millions		
Interest income	2	**11,437**	11,346	10,069
Interest expense	2	**2,596**	2,456	2,023
Interest income, net	2	**8,841**	8,890	8,046
Loan loss expenses	13, 30	**609**	519	172
Interest income, net after loan loss expenses		**8,232**	8,371	7,874
Noninterest income				
Noninterest finance income	3	**1,686**	682	919
Fees and commissions	4, 4A	**3,225**	4,121	4,052
Other income	5	**170**	68	371
Total noninterest income		**5,081**	4,871	5,342
Operating and other expenses				
Salaries and related expenses	6	**4,325**	4,544	4,591
Buildings and equipment - Maintenance and depreciation	16	**1,521**	1,569	1,661
Other expenses	7	**2,062**	2,224	2,163
Total operating and other expenses		**7,908**	8,337	8,415
Profit before taxes		**5,405**	4,905	4,801
Provision for profit tax	8	**1,830**	1,619	1,692
Profit after taxes		**3,575**	3,286	3,109
The Bank's share in associates' profits (losses), net after tax	15	**(15)**	36	92
Net income				
Before attribution to non-controlling interests		**3,560**	3,322	3,201
Attributable to non-controlling interests		**(38)**	(65)	(29)
Attributable to the Bank's shareholders		**3,522**	3,257	3,172
Basic and diluted earnings per share (in NIS)				
Basic net income attributable to the Bank's shareholders	9	**2.37**	2.15	2.08
Diluted net income attributable to the Bank's shareholders	9	**2.37**	2.15	2.08

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

סאמר

Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Omer Ziv
First Executive Vice President
Head of the Finance Division

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of the Accounting Division

Date of approval of the financial statements: February 26 2020

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
Consolidated Statement of Comprehensive Income
For the year ended December 31

	2019	2018	2017
	In NIS millions		
Net income before attribution to non-controlling interests	**3,560**	3,322	3,201
Less net income attributable to non-controlling interests	**38**	65	29
Net income attributable to the Bank's shareholders	**3,522**	3,257	3,172
Other comprehensive income (loss), before taxes			
Adjustments for presentation of available-for-sale securities at fair value, net	**1,468**	(634)[d]	262[d]
Adjustments from translation of financial statements, net,[a] after the effect of hedges[b]	**(65)**	27	(39)
Net losses for cash flow hedges	**(3)**	-	-
Adjustments of liabilities for employee benefits[c]	**(3,317)**	1,796	(1,177)
The Bank's share in other comprehensive income (loss) of associates	**(5)**	34[d]	(13)[d]
Other comprehensive income (loss), before taxes	**(1,922)**	1,223	(967)
Related tax effect	**573**	(330)	232
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(1,349)**	893	(735)
Other comprehensive loss attributable to non-controlling interests	**(13)**	(26)	-
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**(1,336)**	919	(735)
Comprehensive income before attribution to non-controlling interests	**2,211**	4,215	2,466
Comprehensive income attributable to non-controlling interests	**25**	39	29
Comprehensive income attributable to the Bank's shareholders	**2,186**	4,176	2,437

(a) Adjustments from translation of the financial statements of a foreign operation the functional currency of which is different than the Bank's functional currency.
(b) Hedges - net gains (losses) for hedging a net investment in foreign currency.
(c) Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and deduction of amounts previously recorded in other comprehensive income. Please see also Note 23.
(d) Reclassified.

Please see also Note 10, under accumulated other comprehensive income.

The notes to the consolidated financial statements form an integral part thereof.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
Consolidated Balance Sheet
As at December 31

	Note	2019	2018
		In NIS millions	
Assets			
Cash and deposits with banks	11	76,213	80,113[e]
Securities[a][b]	12	84,949	74,571
Securities borrowed or purchased under reverse repurchase agreements		1,470	1,257
Loans to the public	13, 30	285,806	275,954[e]
Loan loss provision	13, 30	(3,328)	(3,352)
Loans to the public, net		282,478	272,602
Loans to governments	14	744	782
Investments in associates	15	765	623
Buildings and equipment	16	3,043	2,853
Goodwill	17	16	17
Assets for derivatives	28A, 28B	10,970	12,750
Other assets	18	8,486	6,642
Held-for-sale assets[d]		-	8,570
Total assets		469,134	460,780
Liabilities and equity			
Deposits by the public	19	373,644	364,714[e]
Deposits by banks	20	6,176	5,210
Deposits by governments		315	709
Securities loaned or sold under repurchase agreements		476	541
Bonds, promissory notes and subordinated bonds	21	19,958	17,798
Liabilities for derivatives	28A, 28B	11,528	12,089
Other liabilities[a][c]	22, 30D	21,163	14,780
Held-for-sale liabilities[d]		-	8,778
Total liabilities		433,260	424,619
Shareholders' equity	25A	35,406	35,305
Non-controlling interests		468	856
Total equity		35,874	36,161
Total liabilities and equity		469,134	460,780

(a) For more information regarding amounts measured at fair value, please see Note 33A.
(b) For more information on securities pledged to lenders, please see Note 12.
(c) Of which: A provision for loan losses for off-balance-sheet credit instruments of NIS 386 million (as at December 31 2018 - NIS 461 million).
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.
(e) Reclassified.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES

Statement of Changes in Equity

For the year ended December 31 2019

		Capital reserves	
	Share capital	Premium	Stock-based compensation and other transactions[a]
	In NIS millions		
Balance as at January 1 2017	7,109	1,722	36
Implementation of the US tax reform[c]	-	-	-
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Issue of shares	1	7	(8)
Benefit to employees for stock-based compensation transactions	-	-	10
Balance as at December 31 2017	7,110	1,729	38
Effect of first-time application of IFRS 9 on foreign subsidiaries	-	-	-
Net income	-	-	-
Other comprehensive income, net of tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(30)	(670)	-
Issue of shares	1	7	(8)
Benefit to employees for stock-based compensation transactions	-	-	28
Sale of equity of a consolidated company to non-controlling interests	-	21	-
Balance as at December 31 2018	7,081	1,087	58
Cumulative effect for first-time application of US GAAP[d]	-	-	-
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(28)	(672)	-
Issue of shares	1	6	(7)
Benefit to employees for stock-based compensation transactions	-	-	2
Sale of equity of a consolidated company	-	-	-
Balance as at December 31 2019	**7,054**	**421**	**53**

(a) Including NIS 10 million in other capital reserves.

(b) Including NIS 5,610 million that are non-distributable as dividend, of which NIS 1,400 million in respect of share buyback (2018 - NIS 2,849 million, of which NIS 700 million for share buyback, 2017 - NIS 3,338 million). The remaining distributable amount is subject to the Bank of Israel's directives and to the restrictions set out in the Proper Conduct of Banking Business directives.

(c) Effect of income taxes arising from tax rate changes following the tax reform; the taxes were reclassified from other comprehensive income to retained earnings.

(d) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - "Financial Instruments", including updates thereof. Please see Note 1.X.

The notes to the interim condensed consolidated financial statements form an integral part thereof.

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings[(b)]	Total	Non-controlling interests	Total capital
8,867	(2,312)	24,792	31,347	367	31,714
-	(14)	14	-	-	-
-	-	3,172	3,172	29	3,201
-	(725)	(10)	(735)	-	(735)
-	-	-	-	(10)	(10)
-	-	(627)	(627)	-	(627)
-	-	-	-	-	-
10	-	-	10	-	10
8,877	(3,051)	27,341	33,167	386	33,553
-	-	(18)	(18)	-	(18)
-	-	3,257	3,257	65	3,322
-	888	-	888	18	906
-	-	-	-	(42)	(42)
-	-	(1,369)	(1,369)	-	(1,369)
(700)	-	-	(700)	-	(700)
-	-	-	-	-	-
28	-	-	28	1	29
21	31	-	52	428	480
8,226	(2,132)	29,211	35,305	856	36,161
-	(27)	27	-	-	-
-	-	3,522	3,522	38	3,560
-	(1,336)	-	(1,336)	(17)	(1,353)
-	-	-	-	(33)	(33)
-	-	(1,387)	(1,387)	-	(1,387)
(700)	-	-	(700)	-	(700)
-	-	-	-	-	-
2	-	-	2	2	4
-	-	-	-	(378)	(378)
7,528	(3,495)	31,373	35,406	468	35,874

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
Consolidated Cash Flow Statement
For the year ended December 31

	2019	2018	2017
	In NIS millions		
Cash flows from operating activities			
Net income for the year	**3,560**	3,322	3,201
Adjustments:			
Group's share in undistributed losses (profits) of associates[a]	**47**	77	68
Depreciation of buildings and equipment (including impairment)	**600**	572	662
Loan loss expenses	**609**	519	172
Gains on sale of loan portfolios	**(15)**	-	(9)
Gains net on sale of available-for-sale bonds and equity securities not held for trading (2017 and 2018 - available-for-sale securities)	**(329)**	(246)[b]	(231)[b]
Realized and unrealized loss (gain) from fair value adjustments of held-for-trading securities	**(151)**	(60)	45
Gains on sale of investees' equity, net	**(287)**	(224)	-
Gain on disposal of buildings and equipment - net	**(68)**	(33)	(278)
Provision for impairment of available-for-sale bonds	**2**	19	3
Unrealized gains from fair value adjustments of equity securities not held for trading	**(56)**	-	-
Provision for impairment of equity securities not held for trading (2017 and 2018 - available-for-sale shares)	**39**	82[b]	52[b]
Expenses for stock-based compensation transactions	**2**	28	-
Deferred taxes - net	**(595)**	199	(243)
Severance pay and pension – increase (decrease) in excess of provision over fund	**(64)**	134	(52)
Excess of interest received (receivable) for available-for-sale bonds and held-to-maturity bonds over interest accrued during the period	**(146)**	(168)[b]	100
Payable (paid) interest for bonds and subordinated bonds	**(88)**	144	(466)
Effect of exchange rate differentials on cash and cash equivalent balances	**730**	(467)	447
Other, net	**59**	4	(2)
Net change in current assets:			
Assets for derivatives	**1,775**	(3,172)	1,077
Held-for-trading securities	**3,390**	(1,197)	2,948
Other assets	**1,180**	592	(105)
Net change in current liabilities:			
Liabilities for derivatives	**(718)**	2,355	(915)
Other liabilities	**3,326**	(595)	317
Net cash provided by operating activities	**12,802**	1,885	6,791

(a) Net of dividend received.
(b) Reclassified.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
Consolidated Cash Flow Statement (cont.)
For the year ended December 31

	2019	2018	2017
	In NIS millions		
Cash flows from investing activities			
Net change in deposits with banks with original maturities of more than three months	**3,199**	(2,532)[a]	(1,085)
Net change in loans to the public[b]	**(10,795)**	(12,149)[a]	(8,011)
Net change in loans to the Israeli Government	**38**	(67)	(73)
Net change in securities borrowed or purchased under reverse repurchase agreements	**(213)**	(96)	123
Purchase of held-to-maturity bonds	**(2,048)**	(4,006)[a]	(108)[a]
Proceeds from redemption of held-to-maturity bonds	**647**	72	128
Purchase of available-for-sale bonds and not held-for-trading equity securities (2017 and 2018 - available-for-sale securities)	**(83,882)**	(86,905)	(90,797)[a]
Proceeds from the sale of available-for-sale bonds and equity securities not held for trading (2017 and 2018 - available-for-sale securities)	**41,423**	54,122	42,394
Proceeds from redemption of available-for-sale bonds and not held-for-trading equity securities (2017 and 2018 - available-for-sale securities)	**31,789**	40,945	45,173[a]
Purchase of associates' equity	**(377)**	(123)	17
Proceeds from disposal of investment in associates	**251**	260	-
Proceeds from disposal of an investment in previously-consolidated subsidiaries (Appendix B)	**712**	11	-
Proceeds from sale of loan portfolios	**915**	503	96
Purchase of buildings and equipment	**(942)**	(716)	(637)
Proceeds from disposal of buildings and equipment	**107**	80	315
Central severance pay fund	**157**	251	383
Other	**-**	(16)	-
Net cash for investing activities	**(19,019)**	(10,366)	(12,082)
Cash flow from financing activities			
Net change in deposits by banks with original maturities of more than three months	**1,067**	1,113	2,094
Net change in deposits by the public	**5,609**	398[a]	17,817
Net change in deposits the government	**(367)**	229	(387)
Net change in securities loaned or sold under repurchase agreements	**(65)**	(17)	19
Proceeds from issue of bonds and subordinated bonds	**3,152**	3,378	-
Redemption of bonds and subordinated bonds	**(958)**	(32)	(6,597)
Dividend paid to shareholders	**(1,387)**	(1,369)	(627)
Dividend paid to external shareholders in consolidated companies	**(33)**	(42)	(10)
Proceeds of disposal of investments in consolidated companies without loss of control	**-**	512	-
Share buyback	**(700)**	(700)	-
Net cash from financing activities	**6,318**	3,470	12,309
Increase (decrease) in cash and cash equivalents, including cash and cash equivalents classified as held-for-sale assets and liabilities[c]	**101**	(5,011)	7,018
Net of change in cash and cash equivalents classified as held-for-sale assets and liabilities[c]	**(3)**	3	-
Increase (decrease) in cash and cash equivalents	**104**	(5,014)	7,018
Balance of cash and cash equivalents at the beginning of the year	**74,293**	78,840	72,269
Effect of exchange rate fluctuations on cash and cash equivalent balances	**(730)**	467	(447)
Balance of cash and cash equivalents at the end of the year	**73,667**	74,293	78,840

(a) Reclassified.

(b) Including current activities from invoice factoring. Please see Note 30E.

(c) For more information, please see Note 36F to the financial statements as at December 31 2018.

The notes to the consolidated financial statements form an integral part thereof.

For the Bank's condensed financial statements, please see Note 35.

Consolidated Cash Flow Statement (cont.)
For the year ended December 31

Interest and taxes paid and/or received and dividends received

	2019	2018	2017
	In NIS millions		
Interest received	**11,143**	10,631	10,057
Interest paid	**(3,423)**	(2,696)	(2,447)
Dividends received	**64**	129	176
Income tax paid	**(2,498)**	(1,093)	(1,855)

Appendix A - Non-Cash Investments and Financing Activities in the Reporting Period:

For the year ended December 31 2019

On July 15 2019, approx. NIS 139.9 million in p.v. Series 201 was exchanged for NIS 142 million in p.v. Series 404, and approx. NIS 976.9 million p.v. in Series N was exchanged for NIS 1,099 million p.v. in Series 404, so that in total, NIS 1,241 million p.v. in Series 404 was issued. As a result, an accounting loss of NIS 54 million was recorded.

On December 1 2019, a NIS 746 million balance was reclassified from the held-to-maturity bonds portfolio to the available-for-sale securities portfolio.

For the year ended December 31 2018

On December 31 2018, an investment in Direct Finance of the Direct Finance (2006) Ltd. Group was sold in consideration of available-for sale-shares totaling NIS 167 million.

During the year, shares were issued against conversion of benefits accrued for employees in the amount of NIS 18 million.

For the year ended December 31 2017

On January 1 2017, a NIS 957 million balance was reclassified from the available-for-sale securities portfolio to the held-to-maturity bonds portfolio.

On April 6 2017, the Bank issued PSUs. As a result, NIS 10 million was reclassified from other liabilities to stock-based compensation transactions reserve. Please see Note 24A.

Appendix B - Proceeds from Disposal of Investments in a Previously-Consolidated Subsidiaries:[(a)]

Assets and liabilities of the previously consolidated subsidiaries and cash flow from disposal of investments in previously consolidated subsidiaries as of the sale date

	2019	2018
	In NIS millions	
Derecognized cash	**20**	-
Assets (excluding cash)	**15,398**	8
Liabilities	**13,370**	4
Identified assets and liabilities	**2,048**	4
Assets and liabilities attributable to non-controlling interests	**378**	-
Derecognized assets and liabilities	**1,670**	4
Capital gain on disposal of investment in previously-consolidated investees	**215**	7
Total proceeds on disposal of previously-consolidated subsidiaries	**1,885**	11
Net of non-cash proceeds from disposal of investments in previously-consolidated subsidiaries	**1,153**	-
Cash proceeds	**732**	11
Net of derecognized cash	**20**	-
Proceeds on disposal of investments in previously consolidated subsidiaries	**712**	11

(a) For more information, please see Note 36B and 36F to the financial statements as at December 31 2018.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

Note 1 - Significant Accounting Policies

A. Overview

The financial statements are prepared in accordance with the generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Banking Supervision Department regarding the preparation of annual financial statements of a banking corporation.

These financial statements are presented on a consolidated basis only. The Bank's standalone financial statements are presented in Note 35.

The Bank's Board of Directors approved the publication of the financial statements on February 26 2020.

B. Definitions

In these financial statements:

The Bank - Bank Leumi Le-Israel B.M.

The Group – the Bank and its subsidiaries.

Consolidated companies – companies whose financial statements were fully consolidated, whether directly or indirectly, with those of the Bank.

Associates – companies, excluding consolidated companies, including partnerships or joint ventures, the Bank's direct or indirect investment in which is presented according to the equity method.

Investees – Consolidated Companies and Associates.

Foreign offices – representative offices, agencies, branches or consolidated companies of the Bank based overseas.

Functional currency - the currency of the primary economic environment in which the Bank operates. This is generally the currency of the environment in which a corporation generates and expends most of its cash.

Presentation currency - the currency in which the financial statements are presented.

Related parties and interested parties – as defined in Section 80 of the Reporting to the Public Directives.

The CPI – The Israeli Consumer Price Index published by the Israel Central Bureau of Statistics.

Adjusted amount – nominal historical amount adjusted to reflect the CPI in respect of December 2003, pursuant to the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported amount – adjusted amount as of the transition date (December 31 2003) plus amounts in nominal values that were added after the transition date, less amounts derecognized after the transition date.

Nominal financial reporting – financial reporting based on reported amounts.

Adjusted financial reporting – reporting in amounts adjusted for the changes in the general purchasing power of Israeli currency pursuant to the provisions of the Opinions of the Institute of Certified Public Accountants in Israel.

Cost – costs in reported amounts.

Fair value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Recorded debt balance – Debt balance after deducting accounting write-offs but before deducting loan loss provision in respect of that debt. Recorded debt balance does not include unrecognized accrued interest.

Note 1 - Significant Accounting Policies (cont.)

US GAAP for banks - Accounting principles set by the banking regulatory agencies in the USA, the Securities and Exchange Commission, the Financial Accounting Standards Board and other entities in the USA. The principles are implemented according to the hierarchy established in FAS 168 (ASC 105-10), FASB Accounting Statements Codification, of the Financial Accounting Standards Board (FASB) in the USA and the hierarchy of generally accepted accounting principles. Additionally, according to the Banking Supervision Department's guidance, despite the hierarchy prescribed by FAS 168, any position published by the US banking regulators or by their teams regarding the implementation of US GAAP, constitutes part of US GAAP.

International Financial Reporting Standards (IFRS) – standards and interpretations adopted by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and interpretations issued by the Standing Interpretations Committee (SIC).

C. Basis of Preparation of the Financial Statements

1. Reporting principles

The Bank's financial statements are prepared in accordance with the generally accepted accounting principles in Israel (Israeli GAAP) and with the Reporting to the Public Directives and the guidance of the Banking Supervision Department. In most areas, the directives are based on US GAAP for Banks. In other, less material, topics, the directives are based on IFRSs and Israeli GAAP.

When IFRSs allow for several alternatives, or do not include a specific reference to a particular situation, the Banking Supervision Department's directives provide specific application guidelines that are usually based on US GAAP for Banks.

For information regarding first-time application of new accounting standards, revised accounting standards and new directives of the Banking Supervision Department, please see Section (X) below.

2. Functional currency and presentation currency

Unless otherwise stated, the financial statements are presented in New Israeli Shekels (NIS) and are rounded to the nearest million.

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates.

For information regarding the functional currency of banking offices abroad, please see Section (D) below.

3. Measurement basis

The financial statements were prepared in accordance with historical cost, excluding the assets and liabilities outlined below:

- Derivatives and other financial instruments measured at fair value through profit and loss.
- Financial instruments classified as available for sale.
- Non-current assets held-for-sale.
- Deferred tax assets and liabilities.
- Provisions.
- Assets and liabilities for employee benefits.
- Investments in associates.

The value of non-monetary assets and equity items measured at historic cost, adjusted for changes in the Consumer Price Index until December 31 2013. As of January 1 2004, the Bank prepares its financial statements using reported amounts.

Note 1 - Significant Accounting Policies (cont.)

4. Use of estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidance of the Banking Supervision Department requires the Bank's management to use estimates and assumptions and to exercise judgment that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and income and expense amounts during the reporting period. It is clarified that the actual results may differ from those estimates.

When developing accounting estimates used in the preparation of the Bank's financial statements, the Bank's management is required to make assumptions regarding circumstances and events involving significant uncertainty. In exercising its judgment to determine the accounting estimates, the Bank's management relies on past experience, various facts, external factors and reasonable assumptions, in accordance with each estimate's particular circumstances.

Changes in estimates

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were adjusted and for any future affected period.

5. Reclassification

As part of adopting ASU 2019-04, please see Section (W.2), the US subsidiary classified bonds in the amount of USD 216 million from the held-to-maturity portfolio to the available-for-sale portfolio. As of the transition date, a balance of USD 8 million was classified to fair value adjustments.

D. Foreign Currency and Linkage

Foreign currency transactions

Assets and liabilities denominated in foreign currency or linked thereto are translated according to the representative exchange rates published by Bank of Israel as of the balance sheet date, or other appropriate date, as follows:

- Assets and liabilities denominated in foreign currency or linked thereto are translated into the functional currency at the exchange rate as of reporting date.
- Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at fair value are translated into the functional currency at the exchange rate as of the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at historical cost are translated at the exchange rate as of the transaction date.

  Foreign currency income and expenses and gains and losses are stated in the income statement at current representative exchange rates as of the transaction dates; exchange rate differentials on assets and liabilities in respect of which the aforesaid income and expenses arose are also included in the income statement.

  According to the transitional provisions for 2019, exchange rate differentials in respect of available-for-sale debt instruments will continue to be recognized in the income statement until January 1 2022. As of this date - they will be recognized in other comprehensive income. In the case of other-than-temporary impairment, translation differences recognized in other comprehensive income shall be reclassified to profit and loss.

Functional currency of foreign offices

An entity's functional currency is the currency of the primary economic environment in which the entity operates. This is usually the currency of the environment in which an entity generates cash.
The functional currency of foreign offices is determined according to the following criteria:

- The office generates and expends cash in foreign currency and the scope of its NIS-denominated operations is insignificant.

Note 1 - Significant Accounting Policies (cont.)

- The office acquired its customers independently, such that its activities with the Bank's customers or parties closely affiliated therewith are insignificant.
- The office's activity with the Bank and related parties thereof is insignificant and the foreign office is not dependent, among other things, on the Bank's funding resources or related parties thereof.
- The office's activity is independent and does not constitute an extension of the Bank's domestic activity nor is it complementary to this activity.

When it is clear that one of the aforementioned criteria is not met, the office should be accounted for as a foreign operation whose functional currency is NIS.

The Bank assessed its US banking office based on the aforementioned criteria and classified it as a foreign operation whose functional currency is other than NIS.

Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS at exchange rates in effect on reporting date. Income and expenses and gains and losses of foreign operations were translated into NIS at exchange rates in effect on transaction dates.

Exchange rate differentials are recognized in other comprehensive income and presented in equity under "adjustments from translation of financial statements".

Upon disposal, the cumulative amount in the translation reserve arising from the foreign operation is reclassified to profit or loss as part of the gain or loss from disposal.

When the Group disposes of part of its investment in an associate that includes a foreign operation while maintaining significant influence, the relevant proportion of the cumulative amount in the translation reserve is reclassified to profit and loss.

Hedges of a net investment in a foreign operation

The Group applies hedge accounting to exchange rate differentials between the foreign operation's functional currency and the Bank's functional currency (NIS).

The exchange rate differentials arising from translation of a financial liability hedging a net investment in a foreign operation are carried to other comprehensive income and presented in equity under adjustments from translation of financial statements. Upon disposal of the hedged investment, the relevant amount that has accumulated in "adjustment from translation of financial statements" is transferred to profit and loss as part of the gain or loss on disposal of the investment.

CPI-Linked assets and liabilities not measured a fair value

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

Set forth below are data regarding the representative exchange rates and CPI and changes therein:

	December 31			Rate of change in		
	2019	2018	2017	**2019**	2018	2017
	(In NIS)			(%)		
Exchange rate of:						
US dollar	3.456	**3.748**	3.467	(7.79)	8.10	(9.83)
Euro	3.878	**4.292**	4.153	(9.63)	3.35	2.69
Pound sterling	4.560	**4.793**	4.682	(4.88)	2.37	(0.92)
Swiss franc	3.575	**3.807**	3.555	(6.10)	7.09	(5.64)
Consumer Price Index:	(Points)	**(Points)**				
November – known CPI	**100.8**	**100.5**	99.3	0.3	1.2	0.3

Note 1 - Significant Accounting Policies (cont.)

E. Basis of Consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Bank. The consolidated financial statements include the financial statements of the Bank and of entities controlled by the Bank. Potential voting rights are not taken into account when assessing control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases. The accounting policies of subsidiaries were amended, as needed, so as to align them with the accounting policy adopted by the Group.

Intercompany balances and transactions between the consolidated companies were eliminated in the consolidated financial statements.

The financial statements of two wholly-owned property and service subsidiaries of the Bank have been included in the Bank's standalone financial statements.

Non-controlling interests

Non-controlling interests are that portion of subsidiaries' equity that is not attributable, whether directly or indirectly, to the parent company. These interests, which confer upon their holder a share of the net assets of the acquiree, are measured at fair value on acquisition date.

Profit or loss and any other component of other comprehensive income are attributed to the Bank's owners and to non-controlling interests. The total amount of profit, loss and other comprehensive income is attributed to the Bank's owners and to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions. Any difference between the consideration paid or received and the amount by which the non-controlling interest is adjusted is recognized directly in the Bank's owners' share in equity.

When the Bank's interest in a subsidiary changes without loss of control, the Bank reallocates the accumulated amounts recognized in other comprehensive income between the Bank's owners and non-controlling interests.

On loss of control of subsidiary, the Bank derecognizes the subsidiary's assets and liabilities as well as other equity components attributed to the subsidiary. Any retained investment in a former subsidiary is measured at fair value on the date on which control is lost. The difference between the consideration received and the fair value of the retained investment in the former subsidiary and any derecognized balances is recognized in profit and loss. Amounts recognized in equity through other comprehensive income in respect of that subsidiary are reclassified to profit or loss. As of that date, the remaining investment is equity-accounted or treated as a financial asset according to the Bank's influence on the company.

2. Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is generally presumed when the Group holds a 20 percent to 50 percent interest in a company. Potential voting rights are not taken into account when assessing significant influence.

Investment in associates' shares is accounted for by the equity method; such investment is initially recorded as cost. When the Bank first obtains significant influence over an investment that was not equity-accounted until significant influence was attained, then the equity method is applied prospectively.

The consolidated financial statements include the Group's share in income and expenses, profit and loss and other comprehensive income of entities accounted for by the equity method.

Note 1 - Significant Accounting Policies (cont.)

When there is a decrease in the Group's interest in an associate accounted for by the equity method, but the Group retains significant influence, the Group derecognizes a proportionate share of its investment and recognizes the gain or loss from the disposal. Furthermore, when such decrease occurs, a pro rata share of the amounts recognized in equity reserves through other comprehensive income in respect of that associate is reclassified to profit and loss.

Upon loss of significant influence, the Group stops using the equity method and accounts for the remaining investment as a financial asset classified to the held-for-trading securities portfolio or to the not held for-trading equity securities portfolio.

Furthermore, when significant influence is lost, a pro rata share of the amounts recognized in respect of that associate in equity reserves through other comprehensive income is reclassified to the income statement.

The Bank assesses the need to record impairment in respect of its investment in associates; please see Section (V.3) below.

F. Basis of Recognition of Income and Expenses

Income and expenses are stated on an accrual basis, except as described below:

- Income and expenses from held-for-trading securities and derivatives are recognized according to the changes in fair value.
- Interest accrued on troubled debts that were classified as impaired non-performing debts is recognized as income on a cash basis when it is certain that the remaining recorded balance of an impaired non-performing debts will be collected. In such situations, the maximum amount collected on account of interest that will be recognized as interest income will be the amount that would have accrued during the reported period on the remaining recorded balance of the debt according to the contractual interest rate. Cash-basis interest income is classified as interest income within the relevant item of the income statement. When there is significant doubt as to the collection of the remaining recorded balance, all collected payments are used to reduce the loan's principal. Furthermore, interest payable on amounts in arrears in respect of housing loans is recorded in the income statement on the basis of actual collection.
- Loan origination fees – fees charged in respect of issuing the loan, except for loans for a period of up to three months, are not recognized immediately as income in the income statement, but rather deferred and recognized over the term of the loan as an adjustment of the return. Income from such fees is recognized using the effective interest method and reported as part of the interest income.
- Early repayment fees - Fees charged in respect of early repayment are recognized immediately in interest income.
- Changes to the debt's terms and conditions - in cases of refinancing or restructuring of non-troubled debts, the Bank assesses whether or not the changes made to the terms and conditions of the loan are minor. If the loan terms and conditions change is minor, all unamortized fees as well as early repayment fees that were collected from the customer in respect of changes to the loan terms and conditions are included within the net investment in the new loan and recognized as adjustment of return as stated above. If the change in the loan terms and conditions is other than minor, the fees and commissions will be stated directly in profit and loss.
- Credit service charges are accounted for according to the likelihood that the undertaking to extend the loan will be fulfilled. If the likelihood is remote, the fee is recognized on a straight-line basis over the term of the undertaking; otherwise the Bank defers the revenue recognition from those fees until the undertaking is fulfilled or until it expires, the earlier of the two. If the undertaking is fulfilled, then the fees are recognized by way of adjusting the return over the term of the loan as stated above. If the undertaking has expired unexercised, the fees are recognized on expiry date and reported in income from fees and commissions. For this purpose, the Bank assumes that the likelihood of the undertaking's fulfilment is not remote.

Note 1 - Significant Accounting Policies (cont.)

- Income from fees in respect of provision of services is charged to profit and loss when the service is provided.
- Other fees and commissions, such as for guarantees and granting facilities to projects, are recognized pro rata over the transaction period.
- In subsequent periods to other-than-temporary impairment, interest income from investment in debt instruments will be recognized based on cash flows received in excess of the debt instrument's expected cash flows.

G. Fair Value of Financial Instruments

The Bank applies the rules set in ASC 820, which defines fair value and sets a consistent basis for fair value measurement by defining fair value valuation techniques to be used to measure the value of assets and liabilities, setting the fair value hierarchy and providing detailed implementation guidelines. Furthermore, the Bank implements the Banking Supervision Department's directive regarding fair value measurement, which integrates the rules that were set in ASU 2011-04 - "Fair Value Measurement" into the Public Reporting Directives.

The standard requires to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Bank's assumptions.

Subtopic 820-10 established a hierarchy of valuation techniques, which are based on whether the inputs used to measure fair value are observable or unobservable.

The following types of inputs create a fair value hierarchy:

- Level 1 inputs: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 inputs: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; prices derived from fair value measurement models whose principal data are observable or corroborated market inputs.
- Level 3 inputs: Unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market inputs, where such inputs are available. Where possible, the Bank takes into account relevant observable market inputs when measuring fair value. The scope and frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in these markets.

The categorization of a financial instrument's fair value measurement within the fair value hierarchy is determined based on the lowest level input that is significant to the entire measurement.

The valuation techniques used by the Bank in measuring fair value are assessed while taking into consideration the relevant circumstances of the various transactions, including last transaction prices, indicative prices of pricing services and results of back-testing of similar transactions.

Credit risk and nonperformance risk assessment

The standard requires incorporating the credit risk and nonperformance risk into the fair value measurement of a debt, including derivatives issued by the Bank and measured at fair value. Nonperformance risk includes, but is not limited to, the Bank's credit risk.

For more information regarding the principal methods and assumptions used in measuring the fair value of the financial instruments, please see Note 33A - "Balances and Fair Value Estimates of Financial Instruments"

Note 1 - Significant Accounting Policies (cont.)

Securities

The fair value of securities held-for-trading and available-for-sale bonds is determined based on quoted market prices in the principal market. The quoted price is not adjusted due to the size of the Bank's position in relation to the trading volume (holding size factor). Where quoted market prices are unavailable, the fair value estimate is based on the best available information while maximizing the use of observable inputs and taking into account the risks inherent in the financial instrument. Fair value is determined using generally acceptable pricing models, based on valuations carried out by financial instruments valuation experts or based on the Bank's independent system. The valuation techniques include using various parameters, such as interest curves, exchange rates and standard deviations, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, lack of marketability, etc.).

Most of the portfolio is calculated on a monthly basis by a reputable international entity which is engaged in fair value measurement and is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets. The portfolio's balance is revalued based on quotes from brokers or the issuers of the instruments, or based on the Bank's system.

Derivative financial instruments

The fair value of derivative financial instruments with an active market is determined based on quoted market prices in a principal market.

Where a quoted market price is not available, the fair value is measured by using models that incorporate the risks inherent in the derivative instrument.

Non-derivative financial instruments

Most financial instruments included in this category do not have an active market in which they are traded. Accordingly, fair value is measured using generally accepted pricing models, such as the present value of future cash flows discounted at an interest rate reflecting the level of risk inherent in the financial instrument. For this purpose, pursuant to Banking Supervision Department's guidelines, future cash flows in respect of impaired non-performing debts and other debts were calculated after deducting the effect of accounting write-offs and loan loss provisions in respect of the debts.

The fair value option for financial assets and financial liabilities

Subtopic 825-10 permits banking corporations to opt, on specified dates, to measure at fair value financial instruments and other items (eligible items) for which the Reporting to the Public Directives do not require such measurement. Unrealized gains and losses in respect of the changes in the fair value of items for which the fair value option was selected, shall be reported in the income statement on each subsequent reporting date. Furthermore, prepaid costs and fees, which are related to items for which the fair value option will be selected, shall not be deferred but rather recognized in profit and loss as incurred. The fair value option selection, as stated above, shall be made on an instrument-by-instrument basis and is irrevocable. Furthermore, the standard prescribes presentation and disclosure requirements aimed to facilitate the comparison between banking corporations that select different measurement bases to similar types of assets and liabilities.

Despite the aforesaid, the Banking Supervision Department clarified that a banking corporation will only select the fair value option if it has developed in advance high-level knowhow, systems, procedures and controls that will enable it to measure the item's fair value at a high level of reliability. Therefore, a banking corporation will not select the fair value option for any asset that may be categorized to Level 2 or Level 3 of the fair value hierarchy or to any liability, unless it first obtained the approval of the Banking Supervision Department to do so. The Bank did not select the fair value option for financial instruments.

H. Impaired Non-Performing Debts, Credit Risk and Loan Loss Provision

As from January 1 2011, in accordance with the Banking Supervision Department on measurement and disclosure of impaired non-performing debts, credit risk, and the loan loss provision, the Bank applies ASC 310, the positions of the US banking supervisory authorities and the Securities and Exchange Commission as adopted by the Banking Supervision Department's Public Reporting Directives.

Note 1 - Significant Accounting Policies (cont.)

In addition, as of that date, the Bank implements the directives of the Banking Supervision Department regarding treatment of troubled debts.

The Directive is applied to all receivables, such as deposits with banks, bonds, securities borrowed or purchased under reverse repurchase agreements, loans to the public, loans to the Israeli Government, etc. Loans to the public and other receivable balances for which no specific rules were set in the Reporting to the Public Directives regarding measurement of the loan loss provision (such as loans to the Israeli Government, deposits with banks, etc.) are reported in the Bank's books of accounts according to the recorded receivable balance. Regarding other receivable balances for which there are specific rules regarding measurement and recognition of a loan loss provision (such as bonds), the Bank continues to apply the same measurement rules.

Loan loss provision

The Bank has set procedures required to maintain a loan loss provision able to cover expected loan losses arising from its loan portfolio, including off-balance sheet credit risk. The provision to cover the expected loan losses arising from the loan portfolio is estimated through one of the following tracks:

Specific loan loss provision

The provision is made by measuring the debt's impairment based on the present value of the expected cash flow discounted by the original effective interest rate of the debt, or when the debt is a collateral-dependent debt (a debt the repayment of which is expected to made solely out of the pledged collateral or another asset held by the borrower) or when an asset is expected to be foreclosed, according to the fair value of the collateral that was pledged to secure that loan (net of costs to sell).

For this purpose, the Bank defines a debt as a collateral-dependent debt when its repayment is expected to be made solely out of the collateral pledged in favor of the Bank or out of an asset held by the borrower, even if there is no specific pledge on the asset, provided that the borrower has no other available and reliable resources to repay its debt.

As a rule, a specific provision required is assessed for each debt whose contractual balance (without deducting: Accounting write-offs not involving a legal waiver, unrecognized interest, loan loss provisions and collateral) is at least NIS 1 million and any other debt identified by the Bank for specific assessment purposes. In some of the consolidated subsidiaries, assessment is also carried out for lower amounts. Specific provision is recognized for each debt classified as impaired non-performing (please see below).

Collective loan loss provision

Balance sheet loans – aiming to reflect provisions for impairments in respect of loan losses which have not been identified specifically and which arise from large pools of small debts with similar risk characteristics and in respect of specific debts that were assessed and found to be unimpaired. The loan losses are measured based on the rules set out in ASC 450 – "Accounting for Contingencies" – and the Banking Supervision Department's directives, based on historical loss rates in various economic sectors, allocated between troubled debt and non-troubled debt for the period ranging from January 1 2011 through the reporting date. Furthermore, in order to determine the appropriate allowance rate, the Bank takes into account an adjustment in respect of environmental factors such as: Conditions of the sector, macroeconomic data, a general assessment of the quality of loans extended to an economic sector, changes in volume and the trend of balances in arrears and impaired non-performing balances, and the effect of the changes on credit concentration.

In respect of consumer loans granted to private individuals, the adjustment rate in respect of environmental factors shall be no less than 0.75 percent of the outstanding performing consumer loans. The credit risk deriving from receivables in respect of banking credit cards without interest charges were excluded from the aforesaid.

According to a guidance issued by the Banking Supervision Department, banking corporations are required to include 2011 and onwards in the year range used for establishing their collective loan loss provision.

Note 1 - Significant Accounting Policies (cont.)

Off-balance sheet loans - the provision is based on provision rates set for balance sheet loans, taking into account the off-balance sheet loans utilization rate. The utilization rate of loans is calculated by the Bank based on credit conversion factors (CCFs) as set out in Proper Conduct of Banking Business Directive No. 203 – Measurement and Adequacy of Capital – Credit Risk – Standardized Approach, with certain adjustments in cases where the Bank has past experience indicating the loan unitization rates.

Housing loans – a minimum provision for doubtful accounts is calculated according to a formula set by the Banking Supervision Department, taking into account the extent of arrears, such that the provision rates grow as the debt delinquency rates increase. The calculation of the provision according to the extent of arrears formula applies to all housing loans, except for loans that are not repaid by periodic installments and loans that fund a business activity. Furthermore, outstanding non-delinquent housing loans is provided for based on past statistics. The Bank also applies the provisions of the revised Proper Conduct of Banking Business Directive No. 329 – "Restrictions on Extending Housing Loans". The Bank has set a policy designed to ensure that it complies with the new requirements and that - as of June 30 2013 - the outstanding collective loan loss provision in respect of housing loans will be no less than 0.35 percent of the said outstanding loans at the reporting date.

The Bank assesses the overall appropriateness of the collective loan loss provision based on management's judgment, taking into account the risks inherent in the loan portfolio.

Identification and classification of troubled debt

The Bank has set procedures for identifying troubled debt and for classifying debts as impaired non-performing loans. According to these procedures, the Bank classified the outstanding balance-sheet and off-balance-sheet troubled debts as follows: Special mention, substandard or impaired non-performing.

Special mention credit

Special mention credit is credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loans are classified as special mention credit if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category.

Substandard loans

Substandard loans are loans which are insufficiently guaranteed by the current sound worth and repayment capacity of the borrower or the pledged collateral, if any. Balance sheet credit risk that has been classified in this way should have a well-defined weakness or weaknesses, which jeopardize the liquidation of the debt. Loans, in respect of which a collective loan loss provision is recorded, shall be classified as a substandard loan when it has been in arrears of 90 days or more.

Impaired non-performing loans

A debt is classified as impaired non-performing when the Bank expects it will be unable to collect the full amounts receivable under the contractual terms and conditions of the debt agreement, based on up-to-date information and events, such as: The debt's delinquency status; the borrower's financial position and solvency; an assessment of the primary repayment source for the debt; status of the collateral; the guarantors' financial position, etc.

Since July 1 2017, the Bank applies the Banking Supervision Department's revised "Frequently Asked Questions and Examples of Implementation of Reporting to the Public Directives on Impaired non-performing Debt, Credit Risk, and Loan Loss Provision". The revision focuses on establishing debt classifications based on the debtor's repayment capacity, i.e.: The expected strength of the primary repayment source, notwithstanding the support of secondary and tertiary repayment sources.

Primary repayment source – a sustainable source of cash which must be under the borrower's control, must be reserved, explicitly or implicitly, to cover the debt obligation. For a source of repayment to be considered primary, the Bank must show that the borrower is highly likely to generate, within a reasonable period of time, an adequate cash flow from a continuing business operation, which shall be used to repay all of the required installments in full and according to the repayment schedule set in the agreement.

A debt shall be classified as impaired non-performing whenever the principal or interest has been in arrears for a period of 90 days or more, unless it is both well secured and in the process of collection. Additionally, impaired non-performing debt is also considered as a debt whose terms and conditions were changed due to troubled debt restructuring, unless a minimum credit loss provision was made before and after the restructuring according to the extent of arrears method.

Restructured troubled debt

A troubled debt which underwent formal restructuring is considered a debt for which, for economic or legal reasons related to the debtor's financial difficulties, the Bank had granted a concession by changing the terms and conditions of the debt to alleviate the burden of the debtor's near-term cash payments or by accepting other assets in satisfaction of the debt. In order to determine whether a debt restructuring carried out by the Bank constitutes restructuring of a troubled debt, the Bank carries out a qualitative assessment of the debt restructuring's terms and conditions and circumstances with the aim of determining whether (1) the borrower has financial difficulties and (2) the Bank granted a concession to the borrower as part of the debt restructuring.

In order to determine whether the debtor has financial difficulties, the Bank assesses whether there are indications that the borrower has difficulties as of restructuring date or whether it is reasonably probable that the borrower will have financial difficulties were it not for the restructuring.

Among other things, the Bank assesses whether one or more of the following criteria are met:

- As of restructuring date, the borrower is in financial difficulties;
- With regards to debts which are not in arrears as of restructuring date, the Bank assesses whether - under the customer's current repayment capacity - it is probable that the customer will default in the foreseeable future and will fail to meet the original contractual terms and conditions of the debt;
- The debtor has declared bankruptcy, is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern;
- If the terms and conditions of the debt are not changed, the borrower will be unable to raise debt from other sources at the market interest rate applicable to borrowers who have not defaulted.

The borrower was granted a concession even if - as part of the restructuring - the contractual interest rate was increased, provided that one or more of the following criteria are met:

- As a result of the restructuring, the Bank is not expected to collect all outstanding amounts (including interest accrued) according to contractual terms and conditions;
- The up-to-date fair value of the collateral for collateral-dependent debts does not cover the contractual balance and indicates that it will be impossible to collect all amounts due;
- The borrower is unable to raise debt at prevailing market interest rate for a debt with terms, conditions and characteristics, such as those of the debt extended as part of the restructuring.

The Bank does not classify a debt as a restructured troubled debt if - as part of the restructuring - the borrower was granted an immaterial payments deferral, given the frequency of payments, contractual term to maturity and expected average duration of the original debt. In this regard, if several restructurings were carried out that involve changing the debt's terms and conditions, the Bank takes into account the cumulative effect of the previous restructurings when determining if the payments deferral is immaterial.

Restructured debts, including debts that were assessed on a collective basis prior to restructuring, will be classified as impaired non-performing debts. As a rule, a restructured troubled debt will be classified as impaired non-performing until it is fully repaid, unless it has complied with the conditions for restoration to accrual status as described above.

Note 1 - Significant Accounting Policies (cont.)

Restoring an impaired non-performing debt to non-impaired status

An impaired non-performing debt may be restored to accrual status when one of the following criteria is met:

- Principal or interest are no longer past due and unpaid and the Bank expects full repayment of the outstanding principal and interest pursuant to the terms and conditions of the contract (including accounting write-offs or amounts that have been provided for).
- The debt is both well secured and in the process of collection.
- The debt was restructured (without forgiving the principal) and subsequently the banking corporation and the debtor entered into another restructuring agreement (subsequent restructuring), provided that on the date of the subsequent restructuring, the borrower is not experiencing financial difficulties and, under the terms and conditions of the subsequent restructuring agreement, the banking corporation granted no concession to the borrower. This section applies to restructuring carried out or renewed as of December 31 2016.

The rules for restoring a debt to non-impaired status shall not apply to debts classified as impaired non-performing as a result of restructuring a troubled debt except for subsequent restructuring as stated above.

Restoring an impaired non-performing debt to impaired non-performing accrual status

After there is reasonable assurance that a restructured debt will perform and be repaid under the modified terms and conditions, it is once again accounted for as an accruing impaired non-performing debt, provided that the restructuring and any accounting write-offs made in connection with the debt are supported by a revised credit assessment of the debtor's financial condition, based on sustained repayment performance for a period of at least six consecutive months and only after the recorded outstanding debt, post restructuring, is significantly reduced (by at least 20 percent) by repayments.

Revenue recognition

When a debt is classified as impaired non-performing, the Bank defines it as a non-accruing debt that no longer accrues interest income, except as set out below for certain restructured debts. Furthermore, when the debt is classified as impaired non-performing debts, the Bank cancels all interest income which has been accrued but not yet collected which had been recognized as income in profit and loss. As long as its impaired non-performing debt classification is not cancelled, the debt is classified as a non-accruing debt. A debt that has undergone a formal troubled debt restructuring and after restructuring there is reasonable assurance of repayment and performance under its modified terms and conditions shall be accounted for as accruing impaired non-performing debt. For more information regarding revenue recognition on a cash basis in respect of debts that were classified as impaired non-performing, please see Section (F) above.

The Bank does not discontinue accruing interest income on debts in arrears of 90 days or more which are assessed and provided for on a collective basis. These debts are subject to loan loss provision valuation methods that ensure that the Bank's profit is not overstated. Late-payment fees in respect of these debts are recorded as income when the Bank's right to receive the fees from the customer has been established, provided that collection is reasonably assured.

Accounting write-offs

The Bank performs accounting write-offs in the following cases:

- Any debt or part thereof which is assessed on a specific basis and is considered uncollectible and has a low value such that maintaining it as an asset is unjustifiable or a debt which the Bank has attempted to collect over a considerable period of time (normally for more than two years).
- In the case of a collateral-dependent debt, any portion of such debt in excess of the value of the collateral which is identified as uncollectible shall be written off immediately against the loan loss provision.

Note 1 - Significant Accounting Policies (cont.)

- Troubled debts the provision for which is measured on a collective basis and the extent of arrears is more than 150 days, except in case of debts under restructuring, for which the need for immediate write-off is examined. In addition, troubled debt under restructuring which were tested collectively and failed, are written off when in arrears of 60 days or more under the restructuring terms and conditions.

It should be clarified that accounting write-offs do not involve a legal concession and reduce the reported outstanding debt for accounting purposes only, while establishing a new cost basis for the debt in the Bank's books of account.

I. Securities

1. The securities in which the Bank invests are classified into four portfolios, as follows:

   a. Held-to-maturity bonds

   Bonds which the Bank intends to and can hold until maturity. Held-to-maturity bonds are stated at their par value plus accrued interest and exchange rate and linkage differentials, taking into account the premium or discount pro rata, and net of other-than-temporary impairment.

   b. Available-for-sale bonds

   Securities which were not classed as held-to-maturity bonds or held-for-trading securities. Available-for-sale securities are stated in the balance sheet at fair value as of reporting date. The differences between the fair value and amortized cost net of tax reserve are carried to a separate item in shareholders' equity under other comprehensive income. Other-than-temporary impairment is carried to the income statement as stated in Section 5 below.

   Unrealized gains or losses from fair value adjustments in respect of available-for-sale bonds designated as being hedged by fair value hedges were carried to the income statement over the hedging period in respect of the hedged risk.

   c. Held-for-trading securities

   Securities that were purchased and are held with the intent of selling them within a short period of time. Held-for-trading securities are stated at fair value on the balance sheet as at the reporting date. Realized and unrealized gains and losses are carried to the income statement.

   d. Equity securities not held for trading

   Equity securities with an available fair value are stated in the balance sheet at their fair value as at the reporting date. Unrealized gains or losses from adjustments to fair value are stated in the income statement.

   Equity securities with no available fair value are stated in the balance sheet at cost, less impairment, with the addition or deduction of changes in observable prices in orderly transactions in similar or identical investments of the same issuer. Unrealized gains or losses from adjustments to changes in observable prices are stated, as aforesaid, in the income statement.

2. Dividend income, accrued interest, linkage and exchange rate differentials, amortization of premium or discount (according to the effective interest method) and impairment losses from other-than-temporary amortization are carried to the income statement.

3. Interest income in respect of purchased beneficial interests - e.g. asset-backed financial instruments such as CDO, CLO, MBS and CMO (except for instruments with high quality credit) - is recognized according to the prospective interest method (the future interest rate which also incorporates prospective changes), while adjusting the interest rate used to recognize interest income to reflect changes in the estimated future cash flows. Beneficial interests of high credit quality are beneficial interests issued by the US Government and are guaranteed thereby or by US Government agencies, as well as asset-backed assets whose international credit rating is at least AA.

Note 1 - Significant Accounting Policies (cont.)

4. Fair value

For more information about the methods applied to determine fair value, please see Section (G) above.

5. Impairment

At each reporting period, the Bank assesses the need to record losses for other-than-temporary impairment of the bonds comprising the available-for-sale portfolio and the held-to-maturity portfolio. According to the provisions of the Banking Supervision Department, as outlined in Appendix P to the Reporting to the Public Directives, the Bank opted to adopt, as of the financial statements as at December 31 2019, the provisions of FSP 115-2 - "Recognition and Presentation of Other-Than-Temporary Impairments". Please see Section (U.4). The criteria for determining whether the impairment is other-than-temporary are based on the following considerations and tests:

- The Bank has no intention of selling the security.
- More likely than not that the Bank will be required to sell the security before cost basis recovery.
- The assets and collateral backing the security.
- The rate of impairment out of the total cost of the security.
- Assessment of the repayment capacity and rating.
- Deterioration of the issuer's business or of market conditions.

It is the Bank's policy to recognize other-than-temporary impairment of a security when a bond meets one or more of the following criteria:

- The bond was sold until the report's publication date.
- As of the report's publication date, the Bank intends to sell the bond within a short period of time.
- A bond whose rating has been significantly downgraded during the period since the date of acquisition by the Bank and the report's publication date. For purposes of this section, only a decline below -BBB is considered a significant rating decline.
- A bond classified by the Bank as troubled debt subsequent to its purchase.
- A bond in respect of which credit default has occurred which was not rectified within a reasonable period of time.
- A bond whose fair value was lower than its fair value upon purchase for a period of at least nine months as of the end of the reporting period and whose fair value as of the end of the reporting period and close to the date of the publication of the report is 15 percent or lower than its cost (in the case of a bond – its amortized cost).

  For this purpose, an exception can be made if the Bank has concrete objective evidence and a conservative analysis of all the relevant factors showing with a high degree of certainty that the impairment is of a temporary nature. The objective evidence and the relevant factors include parameters such as: An increase in value after the date of the financial statements, a high credit rating (group A or above), an analysis of resilience under stress tests carried out by an independent external party or by the Bank, backing, including direct government investment in equity for the purpose of ensuring the issuing Bank's stability.

These principles are in accordance with the directive issued by the Banking Supervision Department, except for the definitions of "significant rating" and "significant impairment" which were determined by the Bank.

Note 1 - Significant Accounting Policies (cont.)

When other-than-temporary impairment occurs, the value of the security is written-down to its fair value, which serves as its new cost basis. Other-than-temporary losses from securities are carried to the income statement. Increase in the value of the security during subsequent reporting periods compared to its new cost basis are carried as a separate item in common equity within accumulated other comprehensive income and are not carried to profit and loss.

J. Derivative Financial Instruments Including Hedge Accounting

The Bank holds derivative financial instruments in order to hedge foreign currency and interest rate risks; the Bank also carries out derivative activity for purposes other than hedging, including embedded derivatives that have been bifurcated.

Hedge accounting

The Bank formally documents the hedge ratios at the hedge's inception. The documentation includes: The hedging instrument, the hedged instrument, the nature of the hedged risk and the method for assessing the hedge effectiveness.

1. Fair value hedges

   The Bank designates derivatives as hedging the exposure to changes in the fair value of an asset or liability. Changes in the fair value of derivatives designated to hedge fair value are carried to the income statement. The hedged item is also stated at fair value and changes in fair value that can be attributed to the hedged risk are carried to the income statement.

   If the hedging instrument no longer meets the hedge accounting criteria, or if it expires, sold, terminated or exercised, or if the Bank cancels the designation of the fair value hedge, then it is no longer accounted for according to hedge accounting.
   The Bank applies hedge accounting using the "abbreviated method", which assumes full effectiveness according to the provisions of the standard.

2. Cash flow hedge

   The US subsidiary designates derivatives as hedging the exposure to the change in future expected cash flows which is attributable to a certain risk. Changes in the fair value of a derivative designated as cash flow hedge are carried to the other comprehensive income.

3. Asset and Liability Management (ALM)

   Hedge accounting is not applied to derivatives used by the Bank in its Asset and Liability Management (ALM) activities. Changes in the fair value of these derivatives are recognized in profit and loss as incurred.

4. For hedges of foreign operations – please see Section (D) above.

Other derivatives

Changes in fair value of derivatives that are not used for hedging are carried immediately to profit and loss.

Embedded derivatives

Embedded derivatives are bifurcated from the host contract and accounted for separately as derivatives in accordance with ASC 815-10 if: (a) There is no clear and close connection between the economic characteristics and risks of the host contract and embedded derivative, including credit risks arising from certain embedded credit derivatives, (b) a separate instrument with the same terms and conditions as the embedded instrument would have qualified as a derivative, and (c) the hybrid derivative is not measured at fair value through profit and loss.

Bifurcated embedded derivatives are presented in the balance sheet together with the host contract and changes in their fair value are carried immediately to profit and loss.

Note 1 - Significant Accounting Policies (cont.)

In certain cases, (such as when the Bank is unable to bifurcate an embedded derivative from the host contract), the Bank elects not to bifurcate the embedded derivative and to measure the fair value of the hybrid instrument in its entirety and carry any changes in fair value to the income statement as incurred. Such election is made when the hybrid instrument is purchased or upon the occurrence of certain events in which the instrument is subject to re-measurement (a re-measurement event), such as a result of business combinations or material changes in debt instruments. Such fair value election is irrevocable.

Fair value

For more information about the methods applied to determine fair value, please see Section (G) above.

K. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Bank applies the measurement and disclosure principles prescribed in Subtopic 860-10 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for the purpose of dealing with transfers of financial assets and extinguishment of liabilities. According to these rules, the transfer of an entire financial asset, a group of financial assets or a participating interest in an entire financial asset will be accounted for as a sale, if and only if, all of the following conditions are met: (1) The transferred financial asset has been isolated from the transferor, even under bankruptcy or other type of receivership; (2) each transferee may pledge or exchange the assets it had received, and no condition also restricts the transferee or holder from exercising its right to pledge or exchange and confers upon the transferor more than a trivial benefit to the transferor; (3) the transferor does not maintain effective control over the transferred financial assets.

In this context, a participating interest has all of the following attributes: (1) As of the transfer date, it represents a pro rata ownership interest in the entire financial asset; (2) as of the transfer date, all of the cash flows received from the entire financial asset are divided pro rate between the holders of the participating interests relative to their respective ownership holdings; (3) the interests of each of the participating interest (including the transferor in its capacity as a holder of participating interests) have the same preference, and none of the interests of any particular interest holder is subordinate to the interest of another holder; and (4) no party has the right to pledge or replace the entire financial asset, unless all of the holders of the participating interests agree to pledge or replace the entire financial asset.

If the transaction meets the criteria for accounting for it as a sale, the transferred financial assets are derecognized from the Bank's balance sheet. If the transaction does not meet the conditions for accounting as a sale, the transfer shall be accounted for as a secured debt. The assets shall continue to be stated in the Bank’s balance sheet and the proceeds of the sale are recognized as the Bank’s liability.

The Bank applies specific provisions included in the Reporting to the Public Directives regarding lending or loaning of securities. The securities are not derecognized from the balance sheet but rather presented in the securities item. The collateral put up to secure the securities is presented in the securities loaned or sold under repurchase agreements item or under the securities borrowed or purchased under reverse repurchase agreements item or securities borrowed under repurchase agreements, as applicable and according to their value on the transaction date.

The Bank monitors changes in fair value on a daily basis and where applicable demands collateral. Interest received or paid in respect of such securities is reported under net interest income (expense).

Pursuant to the directives of the Banking Supervision Department, unsecured securities lending or borrowing transactions in which the borrower does not provide the banking corporation with a security margin relating specifically to the securities lending transaction, are accounted for as follows:

Note 1 - Significant Accounting Policies (cont.)

a. Unsecured lending out of the Bank's available-for-sale or held-for-trading portfolios – when the Bank lends securities, it derecognizes the borrowed securities and recognizes a loan at the transferred securities' market value as of the transfer date. In subsequent periods, the Bank measures the loans in the same way in which the securities were measured prior to the lending thereof. Income on accrual basis is recognized as interest income on loans; changes in market value (other than accrual basis changes) are classified as noninterest financing income if the relevant securities are held-for-trade securities or as other comprehensive income if the relevant securities are available-for-sale securities. At the end of the lending period, the Bank derecognizes the loan and re-recognizes the security.

b. Unsecured borrowing of securities – when the Bank borrows a security in an unsecured borrowing transaction, the Bank recognizes the security and a deposit against that security, at the security's market value as of the borrowing date. Such securities are classified to the held-for-trading portfolio. In subsequent periods, changes in the reporting period arising from changes in the security's market value are classified as noninterest finance income. When the Bank sells a borrowed security short, the Bank recognizes, in noninterest finance income at each reporting date, the difference - only if positive - between the market value of the shorted security at the reporting date and the balance for the unsecured borrowing transaction included in the deposits item.

Extinguishing of a liability

The Bank derecognizes a liability if it has been extinguished. The Bank derecognizes a liability if one of the two following conditions has been met: (1) The Bank paid the lender and was released from its obligation in respect of the liability, or (2) the Bank was legally released, through legal proceedings or by obtaining the lender's consent, from being the principal debtor in respect of the liability.

L. Employee Benefits

Post-employment benefits - pension, severance pay and other benefits - defined benefit plans

Pension benefit is part of the compensation paid to employees for their services. In a defined benefit pension plan, the Bank undertakes to pay employees' salaries during years of employment as well as post-retirement pension annuities. The amount of the benefit paid depends on certain future events taken into consideration in the plan's benefit formula, including, inter alia, the remaining life of the employees or his/her survivors, the number of the employees' years of service and his/her salary in the years immediately preceding his/her retirement.

Definitions:

- Discount rate applied to employee benefits liabilities – The discount rate used to calculate the actuarial liability in respect of the Bank's employee benefits is based on market yields according to the option selected by the Bank out of the options set by the Bank of Israel, which is the Government of Israel's bonds yield curve plus the spread curve of corporate bonds rated AA or more in the U.S.
- Actuarial gain/loss – the change in the value of a projected obligation or plan assets resulting from the fact that actual payments differ from estimated amounts or arising from a change in an actuarial assumption.
- Expected return on plan assets – the Bank calculates the expected long-term rate of return on plan assets using historical rates of return over a long period of time for a portfolio comprising similar assets.
- Projected benefit obligation – the actuarial present value of all benefits attributed to the employee's service provided prior to the balance sheet date in accordance with the plan's benefit formula.
- Cost of pension, net - the amount recognized in the Bank's financial statements as the cost of a pension plan for a specific period. This cost includes costs charged to profit and loss: Cost of service, interest cost, expected return on plan assets and amortization of net actuarial gain/loss and costs charged to other comprehensive income: Actuarial profit and loss.

Actuarial gains and losses stated in comprehensive income arise, inter alia, from:
Current changes in the discount rates.

Note 1 - Significant Accounting Policies (cont.)

Changes arising from the difference between the actual experience and the actuarial assumption used to calculate the liability.
The difference between the expected return and the actual return on plan assets is carried to other comprehensive income.

Actuarial gains and losses as outlined below are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits according to the plan.

When all or almost all of the plan participants shall no longer be active, the average remaining life expectancy of the inactive employees shall replace the average remaining service period.

The obligation in respect of expected benefit in the balance sheet is recorded net of the fair value of plan assets. When the obligation in respect of expected benefit exceeds the fair value of plan assets, the Bank will record in the balance sheet a liability at the total amount of the said difference. If the fair value of plan assets exceeds the obligation in respect of the expected benefit, the Bank will record in the balance sheet an asset at the total amount of the said difference.

The Bank carries out an actuarial measurement on a quarterly basis.

Retirement benefits – defined contribution plans

A defined contribution plan is a plan which pays retirement benefits for services rendered, provides an individual account for each participant in the plan and defines how employee’s contributions will be determined. In this type of plan, the benefits paid to a participant will receive contingencies depending solely on the amounts contributed to the participant’s account, the returns accumulated from investing these contributions, and forfeitures of benefits of other participants that may be allocated to the account of that participant. In this case, the net benefit cost for the period is the contribution required for that period.

The Bank's liability to pay severance pay under Section 14 of the Severance Pay Law is accounted for as a defined contribution plan.

Other post-employment benefits

The Bank accrues the liability across the employment period, under the predetermined terms and conditions.

Paid leave

The Bank accrues a liability for employees’ compensation in respect of future absences, if all of the following conditions are met:

- The Bank’s obligation is related to services already provided by the employees.
- The obligation relates to vested or accrued rights.
- Payment of the expected compensation.
- The amount is reasonably estimable.

Paid leave

The liability in respect of paid leave is measured on a current basis without using discount rates and actuarial assumptions. Changes in the liability are carried immediately to the income statement.

Long-service (jubilee) leave

Discount rates and actuarial assumptions are taken into account in the calculation of the liability in respect of long-service (jubilee) leave.
Changes in the liability in respect of long-service leave (jubilee) are carried immediately to the income statement.

Sick leave

The Bank accrues a liability for absences which entitle employees to compensation upon retirement. To calculate the liability, discount rates and actuarial assumptions are taken into account. Changes in the liability are carried immediately to the income statement.

Note 1 - Significant Accounting Policies (cont.)

Stock-based compensation transactions

Stock-based compensation transactions are transactions in which the Bank receives services from the employee and the consideration is provided in equity instruments.

As a rule, the Bank recognizes an expense in respect of the stock-based compensation it grants to its employees on the date in which the services are provided. An expense is recorded if it is probable that the conditions for performance will be met.

The Bank recognizes an increase in capital or liability depending on whether the bonus is equity-settled or liability-based.

Equity-settled awards are measured according to the fair value of the equity instruments issued, on the grant date.

Cash-settled awards are measured at fair value on grant date and the liability is remeasured at each balance sheet date until settled.

The tax effects of stock-based compensation transactions are recognized at the time of settlement (or expiry) through profit and loss.

M. Offsetting Assets and Liabilities

The Bank offsets assets and liabilities arising from the same counterparty and states their net balance in the balance sheet, when the following cumulative conditions are met:

- There is a legally enforceable right to offset the liabilities against the assets in respect of those liabilities;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counter-party owe each other determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states a net balance in the balance sheet if all of the above cumulative conditions are met, provided that there is an agreement between the three parties that clearly defines the Bank's right to offset those assets and liabilities.

The Bank offsets deposits whose repayment to the depositor is contingent on the extent of collection of the loans and the loans that were extended out of these deposits, with the Bank having no loan loss risk. The margin on this activity is included under the fees and commissions item.

The Bank offsets derivatives entered into with the same counterparty which are subject to a master netting arrangement, only for the purpose of calculating customer’s debt as presented in the various notes to the financial statements. Such offsetting is not carried out in the balance sheet.

N. Buildings and Equipment

Recognition and measurement

Buildings and equipment are presented at cost, net of accumulated depreciation and impairment losses. Cost includes expenses directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct salaries as well as any additional cost directly attributable to bringing the asset to an active state as intended by management. Cost of purchased software that constitutes an integral part of operating the related equipment, is recognized as part of the cost of that equipment.

Held-for-sale buildings are presented at the lower of their book value less costs to sell or realizable value.

Gain or loss on sale of property, plant and equipment is included in the other income item in the income statement.

Subsequent costs

The book value of an item of property, plant and equipment will include the cost of replacing the part of such an item if it is expected that the future economic benefits associated with the replaced part will flow to the Bank and if its cost can be measured reliably. The book value of the replaced part is derecognized.

Current maintenance costs of property, plant and equipment item are carried to profit and loss as incurred.

Note 1 - Significant Accounting Policies (cont.)

Software costs

Pursuant to the Reporting to the Public Directives, the Bank classifies under this item, the costs in respect of software assets acquired or costs capitalized as an asset in respect of internally-developed and used software.

Purchased software is measured at cost net of accumulated depreciation and impairment losses.

Costs associated with the development and customization of internal use software are capitalized when the first phase of the project has been completed and only if the development costs can be measured reliably, if future economic benefits are expected and if the Bank intends to complete the development of the software and use it and has sufficient resources to do so. The Bank has also set a materiality threshold of NIS 750 thousand for capitalization of internally-used software. Capitalized costs include direct costs of materials and services and direct labor costs. These costs are measured at cost net of accumulated depreciation and impairment losses. Other costs are carried to profit and loss as incurred. Subsequent software costs are capitalized only if it is expected that the incurred costs will increase the economic benefits associated with the software. All other costs are carried to the income statement as incurred.

Depreciation

Depreciation is stated in the income statement according to the straight-line basis over the useful life of the asset as of the date on which the asset is ready for use. The Bank depreciates separately each part of property, plant and equipment with a different useful life. Leasehold improvements are amortized over the shorter of the term of the lease, including an option which is likely to be exercised, or the estimated useful life of the improvements. The Bank reviews the useful life and residual value when events or changes in circumstances indicate that the current estimates are no longer adequate, in which case they are adjusted as necessary.

For more information regarding impairment of non-monetary assets, please see Section V below.

Derecognition

Gain or loss from derecognition of a property, plant and equipment item is the difference between the asset's derecognition amount and book balance. This difference will be recorded net in the other income item in the income statement.

Leases

Leases, including leases of land from the Israel Land Authority or other third parties, where the Group bears substantially all the risks and benefits associated with the asset, are classified as finance leases. Upon initial recognition, the leased assets are measured and a liability is recognized at an amount equal to the lower of the fair value and the present value of the minimal future lease payments. Future payments in respect of the exercise of an option to extend the term of the lease with the Israel Land Authority are not recognized as part of the asset and the relating liability to the extent their amount is derived from the fair value of the land at future renewal dates of the lease agreement. Subsequent to initial recognition, the asset is accounted for according to the accounting policy applied for this type of asset.

The lease term is the non-cancelable period in respect of which the lessee has entered into an agreement to lease the asset, together with any other periods in respect of which the lessee has an option to continue the lease for additional payment or without an additional payment, such that on the date of entering into the lease contract it is reasonably certain that the lessee will exercise the option.

All other leases are classified as operating leases, in which case the leased assets are not recognized in the balance sheet.

Lease payments made in advance to the Israel Land Authority in respect of operating leases are stated in the balance sheet as prepaid expenses and carried to the income statement on a straight-line basis over the lease term.

Note 1 - Significant Accounting Policies (cont.)

O. Issuance Costs

Costs relating to issuance of bonds, promissory notes and subordinated bonds are amortized according to the effective interest method over the expected life of the issued instrument.

P. Foreclosed Assets

Assets which were foreclosed and transferred to Group ownership due to settlement of troubled loans, that are included under the other assets item, are presented at the lower of the fair value of the asset as of transfer date or as of balance sheet date. Amortization is carried to “operating and other expenses”.

Q. Contingent Liabilities

The financial statements include adequate provisions for legal claims which, in the opinion of the Bank’s management and the managements of its consolidated companies, based on the opinions of their legal counsel, will not be rescinded or withdrawn, although the Bank denies the validity of those claims. In addition, there are legal proceedings whose odds and/or results cannot be assessed at this stage and therefore no provision was recorded in respect thereof.

The legal claims lodged against the Bank are classified into three categories, according to the probability of the materialization of risks, as follows:

- Probable risk – the probability that the risk will materialize exceeds 70 percent. Appropriate provisions are included in the financial statements for legal claims included in this risk group.
- Possible risk – the probability that the risk will materialize ranges from 20 percent to 70 percent. No provisions were included in the financial statements for legal claims included in this risk group, but they are disclosed in the financial statements.
- Remote risk – the probability that the risk will materialize is smaller than or equal to 20 percent. No provisions were included in the financial statements for legal claims included in this risk group and they were not disclosed in the financial statements.

In rare cases, where - in the opinion of the Bank’s management, based on the opinion of its legal counsel, it is impossible to assess the prospects of a risk materializing as a result of an ordinary legal claim or a motion approved as a class action - no provision is made in the financial statements.

The Group is also exposed to legal claims that have not yet been put forward/filed since, among other things, there are doubts as to the interpretation of an agreement and/or a legal provision and/or the implementation thereof. A number of ways are employed to bring this exposure to the attention of the Group. In its assessment of the risk arising from demands/legal claims that have not yet been put forward, the Group’s management relies on internal assessments made by management and by the parties responsible; these assessments weigh the prospects that a legal claim will be filed, the chances of the legal claim being successful, if and to the extent that it is filed, and amounts that may be payable if a compromise is reached. The assessment is based on past experience and on an analysis of the legal claims on their own merit. By nature, in view of the preliminary stages of the legal proceedings, the actual outcome may, of course, be different than the assessment made before the legal claim was filed.

A legal claim in respect of which the Banking Supervision Department determines that the Bank is required to make refunds is classified as “probable” and a provision is made in respect of the amount the Bank is required to refund.

Note 26, Contingent Liabilities and Special Commitments, provides details regarding the amount of the additional exposure arising from pending legal claims whose amount exceeds 0.5 percent of the Bank’s equity and whose materialization prospects are not remote. In addition, disclosure is given as to material legal proceedings against the Bank and consolidated companies.

Note 1 - Significant Accounting Policies (cont.)

R. Guarantees

Guarantees are contracts which include contingent payments requiring the guarantor to make payments for the guaranteed party according to the terms and conditions of the letter of guarantee. The liability for a guarantee is recognized as the higher of its fair value and the contingent loan loss provision, according to Topic 450 of the Codification. The liability is derecognized on the date in which the Bank is released from the risk.

S. Income Tax

The financial statements include current taxes and deferred taxes. The provision for income tax by the Bank and by those of its consolidated companies which are considered financial institutions for Value Added Tax purposes include a provision for profit tax levied on the income pursuant to the Value Added Tax Law. Value Added Tax levied on salaries in financial institutions is included in the income statement under “Salaries and related expenses”.

Current taxes

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable income for the current period calculated at the applicable tax rates under tax laws that have been enacted or substantively enacted until the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Current tax expenses also include the changes in the tax payments related to previous years.

Deferred taxes

Deferred tax liabilities and deferred tax assets are created in respect of temporary differences and transferred losses as at the end of the period.

Deferred tax balances are measured at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and tax laws enacted until the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax liabilities are recognized by the Bank for all taxable temporary differences except for tax liabilities arising from temporary differences related to goodwill which is not tax deductible or deferred tax liabilities in respect of temporary differences arising from investment in domestic subsidiaries until December 31 2016. As of January 1 2017, the Bank recognizes a deferred tax liability in respect of temporary differences accrued as of that date in respect of domestic subsidiaries. The Bank does not recognize deferred tax liabilities in respect of investment in foreign companies since it does not intend to reinvest the undistributed profits for an indefinite period nor does it have the ability to do so.

Deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future. When recognizing a deferred tax asset, an entity must determine whether it will have future taxable profit from which to deduct the difference. At the same time, the Bank recognizes a separate valuation allowance in respect of the same amount included in the asset which - more likely than not - shall not be disposed of. Subsequent changes in the valuation allowance will be recognized in profit and loss in the current period even if the allowance was initially recorded in equity.

The Bank classifies interest income and expense in respect of income taxes and fines imposed by the tax authorities to the income taxes item.

Offsetting deferred tax assets and liabilities

The Bank offsets assets and liabilities in respect of deferred taxes as described in Section (M) above.

Note 1 - Significant Accounting Policies (cont.)

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Recognized tax positions are measured at the highest amount that has a greater than 50 percent likelihood of being realized. Changes in recognition or measurement of deferred taxes are reflected in the period in which the circumstances leading to a change in judgment occurred. The Bank implements the rules for recognition and measurement set out in FIN48.

T. Earnings per Share

The Group presents basic and diluted earnings per share data for its ordinary share capital. Basic earnings per share is calculated by dividing the profit or loss attributed to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share is determined by adjusting the profit or loss attributed to ordinary equity holders and the weighted average number of ordinary shares outstanding, to the effects of all dilutive potential ordinary shares.

U. Interested Party Transactions

The Bank implements the accounting treatment set under US GAAP in its accounting for transactions between a banking corporation and its controlling shareholder and a company controlled by the Bank. In such cases, where the said rules do not refer to the accounting treatment, the Bank implements the rules set out in Standard No. 23 of the Israel Accounting Standards Board on the matter.

Assets and liabilities in respect of which a transaction was carried out with a controlling shareholder are measured at fair value as of the transaction date. Due to the fact that the transaction in question is an equity transaction, the Group carries to equity the difference between the fair value and the consideration from the transaction.

V. Impairment of Non-Financial Assets

1. The Bank assesses the need to record a provision for impairment in respect of non-financial assets (such as: buildings and equipment, investments in associates and intangible assets including goodwill and excluding internally-used software) when events or changes in circumstances indicate that the book balance of its assets exceed their recoverable amount. Impairment losses are recognized only if the book value of a non-current asset is non-recoverable and exceeds its fair value, i.e., the total undiscounted cash flows expected to arise from the use of the asset and its disposal is lower than its book value.
   In this case, the Bank will recognize an impairment loss equal to the difference between the asset's book value and its fair value. This loss will be charged to the income statement.

   When such a loss is recognized, the impaired non-performing book value constitutes a new cost basis. The recognized loss shall not be reversed in subsequent periods, unless an appreciation occurs.

2. Impairment of internally-developed software
   The Bank tests for impairment intangible assets remaining from a software project when there are events or changes in circumstance which indicate that the amortized cost may be unrecoverable.

   Set forth below are examples for events or changes in circumstance that indicate an impairment:

   a. Internal-use computer software is not expected to provide substantive service potential;

   b. A significant change occurs in the extent or manner in which the software is used or is expected to be used;

   c. A significant change is made or will be made to the software;

   d. Costs of developing or modifying internal-use software significantly exceed the amount originally expected to develop or modify the software;

Note 1 - Significant Accounting Policies (cont.)

e. It is no longer probable that the development of the software will be completed and that the software will be placed in service.

The Bank recognizes impairment loss when the book value is unrecoverable and exceeds the fair value. A recognized impairment loss will not be reversed in the subsequent period even if the value appreciates.

3. Impairment of investments in associates presented according to the equity method

An investment in an associate is tested for impairment when events or changes in circumstances indicate that the investment's book balance is unrecoverable. In such a case, the Bank tests whether the impairment is other than temporary, based on the time during which the fair value of the investment is lower than its book value and the severity of the impairment; the financial position of the investee; as well as the intention and ability of the banking corporation to continue to hold the investment until a date on which the investment is not expected to be sold at a loss. Impairment that is other-than-temporary shall be recognized in the income statement and not reversed in subsequent periods.

4. Non-current assets held for sale

A non-current asset (or disposal group) shall be classified as held-for-sale when management commits to an active plan to sell the asset, the asset is available-for-sale immediately at its current state, it is expected that the sale of the asset will be completed in one year and the asset is actively marketed for sale purposes.
The asset (or disposal group) shall be presented at the lower of the book values or fair value less selling costs. The asset shall not be amortized as long as it is classified as held-for-sale.

W. First-Time Application of New Accounting Standards, Accounting Standard Revisions, and New Directives Issued by the Banking Supervision Department

As of the reporting periods commencing on January 1 2019, the Bank applies the following accounting standards and directives:

1. Reporting by banking corporations in Israel pursuant to US GAAP on derivatives and hedging, classification and measurement of financial instruments, cash flow statement and additional topics.

On August 30 2018, a circular regarding derivatives and hedging, classification and measurement of financial instruments, cash flow statement and additional topics was published.

Derivatives and hedging

In August 2017, the Financial Accounting Standards Board (FASB) published ASU 2017-12, which revises Topic 815, "Derivatives and Hedging". The objective of the new ASU is to simplify the application of hedge accounting and improve financial reporting on hedge ratios so as to better reflect the financial results of a banking corporation's risk management.

The main highlights of the changes are as follows:

1. Easement in applying the accounting guidelines, especially with regard to examining hedge effectiveness and documenting hedges.
2. The ASU extends the ability to hedge certain risk-weighted components, thereby matching the recognition and presentation of hedging instruments and hedged items in the financial statements.
3. According to the ASU, entities are no longer required to treat "ineffective parts" of hedge ratios separately.

The amendments to the Reporting to the Public Directives adopt the requirements of US GAAP for Banks set in the ASU. In addition, the disclosure format was adapted to the financial statements of US banks.

The circular's guidelines were implemented prospectively as of January 1 2019.

The application of the circular had no material effect on the financial statements.

Note 1 - Significant Accounting Policies (cont.)

Classification and measurement of financial instruments

Most of the changes in the Reporting to the Public Directives regarding classification and measurement of financial instruments are as follows: Changes in fair value to unrealized investments in available-for-sale equity securities with an available fair value shall be recognized directly in the income statement rather than in other comprehensive income, on a regular basis. Equity investments with no available fair value, which are currently presented at cost (less impairment) shall be presented at cost (less impairment) adjusted for observable changes in the share price of the same issuer.

The new provisions were applied by way of retrospective adjustment, while charging the cumulative effect to the opening balance of the retained earnings on the first-time application date.

The application of the circular had no material effect on the financial statements.

2. ASU 2019-04 revises Topic 326 - "Financial Instruments - Credit Losses", to Topic 815 - "Derivatives and Hedging" and to Topic 825 - "Financial instruments".

On April 26 2019, the FASB issued ASU 2019-04, which updates the above topics.

As part of the revisions to Topic 815, the transitional provisions to implementing ASU 2017-12 were clarified, among other things, allowing to opt, on first-time application, to reclassify a debt instrument from held-to-maturity to available-for-sale if it constitutes a hedged item that qualifies for last-of-layer hedging. Any unrealized gain or loss as at the reclassification date shall be included in accumulated other comprehensive income.

The application of the circular had no material effect on the financial statements.

3. ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-02 — "Income Statement - Reporting Comprehensive Income", which addresses the effects of the U.S. Tax Reform. According to the ASU, a banking corporation may reclassify from accumulated other comprehensive income to retained earnings, stranded tax effects resulting from the change in tax rates in respect of the Tax Cuts and Jobs Act.

The application of the circular had no material effect on the financial statements.

4. Provisions of FSP 115-2 - "Recognition and Presentation of Other-Than-Temporary Impairments"

According to the provisions of the Banking Supervision Department, as outlined in Appendix P to the Reporting to the Public Directives, the Bank opted to adopt, as of the financial statements as at December 31 2019, the provisions of FSP 115-2 - "Recognition and Presentation of Other-Than-Temporary Impairments".

It is clarified that regarding bonds which embody credit risk and which the Bank has determined, in accordance with the provision of FSB 115-2 that the bonds have undergone other-than-temporary impairment, no distinction will be made between impairment attributed to credit risk and impairment attributed to other risks, such as market risk, and the entire difference between the fair value and the amortized cost of the bonds as at the reporting date shall be fully stated in profit and loss.

The application of the circular had no material effect on the financial statements.

Note 1 - Significant Accounting Policies (cont.)

X. New Accounting Standards and Directives Issued by the Banking Supervision Department Prior to their Application

Publication's topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
ASU 2017-04 — Intangibles — Goodwill and Other	In January 2017, the FASB issued ASU 2017-04 — "Intangibles — Goodwill and Other", which amends ASC 350, "Intangibles - Goodwill and Other". The purpose of the ASU is to simplify the accounting treatment of goodwill impairment. According to the ASU, entities are no longer required to calculate the fair value of goodwill and recognize an impairment in respect of the difference between the fair value and book value. Goodwill impairment should be recognized as the difference between the fair value of the reported unit and its book value. However, the impairment loss may not exceed the goodwill amount attributed to the reporting unit.	The change is to be applied prospectively from January 1 2020.	The implementation of the circular is not expected to have a material effect on the financial statements.
Adoption of updates to US GAAP for Banks - Provisions for Expected Loan Losses and other Directives	On March 28 2018, the Banking Supervision Department published a letter entitled "Adoption of Updates to US GAAP for Banks - Provisions for Expected Loan Losses and other Directives".		
	Revised accounting treatment of loan loss provisions - CECL The letter adopts the US GAAP's ASU 2016-13, "Financial Instruments - Credit Losses". The purpose of the new rules is to improve the quality of reporting on a banking corporation's financial position by early recording of the loan loss provisions so as to reinforce the anti-cyclical behavior of the loan loss provisions in order to support a swifter response by banks to a deterioration in borrowers' credit quality and enhance the correlation between credit risk management and the manner in which these risks are reflected in the financial statements. The main highlights of the expected changes are as follows: • The loan loss provision will be calculated according to the expected loss over the life of a loan rather than the estimated loss that has been incurred but not yet identified.	This change is to be implemented starting January 1 2022 by recording the cumulative effect of the application of these principles under retained earnings.	The Bank continues to examine the effect of the implementation on its financial statements. The requirements were mapped and a methodology for estimating the loan loss provision was chosen, as required by the letter.

Publication's topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	• When estimating the loan loss provision, significant use will be made of forward-looking information which shall reflect reasonable forecasts regarding future economic events. • Disclosure of the effect of the loan granting date on the credit quality of the loan portfolio will be expanded. • A change will be made to the manner in which impairment of bonds in the available-for-sale portfolio is recorded. • The new rules for calculating the loan loss provision will apply to loans, held-to-maturity bonds and certain off-balance sheet credit exposures. • The new rules allow to use the existing provision methods, while taking into account practicality and materiality considerations.		
Reporting by banking corporations and credit card companies pursuant to US GAAP on leases	Revised treatment of leases On July 1 2018, the Banking Supervision Department published a circular entitled "Reporting by Banking Corporations and Credit Card Companies Pursuant to US GAAP on Leases", which adopts ASU 2016-02, "Leases", and inter alia, the rules of presentation, measurement and disclosure according to ASC Topic 842. The main highlights of the expected changes are as follows: a. Leases longer than 12 months will be recognized in the balance sheet even if the lease is classified as an operating lease. b. In operating leases, a right of use asset, which reflects the Bank's right to use the leased asset against an obligation to pay for the lease, shall be recorded in the balance sheet. c. Leasing transactions in which a banking corporation sells an asset and leases it back may be considered, under certain circumstances, as accounting sales transactions subject to meeting certain terms and conditions specified in Topic 842.	The change is to be applied as of January 1 2020.	The Bank believes that the effect of the implementation of the circular on the balance sheet is an increase of approximately NIS 1.3 billion in the balance of right of use assets and the outstanding liability for this lease - as of the first-time application.

Publication's topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	d. Risk-weighted assets in respect of right of use assets for operating leases recognized in the balance sheet will be fully weighted for minimum capital ratio purposes.		
ASU 2018-13 - "Changes to the Disclosure Requirements for Fair Value Measurement"	On August 28 2018, the FASB issued ASU 2018-13, which updates Topic 820. The objective of the revision is to improve the effectiveness of disclosures in the notes to the financial statements. The main amendments, among others, are as follows: a. The requirement to present the amounts and reasons for transfers between Levels 1 and 2 in the fair value hierarchy was revoked. b. The requirement to present a description of the fair value measurement process in Level 3 was revoked. c. As part of the requirement to provide a narrative description of the sensitivity to changes in unobservable inputs for recurring fair value measurements classified into Level 3 of the fair value hierarchy, the term "sensitivity" was changed to "uncertainty", in order to highlight that the required information pertains to uncertainties. d. A requirement was added whereby changes in unrealized other comprehensive income during the period, in respect of Level 3 fair value measurements, should be presented in assets held as at the end of the period.	The change is to be applied from January 1 2021. Early adoption is permitted.	The adoption of the standard has no effect on the financial statements, except for presentation Change in the Balances and Fair Value Estimates of Financial Statements.
ASU 2018-14 regarding changes to the disclosure requirements for defined benefit plans	**Disclosure Requirements for Defined Benefit Plans** On August 28 2018, the FASB issued ASU 2018-14 - "Compensation - Retirement Benefits - Defined Benefit Plans - General", which updates Subtopic 715-20 - "Changes to the Disclosure Requirements for Defined Benefit Plans". The objective of the revision is to improve the effectiveness of disclosures in the notes to the financial statements. The main amendments are as follows:	The change is to be applied retrospectively from January 1 2021.	The adoption of the standard is not expected to have a material effect on the financial statements.

Publication's topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	a. The requirement to present an estimate of the amounts included in accumulated other comprehensive income that are expected to be amortized as an expense from accumulated other comprehensive income to the income statement in the subsequent year was revoked. **b.** A requirement was added according to which details should be provided regarding the reasons for material profits or losses related to a change in the defined benefit obligation during the period and other material changes.		
ASU 2018-15 - Accounting treatment of integration costs of cloud computing arrangements	On August 29 2018, the FASB issued ASU 2018-15, which updates Subtopic 350-40 regarding internal use software. Under the ASU, costs incurred for the purpose of integrating cloud computing services shall be deferred or charged to profit or loss in the same manner they would have been treated in accordance with provisions regarding internal use software, despite being service contracts. In addition, the ASU determined that the deferred integration costs shall be amortized to profit and loss according to the contractual term of the arrangement, which includes extension periods the realization of which is reasonably certain or the realization of which is under the vendor's control. The deferred integration costs shall be subject to provisions regarding impairment in the same way as internal use software.	The change is to be applied from January 1 2020. It may be applied prospectively or retrospectively.	The adoption of the ASU is not expected to have a material effect on the financial statements.
ASU 2019-12, "Simplifying the Accounting for Income Taxes"	On December 18 2019, the FASB issued ASU 2019-12, which updates Topic 740 - "Income Taxes". The purpose of the ASU is to simplify the accounting treatment of income taxes through the revocation of exceptions and granting easements by changing the guidelines.	The change is to be applied prospectively from January 1 2021.	The Bank is assessing the effect of the ASU on its financial statements.

Note 2 - Interest Income and Expenses

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
A. Interest income[(a)]			
From loans to the public	**9,826**	10,085	9,199
From loans to governments	**32**	33	25
From deposits with banks	**177**	133	91
From deposits with central banks and cash	**136**	78	69
From securities borrowed or purchased under reverse repurchase agreements	**4**	2	2
From bonds[(b)]	**1,262**	1,015	683
Total interest income	**11,437**	11,346	10,069
B. Interest expense[(a)]			
For deposits by the public	**(2,026)**	(1,847)	(1,329)
For deposits by governments	**(3)**	(4)	(3)
For deposits by the Bank of Israel	**(1)**	-	-
For deposits by banks	**(26)**	(29)	(17)
For securities loaned or sold under repurchase agreements	**(3)**	(2)	(2)
For bonds, promissory notes and subordinated bonds	**(537)**	(574)	(672)
Total interest expense	**(2,596)**	(2,456)	(2,023)
Total interest income, net	**8,841**	8,890	8,046
C. Details on the net effect of hedging derivatives[(c)]			
From interest income	**(13)**	7	(16)
D. Details on interest income from bonds, on accrual basis			
Available for sale	**1,068**	890[(d)]	626
Held for trading	**32**	40	55
Held to maturity	**162**	85[(d)]	2
Total included in interest income	**1,262**	1,015	683

(a) Including effective component in hedge ratios.
(b) Including interest in respect of mortgage-backed bonds (MBS) totaling NIS 182 million (2018 – NIS 203 million, 2017 – NIS 196 million).
(c) More information about the effect of hedging derivatives on subsections a. and b.
(d) Reclassified.

Note 3 - Noninterest Finance Income

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
A. Noninterest finance income (expense) for non-trading activities			
A.1. From derivative activities[a]			
Net income (expenses) in respect of ALM derivatives[b]	**(1,260)**	2,338[l]	(1,915)[l]
Total from derivatives activity	**(1,260)**	2,338	(1,915)
A.2. From investment in bonds			
Gains on sale of available-for-sale bonds[h]	**208**	61	160
Losses on sale of available-for-sale bonds[g][h]	**(17)**	(71)	(45)
Total from investment in bonds	**191**	(10)	115
A.3. Exchange rate differentials, net	**1,969**	(2,246)	2,501
A.4. Gains (losses) on investment in equity securities			
Gains on sale of equity securities not held for trading (2017 and 2018 - available-for-sale shares)	**152**	239	128
Provision for impairment of equity securities not held for trading (2017 and 2018 - available-for-sale shares)	**(39)**	(82)	(52)
Losses on sale of equity securities not held for trading (2017 and 2018 - available-for-sale shares)	**(16)**	(2)	(15)
Dividend from equity securities not held for trading (2017 and 2018 - available-for-sale shares)	**32**	16	16
Unrealized gains, net from not held-for-trading equity securities (2017 and 2018 - available-for-sale shares)[k]	**56**	-	-
Gains on sale of investees' equity[c]	**386**	224	-
Losses on sale of investees' equity[d]	**(99)**	(1)	(16)
Total from investment in equity securities	**472**	394	61
A.5. Gains on sold loans, net	**15**	-	9
Total noninterest finance income (expenses) for equity securities not held for trading	**1,387**	476	771
B. Noninterest finance income (expense) in respect of trading activities[j]			
Income in respect of held-for-trading derivative instruments, net	**148**	146[l]	193[l]
Realized and unrealized gains (losses) from fair value adjustments of held-for-trading bonds, net[e]	**148**	(25)	(74)
Realized and unrealized gains from fair value adjustments of held-for-trading shares, net[f]	**3**	85	29
Total from trading activities[i]	**299**	206	148
Details of noninterest finance income for trading activities according to risk exposures			
Interest rate exposure	**27**	(45)	(118)
Foreign exchange exposure	**233**	231	219
Exposure to equity securities	**35**	19	46
Exposure to commodities and other contracts	**4**	1	1
Total	**299**	206	148
Total noninterest finance income	**1,686**	682	919

Please see comments below.

Note 3 - Noninterest Finance Income (cont.)

(a) Excluding the effect of hedge ratios (2018 - excluding effective component in hedge ratios).
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging purposes.
(c) Mainly including a gain of NIS 314 million on the sale of Leumi Card equity. For more information, please see Note 36F in the in the financial statements as at December 31 2018, gains of NIS 71 million on the sale of Super-Pharm equity (2018 - mainly including gain on sale of shares in Avgol Industries 1953 Ltd. and Direct Finance (2006) Ltd. of NIS 121 million and NIS 96 million, respectively.
(d) Loss on sale of Leumi Romania equity in 2019 totaling NIS 99 million.
(e) Of which the share of gains (losses) totaling NIS 33 million (2018 – NIS (25) million, 2017 – NIS 23 million) associated with unrealized held-for-trading bonds still held as of the balance sheet date.
(f) In 2019, there were no gains (losses) in respect of held-for-trading equity securities still held as at the balance sheet date (2018 - there were no gains (losses) in respect of held-for-trading equity securities still held as at the balance sheet date, 2017 - NIS (16) million).
(g) Including impairment provisions associated with available-for-sale bonds totaling NIS 2 million (2018 – NIS 19 million, 2017 – NIS 3 million).
(h) Reclassified from accumulated other comprehensive income.
(i) For interest income from investments in held-for-trading bonds, please see Note 2.
(j) Including exchange rate differentials from trading activities.
(k) Including gains and losses from fair value measurement of equity securities for which there is available fair value as well as upward or downward adjustments of equity securities for which there is no available fair value.
(l) Reclassified in respect of first-time application of the Bank of Israel’s circular on derivatives and hedging. Please see Note 1.W.1.

Note 4 - Fees and Commissions

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Account management	**690**	716	701
Credit cards	**310**	1,129	1,075
Activity in securities and certain derivatives[c]	**637**	638	675
Fees and commissions for financial product distribution[a]	**238**	260	251
Management, operating and trust services to institutional entities[b]	**72**	85	75
Handling of credit	**197**	186	183
Exchange rate differentials	**361**	361	338
Foreign trade activity	**119**	121	128
Net income from loan portfolio servicing	**11**	12	14
Management fees and commissions on life and home insurance	**58**	56	56
Loan fees and commissions	**431**	454	455
Other fees and commissions	**101**	103	101
Total operating fees and commissions	**3,225**	4,121	4,052

(a) Primarily mutual funds’ distribution fees.
(b) Primarily operation of provident funds.
(c) Including fees and commissions from underwriting activity.

Note 4A - Revenue from Contracts with Customers[a]

	For the year ended December 31 2019											
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - Total	Com-mercial	Cor-porate	Real estate	Capital mar-kets	Other	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS millions											
Account management	310	171	-	481	81	26	5	25	-	-	72	690
Credit cards	245	43	-	288	8	1	-	4	1	-	8	310
Activity in securities and certain derivatives	362	38	-	400	15	5	2	143	-	19	53	637
Fees and commissions for financial product distribution	202	16	-	218	5	-	1	-	-	-	14	238
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	72	-	72
Handling of credit	8	33	16	57	48	29	56	1	-	-	6	197
Exchange rate differentials	124	86	-	210	91	16	2	39	-	-	3	361
Foreign trade activity	2	28	-	30	64	14	1	8	-	-	2	119
Management fees and commissions on life and home insurance	-	-	2	2	-	-	-	-	-	46	10	58
Net income from loan portfolio servicing	1	-	10	11	-	-	-	-	-	-	-	11
Loan- and other fees and commissions	-	32	-	32	85	94	249	21	18	-	33	532
Total fees and commissions from main services	**1,254**	**447**	**28**	**1,729**	**397**	**185**	**316**	**241**	**19**	**137**	**201**	**3,225**

	For the year ended December 31 2018											
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - Total	Com-mercial	Corpo-rate	Real estate	Capital mar-kets	Other	Subsi-diaries in Israel	Foreign subs-idiaries	Total
	In NIS millions											
Account management	313	184	1	498	80	27	5	24	1	1	80	716
Credit cards	142	24	-	166	2	-	-	3	-	946	12	1,129
Activity in securities and certain derivatives	374	40	-	414	16	6	1	150	-	16	35	638
Fees and commissions for financial product distribution	220	18	-	238	6	-	-	-	-	-	16	260
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	85	-	85
Handling of credit	10	37	13(b)	60	48	20	47	1(b)	-	-	10	186
Exchange rate differentials	134	91	-	225	86	15	2	26	-	-	7	361
Foreign trade activity	3	30	-	33	64	15	-	7	-	-	2	121
Management fees and commissions on life and home insurance	-	-	5	5	-	-	-	-	-	46	5	56
Net income from loan portfolio servicing	1	-	11	12	-	-	-	-	-	-	-	12
Loan- and other fees and commissions	4	35	-	39	83	115	256	11	13	-	40	557
Total fees and commissions from main services	1,201	459	30	1,690	385	198	311	222	14	1,094	207	4,121

(a) The revenue was classified pursuant to the operating segments according to management approach.
(b) Reclassified.

Note 5 - Other Income

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Capital gains on sale of buildings and equipment	**93**	45	302[(a)]
Capital losses on sale of buildings and equipment	**(4)**	(5)	(1)
Gains on main severance pay funds, net	**22**	8	41
Other, net	**59**	20	29
Total other income	**170**	68	371

(a) Including gain on sale of main branch building in Tel Aviv for a total of NIS 265 million in 2017.

Note 6 - Salaries and Related Expenses

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Salaries	**3,025**	3,221[(d)]	3,281
Expense arising from stock-based compensation transactions[(b)]	**8**	40	-
Other related expenses, including study fund, paid leave and sick leave	**249**	250[(d)]	259
Long-term benefits	**(5)**	(5)	(14)
National Insurance fees and payroll tax	**691**	690	699
Pension-related expenses (including severance pay and pension):[(a)]			
Defined benefit	**149**	145	146
Defined contribution	**170**	200	204
Other post-employment benefits and non-pension retirement benefits[(a)(c)]	**37**	3	16
Expenses for other employee benefits[(a)]	**1**	-	-
Total salaries and related expenses	**4,325**	4,544	4,591
Of which: Salaries and related expenses payable abroad	**467**	523	467

(a) For more information regarding employee benefits, please see Note 23.
(b) Please see Note 23I under stock-based compensation transactions.
(c) Of which: Service cost in respect of other post-employment benefits and non-pension retirement benefits for 2019, 2018 and 2017 is NIS 9 million, NIS 10 million and NIS 11 million, respectively.
(d) Reclassified.

Note 7 - Other Expenses

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Pension expenses - Defined benefit and other post-employment benefits, excluding service cost	**706**	671	681
Marketing and advertising	**222**	314	293
Professional fees: Legal fees, audit fees	**252**	290	302
Communication: Postage, telephone, couriers, etc.	**130**	160	155
IT[(a)]	**101**	120	103
Office supplies	**49**	53	58
Insurance	**17**	17	32
Training and courses	**12**	17	25
Fees and commissions	**109**	222	188
Loss on assets received for loans extinguishment	**3**	2	2
Fines paid to the Bank of Israel	**-**	2	-
Other[(b)]	**461**	356	324
Total other expenses	**2,062**	2,224	2,163

(a) The item includes outsourcing expenses, but does not include the Bank's IT expenses since the Operations Division is part of the Bank and its expenses were recorded and classified into the various expense items.
(b) For more information regarding the compensation of Bank's directors included in this item – please see Note 34C.

Note 8 - Provision for Profit Tax

A. Composition of the Item

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Current taxes			
For the reporting year	**2,403**	1,491	2,027
For previous years	**22**	(71)	(92)
Current taxes - total	**2,425**	1,420	1,935
Including (excluding) changes in deferred taxes:			
For the reporting year	**(595)**	199	(285)
For previous years	**-**	-	42
Total changes in deferred taxes	**(595)**	199	(243)
Provision for income taxes	**1,830**	1,619	1,692
Of which: Provision for taxes abroad	**70**	91	149

The composition of deferred tax expenses (income) allocated to continuing operations is as follows

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Deferred tax expenses (income) before the effect of the following items:	**(598)**	202	(254)
Decrease (increase) in deductions carried forward for tax purposes	**3**	(3)	-
Effect of changes in tax laws	**-**	-	42
Change in provision for deferred taxes due to change of circumstances resulting in changes to entity's assessment as to its ability to utilize a deferred tax asset	**-**	-	(31)
Total deferred tax expenses (income)	**(595)**	199	(243)

The table does not include the tax effect of certain items recognized directly in equity in each reporting period. Tax expenses for items recognized in other comprehensive income were down by a total of NIS 565 million in 2019, up by NIS 319 million in 2018 and down by NIS 214 million in 2017.

Note 8 - Provision for Profit Tax (cont.)

B. Reconciliation of the Theoretical Tax Expense and the Provision for Taxes

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Statutory tax rate applicable to the Bank	**34.2%**	34.2%	35.0%
Tax amount based on the statutory tax rate	**1,848**	1,677	1,682
Tax (tax savings) for:			
Income of foreign consolidated companies	**16**	(44)	(5)
Tax-exempt income and income subject to reduced tax rates	**(3)**	(2)	(6)
Differences in depreciation, depreciation adjustments and capital gain	**(22)**	(23)	(36)
Other non-deductible expenses	**9**	33	48
Losses and timing differences in respect of which deferred taxes were not recorded	**(107)**	(29)	(13)
Change in deferred taxes due to changes in tax rates	**-**	-	54
Tax for previous years	**22**	(71)	(92)
Changes in the balance of the provision for deferred tax asset	**-**	-	(31)
Other	**67**	78	91
Provision for income taxes	**1,830**	1,619	1,692

C. Tax Assessments

The Bank has final tax assessments up to and including the 2014 tax year.
The main consolidated subsidiaries have final tax assessments up to and including the 2014 tax year.

Note 8 - Provision for Profit Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items

	Balance as at December 31 2018	Sale of equity of a consoli-dated company	Changes carried to profit and loss	Changes carried to other compre-hensive income	Trans-lation diffe-rences in respect of deferred tax balances	Cumu-lative effect for first-time appli-cation of US GAAP[b]	Balance as at December 31 2019	Average tax rates in 2019 (in %)
	In NIS millions							
Deferred tax assets								
From loan loss provision	1,318	(57)	20	-	(5)	-	1,276	34%
From provision for paid leave and bonuses	257	(4)	(16)	-	(3)	-	234	32%
From excess of employee benefits liability over plan assets	3,231	(10)	154	1,132	(1)	-	4,506	34%
From interest not recognized in current year's income	23	-	(6)	-	(1)	-	16	29%
Tax credit and losses carried forward for tax purposes	200	-	(44)	-	-	-	156	18%
From securities	97	-	416	(500)	1	16	30	21%
Property, plant and equipment and leases	3	-	(1)	-	-	-	2	20%
Other from monetary items	-	-	1	-	-	-	1	24%
Other from non-monetary items	65	(2)	7	-	(1)	-	69	18%
Balance of deferred tax assets, gross	5,194	(73)	531	632	(10)	16	6,290	
Provision for deferred tax asset	(162)	-	38	-	-	-	(124)	
Balance of deferred tax assets less deferred tax provision	5,032	(73)	569	632	(10)	16	6,166	
Offsettable balances[a]	(174)	-	-	-	-	-	(227)	
Deferred tax balance less provision	4,858	-	-	-	-	-	5,939	
Deferred tax liability								
For investment in investees	(185)	-	19	-	-	-	(166)	11%
Adjustment of depreciable non-monetary assets	(125)	-	(8)	-	2	-	(131)	26%
Other from monetary items	(18)	-	16	-	-	-	(2)	24%
Other from non-monetary items	(9)	-	(1)	-	-	-	(10)	16%
Outstanding deferred tax liabilities, gross	(337)	-	26	-	2	-	(309)	
Offsettable balances[a]	(174)	-	-	-	-	-	(227)	
Outstanding deferred tax liabilities	(163)	-	-	-	-	-	(82)	
Balance of deferred taxes, net	4,695[c]	(73)	595	632	(8)	16	5,857	

(a) Deferred tax balances are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

(b) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - "Financial Instruments", including updates thereof. Please see Note 1.W.1.

(c) Including deferred tax balances classified as held-for-sale assets in the amount of NIS 73 million. For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 8 - Provision for Profit Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items (cont.)

	Balance as at December 31 2017	Sale of equity of a consoli-dated company	Changes carried to profit and loss	Changes carried to other compre-hensive income	Trans-lation difference s in respect of deferred tax balances	Cumu-lative effect for first-time applica-tion of US GAAP	Balance as at December 31 2018	Average tax rates in 2018 (in %)
	In NIS millions							
Deferred tax assets								
From loan loss provision	1,249	-	64	-	5	-	1,318	34%
From provision for paid leave and bonuses	383	-	(129)	-	3	-	257	31%
From excess of employee benefits liability over plan assets	3,754	-	85	(609)	1	-	3,231	34%
From interest not recognized in current year's income	19	-	2	-	2	-	23	28%
Tax credit and losses carried forward for tax purposes	260	-	(60)	-	-	-	200	20%
From securities	49	-	(164)	208	4	-	97	25%
Property, plant and equipment and leases	2	-	1	-	-	-	3	21%
Other from non-monetary items	75	-	(10)	-	-	-	65	17%
Balance of deferred tax assets, gross	5,791	-	(211)	(401)	15	-	5,194	
Provision for deferred taxes	(227)	-	65	-	-	-	(162)	
Balance of deferred tax asset less deferred tax provision	5,564	-	(146)	(401)	15	-	5,032	
Offsettable balances[a]	(114)	-	-	-	-	-	(174)	
Deferred tax balance less provision	5,450	-	-	-	-	-	4,858	
Deferred tax liability								
For investment in investees	(141)	-	(44)	-	-	-	(185)	14%
Adjustment of depreciable non-monetary assets	(105)	-	(17)	-	(3)	-	(125)	25%
Other from monetary items	(17)	-	(1)	-	-	-	(18)	34%
Other from non-monetary items	(18)	-	9	-	-	-	(9)	17%
Outstanding deferred tax liabilities, gross	(281)	-	(53)	-	(3)	-	(337)	
Offsettable balances[a]	(114)	-	-	-	-	-	(174)	
Outstanding deferred tax liabilities	(167)	-	-	-	-	-	(163)	
Balance of deferred taxes, net	5,283	-	(199)	(401)	12	-	4,695[b]	

(a) Deferred tax balances are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

(b) Including deferred tax balances classified as held-for-sale assets in the amount of NIS 73 million. For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 8 - Provision for Profit Tax (cont.)

E. Deferred Tax Liabilities that Were Not Recognized in Respect of Temporary Differences Related to Investments in Local Subsidiaries

Pursuant to the Transition Provisions set in the Banking Supervision Department's directives, the Bank did not record a deferred tax liability in respect of certain temporary differences related to the Bank's investment in local subsidiaries, which is permanent in nature. The said amount will be taxed only upon disposal or liquidation of the subsidiaries.

F. Carryforward Tax Losses and Tax Credits

	For the year ended December 31 2019				
	Deferred tax assets	Provision for deferred tax assets	Deferred taxes, net	Accumulated loss	First expiry year
	In NIS millions				
Losses for tax purposes					
Subsidiaries in Israel	**7**	**(6)**	**1**	**20**	**-**
Foreign subsidiaries	**3**	**(3)**	**-**	**9**	**-**
Tax credits					
The Bank	**146**	**(115)**	**31**	**-**	**-**

	For the year ended December 31 2018				
	Deferred tax assets	Provision for deferred tax assets	Deferred taxes, net	Accumulated loss	First expiry year
	In NIS millions				
Losses for tax purposes					
Subsidiaries in Israel	2	(2)	-	5	-
Foreign subsidiaries	37	(33)	4	109	2019
Tax credits					
The Bank	161	(127)	34	-	-

G. Deferred tax balances are measured at the tax rates expected to be in effect for the temporary differences at the time the they are utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

H. Following the publication of the Supervision of Banks Department's circular regarding the measurement and disclosure of impaired non-performing debts, loans and loan loss provisions, the banks (including the Bank) and the Israel Tax Authority reached an agreement regarding the recognition of loan loss provisions for tax purposes. The agreement was signed on March 19 2012; it applies to impaired non-performing loans recorded beginning on January 1 2011 (the previous agreement applies to doubtful debts recorded until December 31 2010). The agreement in principle shall be effective until the 2020 tax year, inclusive. At the end of that period, the agreement in principle shall continue to be in force for an additional two years, unless one of the parties has informed the other party, 3 months prior to the extended period, i.e., until October 1 2020, about its wish not to extend it.

Note 8 - Provision for Profit Tax (cont.)

Following are the main points of the agreement:

Specifically assessed large debts – the provision is deductible for tax purposes in the year in which it was recorded as an expense in the financial statements. In a tax year in which the balance of the loan loss provision decreased (for reasons other than an accounting "write-off" or "loan forgiveness"), an “additional tax” will be added to the Bank’s tax liability with the addition of interest and linkage differentials; such “additional tax” will trigger the collection of the tax that would have been collected had the deductible provision not been recorded in the first place.

For these purposes – a “large debt” is a debt of NIS 1 million or more, or a lower amount as set out in the Bank’s notice to the Assessment Officer and according to the Bank’s characteristics.

Impaired non-performing debts which are not large – half of the expenses in respect of net “accounting write-offs” (net of collections during that year) will be deductible for tax purposes in the first tax year after the tax year in which they were recorded; the other half will become deductible in the second tax year after the tax year in which the expenses were recorded.

Collective provision – not deductible for tax purposes

I. A compromise agreement between the Bank and the Large Enterprises Assessor dated August 1987, which regulates the tax payments in Israel in respect of the Bank’s foreign subsidiaries. The agreement is effective until one of the parties announces (a year in advance) its intention to propose changes to the agreement.

J. According to an arrangement with the tax authorities dated April 14 2005, June 29 2014 and December 30 2018, the Bank may deduct tax amounts under certain conditions if the overall tax rate on the Bank’s domestic income is higher than the tax rate applicable to foreign subsidiaries. The amount which has not yet been deducted from the tax liability and for which there are no tax savings in the future included in the balance sheet as at December 31 2019 is USD 13 million (as at December 31 2018 - USD 15 million). The maximum deductible tax amount per year is USD 5-8 million.

K. As a rule, the Bank, under agreement with the tax authorities, is taxed based on the appreciation of its securities, according to their presentation in the financial statements financial entities.

L. Changes in Tax Legislation

On December 29 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing, among other things, a gradual, two-stage reduction in the corporate tax rate from 25 percent to 23 percent. In the first stage, which began on January 1 2017, the tax rate was reduced to 24 percent; in the second stage, which began on January 1 2018, the tax rate was reduced to 23 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

Tax rates

The taxes applicable to the profit of banking corporations include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law. Set forth below are the statutory tax rates applicable to banking corporations:

Year	Payroll and profit tax rate	Corporate tax rate	Total tax rate	Comments
2017	17.00%	24.00%	35.04%	As a result of a decrease in the corporate tax rate as of January 1 2017
From 2018	17.00%	23.00%	34.19%	As a result of a decrease in the corporate tax rate as of January 1 2018

Note 9 - Earnings per Ordinary Share

A. Basic Earnings Attributable to Shareholders

The Bank's diluted earnings per share are calculated by dividing the gain attributed to the Bank's ordinary shareholders by the weighted average of the number of the Bank's outstanding ordinary shares, as follows:

	For the year ended December 31		
	2019	2018	2017
	Audited		
Basic earnings			
Net income attributable to the Bank's shareholders (in NIS millions)	**3,522**	3,257	3,172
Weighted average of the number of shares (in thousands of shares)			
Balance as at beginning of period	**1,493,609**	1,523,516	1,522,965
Weighted effect of exercised PSUs and RSUs and the issue of shares	**414**	417	176
Weighted effect for share buyback	**(9,956)**	(10,931)	-
Weighted average of the number of shares	**1,484,067**	1,513,002	1,523,141
Basic earnings per share (in NIS)	**2.37**	2.15	2.08

B. Diluted Earnings Per Share

The calculated diluted earnings per share is divided by the weighted average of the number of the Bank's outstanding ordinary shares, after adjustment for all the potentially dilutive ordinary shares, as follows:

	For the year ended December 31		
	2019	2018	2017
	Audited		
Diluted earnings			
Net income attributable to the Bank's shareholders (in NIS millions)	**3,522**	3,257	3,172
Weighted average of the number of shares (in thousands of shares)			
Weighted average of the number of ordinary shares used to calculate basic earnings per share	**1,484,067**	1,513,002	1,523,141
Weighted effect of yet unexercised PSUs and RSUs	**284**	788	1,346
Weighted average of the number of shares, fully diluted	**1,484,351**	1,513,790	1,524,487
Diluted Earnings Per Share (in NIS)	**2.37**	2.15	2.08

C. Share Capital

As at December 31 2019, the Bank’s issued and paid up share capital less the Bank’s share buyback plan during 2018 and 2019 is 1,466,191,030 ordinary shares of NIS 1 p.v. each.

As of December 31 2018, the issued and paid share capital less the Bank's share buyback plan during 2018 is 1,493,608,816 ordinary shares of NIS 1 p.v. each.

As of December 31 2017, the issued and paid share capital is 1,523,523,613 ordinary shares of NIS 1 p.v. each, of which 8,084 are treasury shares which do not confer equity or voting rights.

D. Buyback after the Financial Statements Date

From January 1 2020 to February 26 2020, the Bank performed a buyback of shares of NIS 1 par value each of the Bank's issued share capital. Please see note 25A for further information in regard to the Supervision of Banks Division approval of the buyback.

Note 10 - Accumulated Other Comprehensive Income (Loss)

A. Changes in Accumulated Other Comprehensive Income (Loss) after Tax Effect

	For the year ended December 31 2019							
	Other comprehensive income before attribution to non-controlling interests							
	Adjustments for presentation of available-for-sale securities at fair value[g]	Net translation adjustments,[a] after the effect of hedges[b]	Net gains (losses) for cash flow hedges	The Bank's share in other comprehensive income of investees accounted for in accordance with the equity method[g]	Adjustments for employee benefits[c]	Total	Other comprehensive income (loss) attributable to non-controlling interests	Other comprehensive income (loss) attributable to the Bank's shareholders
	In NIS millions							
Balance as at January 1 2017	(60)[g]	(54)[g]	-	(33)[g]	(2,169)	(2,316)	(4)	(2,312)
Net change during the year[d]	164[g]	(116)	-	(6)[g]	(781)	(739)	-	(739)
Balance as at December 31 2017	104	(170)	-	(39)	(2,950)	(3,055)	(4)	(3,051)
Net change during the year[e]	(421)	110	-	30	1,187	906	18	888
Sale of equity of a consolidated company to non-controlling interests	-	(13)	-	-	-	(13)	(44)	31
Balance as at December 31 2018	(317)	(73)	-	(9)	(1,763)	(2,162)	(30)	(2,132)
Net change during the year	**968**	**(126)**	**(2)**	**(4)**	**(2,208)**	**(1,372)**	**(17)**	**(1,355)**
Cumulative effect for first-time application of US GAAP[f]	**(27)**	**-**	**-**	**-**	**-**	**(27)**	**-**	**(27)**
Sale of equity of a consolidated company	**-**	**-**	**-**	**-**	**23**	**23**	**4**	**19**
Balance as at December 31 2019	**624**	**(199)**	**(2)**	**(13)**	**(3,948)**	**(3,538)**	**(43)**	**(3,495)**

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(b) Net gains (losses) for hedging a net investment in foreign currency.
(c) The adjustments for employee benefits are net of adjustments for plan assets, including the effect of transitioning to a paying fund for the retirees.
(d) Including in respect of classifications of balances in equity between other comprehensive income and retained earnings. Please see Statement of Changes in Equity.
(e) Including balances classified as held-for-sale assets. For more information, please see Note 36F to the financial statements as at December 31 2018.
(f) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - "Financial Instruments", including updates thereof. Please see Note 1.X.
(g) Reclassified.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

B. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect

	For the year ended December 31								
	2019			2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	In NIS millions								
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:									
Adjustments in respect of presentation of available-for-sale securities at fair value:									
Unrealized gains (losses), net, from fair value adjustments	**1,659**	**(565)**	**1,094**	(489)	163	(326)	438[g]	(152)	286
Gains in respect of available-for-sale bonds (2018 - securities) reclassified to the income statement[a]	**(191)**	**65**	**(126)**	(145)	50	(95)	(176)	62	(114)
Net change during the year	**1,468**	**(500)**	**968**	(634)	213	(421)	262	(90)	172
Translation adjustments:[b]									
Adjustments from translation of financial statements	**(243)**	**-**	**(243)**	229	-	229	(284)	-	(284)
Hedges[c]	**178**	**(61)**	**117**	(182)	63	(119)	245	(87)	158
Sale of equity of a consolidated company to non-controlling interests	**-**	**-**	**-**	(20)	7	(13)	-	-	-
Net change during the year	**(65)**	**(61)**	**(126)**	27	70	97	(39)	(87)	(126)
Net gains (losses) for cash flow hedges	**(3)**	**1**	**(2)**	-	-	-	-	-	-
The Bank's share in other comprehensive income (loss) of associates accounted for using the equity method	**(5)**	**1**	**(4)**	34	(4)	30	(13)[g]	7	(6)
Employee benefits:[e][f]									
Net actuarial gain (loss) for the year	**(3,746)**	**1,276**	**(2,470)**	1,434	(485)	949	(1,512)	519	(993)
Net gains (losses) reclassified to the income statement[d]	**398**	**(136)**	**262**	362	(124)	238	335	(117)	218
Sale of equity of a consolidated company	**31**	**(8)**	**23**	-	-	-	-	-	-
Net change during the year	**(3,317)**	**1,132**	**(2,185)**	1,796	(609)	1,187	(1,177)	402	(775)
Total change during the year, net	**(1,922)**	**573**	**(1,349)**	1,223	(330)	893	(967)	232	(735)
Changes in other comprehensive income (loss) components attributable to non-controlling interests									
Total change during the year, net	**(2)**	**(11)**	**(13)**	(24)	(2)	(26)	-	-	-
Changes in other comprehensive income (loss) components attributable to the Bank's shareholders									
Total change during the year, net	**(1,920)**	**584**	**(1,336)**	1,247	(328)	919	(967)	232	(735)

Please see comments below.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

(a) The before tax amount is reported in the income statement under the noninterest finance income item. Please see also Note 3.
(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(c) Net gains (losses) for hedging a net investment in foreign currency.
(d) The before tax amount is reported in the income statement under "Salaries and related expenses". For more information, please see Note 23.
(e) Including balances classified as held-for-sale assets. For more information, please see Note 36F to the financial statements as at December 31 2018.
(f) Adjustments for employee benefits include the costs of the implemented voluntary retirement programs.
(g) Reclassified.

Note 11 - Cash and Deposits with Banks

	December 31	
	2019	2018
	In NIS millions	
Cash and deposits with central banks	**64,661**	68,206
Deposits with commercial banks[(a)]	**11,552**	11,942[(d)]
Less balances classified as held-for-sale assets[(c)]	**-**	(35)
Total[(b)]	**76,213**	80,113
Of which: Cash, deposits with banks and deposits with central banks with original maturities of up to three months[(c)]	**73,667**	74,293[(d)]

(a) Less loan loss provision.
(b) Of which: Pledged cash amounting to NIS 743 million (December 31 2018 – NIS 3,541 million).
(c) For more information, please see Note 36F to the financial statements as at December 31 2018.
(d) Reclassified.

Comment: For information on pledges, please see Note 27.

Note 12 - Securities

	December 31									
	2019					2018				
	Balance sheet value	Amor-tized cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[(a)]	Balance sheet value	Amor-tized cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[(a)]
	In NIS millions									
Held-to-maturity bonds:[(h)]										
Of the Israeli Government	**3,080**	**3,080**	**420**	**-**	**3,500**	2,334	2,334	14	(3)	2,345
Mortgage-backed (MBS)	**1,543**	**1,543**	**12**	**(4)**	**1,551**	1,596	1,596	4	(17)	1,583
Of other foreign entities	**822**	**822**	**31**	**(2)**	**851**	946	946	-	(15)	931
Total held-to-maturity bonds	**5,445**	**5,445**	**463**	**(6)**	**5,902**	4,876	4,876	18	(35)	4,859

Please see comments below.

Note 12 - Securities (cont.)

	December 31									
	2019					2018				
	Balance sheet value	Amor-tized cost	Accumulated other comprehensive income (loss) Gains	Losses	Fair value[a]	Balance sheet value	Amor-tized cost	Accumulated other comprehensive income (loss) Gains	Losses	Fair value[a]
	In NIS millions									
Available-for-sale bonds (2018 - securities)[h]										
Of the Israeli Government	**33,132**	**32,393**	**739**	**-**	**33,132**	30,573	30,783	40	(250)	30,573
Of foreign governments	**18,121**	**18,069**	**64**	**(12)**	**18,121**	5,904	5,898	13	(7)	5,904
Of foreign financial institutions	**9,597**	**9,476**	**124**	**(3)**	**9,597**	9,707	9,803	13	(109)	9,707
Asset-backed (ABS) or mortgage-backed (MBS)	**7,748**	**7,716**	**45**	**(13)**	**7,748**	9,433	9,608	15	(190)	9,433
Of other Israeli entities	**140**	**142**	**1**	**(3)**	**140**	242	241	3	(2)	242
Of other foreign entities	**3,530**	**3,382**	**150**	**(2)**	**3,530**	3,517	3,580	12	(75)	3,517
Total available-for-sale bonds (2018 - securities)[f]	**72,268**	**71,178**	**1,123[c]**	**(33)[c]**	**72,268**	59,376	59,913	96[c]	(633)[c]	59,376

	As at December 31									
	2019					2018				
	Balance sheet value	Amor-tized cost	Accumulated other comprehensive income (loss) Gains	Losses	Fair value[a]	Balance sheet value	Amortized cost	Accumulated other comprehensive income (loss) Gains	Losses	Fair value[a]
	In NIS millions									
Investment in not held-for-trading equity securities and funds (2018 - available-for-sale):										
Equity securities and funds	**3,712**	**3,656**	**100**	**(44)**	**3,712**	3,556	3,513	100	(57)	3,556
Of which: Equity securities and funds for which there is no available fair value[b]	**1,317**	**1,317**			**1,317**	1,079	1,079	-	-	1,079
Total equity securities and funds not held-for-trading (2018 - held-for-trading)	**3,712**	**3,656**	**100[d]**	**(44)[d]**	**3,712**	3,556	3,513	100[d]	(57)[d]	3,556
Total not held for-trading securities	**81,425**	**80,279**	**1,686**	**(83)**	**81,882**	67,808	68,302	214	(725)	67,791

Please see comments below.

Note 12 - Securities (cont.)

	December 31									
	2019					2018				
	Balance sheet value	Amortized cost (in equity securities - cost)	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value[(a)]	Balance sheet value	Amortized cost (in equity securities - cost)	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value[(a)]
	In NIS millions									
Held-for-trading securities: Bonds -										
Of the Israeli Government	**2,715**	**2,699**	**16**	**-**	**2,715**	5,677	5,680	4	(7)	5,677
Of foreign governments	**213**	**214**	**1**	**(2)**	**213**	52	53	-	(1)	52
Of Israeli financial institutions	**101**	**100**	**1**	**-**	**101**	119	120	-	(1)	119
Of foreign financial institutions	**201**	**194**	**7**	**-**	**201**	132	137	-	(5)	132
Asset-backed (ABS) or mortgage-backed (MBS)	**154**	**153**	**1**	**-**	**154**	271	272	1	(2)	271
Of other Israeli entities	**53**	**52**	**1**	**-**	**53**	290	298	-	(8)	290
Of other foreign entities	**87**	**87**	**1**	**(1)**	**87**	220	225	-	(5)	220
Total bonds	**3,524**	**3,499**	**28**	**(3)**	**3,524**	6,761	6,785	5	(29)	6,761
Equity securities and funds	**-**	**-**	**-**	**-**	**-**	2	2	-	-	2
Total held-for-trading securities	**3,524**	**3,499**	**28**[(d)]	**(3)**[(d)]	**3,524**	6,763	6,787	5[(d)]	(29)[(d)]	6,763
Total securities[(e)]	**84,949**	**83,778**	**1,714**	**(86)**	**85,406**	74,571	75,089	219	(754)	74,554

Comments:

(a) In most cases, fair value inputs are based on quoted share prices, which do not necessarily reflect the price that can be obtained from selling large blocks of securities.

(b) Equity securities for which no fair value is available are presented at cost less impairment, adjusted upwards or downwards for observable prices in similar transactions or identical transactions of the same issuer (2018 - presented at cost less impairment).

(c) Included in equity under the "Adjustments in respect of the presentation of available-for-sale securities at fair value" under other comprehensive income, except for securities designated to be hedged at fair value.

(d) Charged to the income statement but as yet unrealized.

(e) Including impaired non-performing accruing bonds as at December 31 2019 totaling NIS 5 million (December 31 2018 - NIS 8 million).

(f) Total of NIS 8.3 billion out of total foreign currency securities are rated SSA (Supranationals, Sovereign and Agencies) (2018 – NIS 9.7 billion).

(g) Stated according to the presentation rules of ASC 321, "Investments - Equity Securities".

(h) During December, a balance of approx. NIS 746 million (USD 216 million) was reclassified from the bonds held-to-maturity portfolio to the available-for-sale bonds portfolio (please see Note 1C.5.

General comments:

Loaned securities in the amount of NIS 127 million (December 31 2018 - NIS 109 million) are presented under the loans to the public item.

Securities pledged to lenders totaled NIS 4,521 million (December 31 2018 - NIS 2,989 million).

For more information on the financial performance of investments in bonds, shares and mutual funds, please see Notes 2 and 3.

The distinction between Israeli and foreign bonds was made according to the issuer's country of residence.

Note 12 - Securities (cont.)

Additional Information on Amortized Cost and Deferred Losses, by Duration and Impairment Percentage, of Held-to-Maturity Bonds in an Unrealized Loss Position

	December 31 2019									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses from fair value adjustments					Unrealized losses from fair value adjustments			
	Amor-tized cost	0[c]-20%	20%[d]-35%	Over 35%[e]	Total	Amortized cost	0[c]-20%	20%[d]-35%	Over 35%[e]	Total
	In NIS millions									
Bonds										
Of the Israeli Government	-	-	-	-	-	-	-	-	-	-
Mortgage-backed (MBS)	299	2	-	-	2	220	2	-	-	2
Of other foreign entities	766	2	-	-	2	-	-	-	-	-
Total held-to-maturity bonds	**1,065**	**4**	**-**	**-**	**4**	**220**	**2**	**-**	**-**	**2**

	December 31 2018									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses from fair value adjustments					Unrealized losses from fair value adjustments			
	Amor-tized cost	0[c]-20%	20%[d]-35%	Over 35%[e]	Total	Amortized cost	0[c]-20%	20%[d]-35%	Over 35%[e]	Total
	In NIS millions									
Bonds										
Of the Israeli Government	694	3	-	-	3	-	-	-	-	-
Mortgage-backed (MBS)	465	4	-	-	4	285	13	-	-	13
Of other foreign entities	179	2	-	-	2	293	13	-	-	13
Total held-to-maturity bonds	1,338	9	-	-	9	578	26	-	-	26

Please see comments below.

Note 12 - Securities (cont.)

Additional Information on Fair Value and Unrealized Losses, by Duration and Impairment Percentage, of Available-for-Sale Bonds (2018 - Securities) in an Unrealized Loss Position

	December 31 2019									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses[g]					Unrealized losses[g]			
	Fair value	0[c]-20%	20%[d]-35%	Over 35%[e]	Total	Fair value	0[c]-20%	20%[d]-35%	Over 35%[e]	Total
	In NIS millions									
Bonds										
Of the Israeli Government	188	-[f]	-	-	-	-	-	-	-	-
Of foreign governments	5,258	12	-	-	12	70	-[f]	-	-	-
Of foreign financial institutions	1,193	3	-	-	3	225	-[f]	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS)	1,211	6	-	-	6	2,394	7	-	-	7
Of other Israeli entities	52	3	-	-	3	-	-	-	-	-
Of other foreign entities	455	1	-	-	1	178	1	-	-	1
Total available-for-sale bonds	8,357	25	-	-	25	2,867	8	-	-	8

	December 31 2018									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses[g]					Unrealized losses[g]			
	Fair value	0[c]-20%	20%[d]-35%	Over 35%[e]	Total	Fair value	0[c]-20%	20%[d]-35%	Over 35%[e]	Total
	In NIS millions									
Bonds										
Of the Israeli Government	23,891	231	-	-	231	818	19	-	-	19
Of foreign governments	2,679	5	-	-	5	153	2	-	-	2
Of foreign financial institutions	3,641	80	-	-	80	1,275	29	-	-	29
Asset-backed (ABS) or mortgage-backed (MBS)	2,378	30	-	-	30	5,293	160	-	-	160
Of other Israeli entities	103	2	-	-	2	-	-	-	-	-
Of other foreign entities	1,516	46	-	-	46	896	29	-	-	29
Equity securities and funds	680	43	2	-	45	35	12	-	-	12
Total available-for-sale securities	34,888	437	2	-	439	8,470	251	-	-	251

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20 percent of their amortized cost.
(d) Investments whose unrealized loss represents over 20 percent but no more than 35 percent of their amortized cost.
(e) Investments whose unrealized loss represents over 35 percent of their amortized cost.
(f) Losses of less than NIS 1 million.
(g) Amounts charged to the capital reserve as part of other comprehensive income, net, after tax effect.

Note 12 - Securities (cont.)

Additional Information on Unrealized Mortgage-Backed and Asset-Backed Available-for-Sale Securities in a Loss Position

	December 31 2019					
	Less than 12 months		12 months or more		Total	
	Fair value	Un-realized losses from fair value adjust-ments[(a)]	Fair value	Un-realized losses from fair value adjust-ments[(a)]	Fair value	Un-realized losses from fair value adjust-ments[(a)]
	In NIS millions					
Mortgage-backed securities (MBS)	112	-[(b)]	103	(3)	215	(3)
Other mortgage-backed securities (including REMIC, CMO and stripped MBS)	889	(5)	1,194	(2)	2,083	(7)
Asset-backed securities (ABS)	210	(1)	1,097	(2)	1,307	(3)
Total	1,211	(6)	2,394	(7)	3,605	(13)

	December 31 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Un-realized losses from fair value adjust-ments[(a)]	Fair value	Un-realized losses from fair value adjust-ments[(a)]	Fair value	Un-realized losses from fair value adjust-ments[(a)]
	In NIS millions					
Mortgage-backed securities (MBS)	209	(4)	1,899	(54)	2,108	(58)
Other mortgage-backed securities (including REMIC, CMO and stripped MBS)	1,017	(10)	2,454	(87)	3,471	(97)
Asset-backed securities (ABS)	1,152	(16)	940	(19)	2,092	(35)
Total	2,378	(30)	5,293	(160)	7,671	(190)

(a) Amounts charged to the capital reserve as part of other comprehensive income, net, after tax effect.
(b) Losses of less than NIS 1 million.

Note 12 - Securities (cont.)

Additional Information on Held-to-Maturity Mortgage-Backed Securities

	December 31							
	2019				2018			
	Amortized cost	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value	Amortized cost	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value
	In NIS millions							
Mortgage-backed securities (MBS)								
Pass-through securities	**1,538**	**12**	**(4)**	**1,546**	1,280	4	(4)	1,280
Of which: GNMA-guaranteed securities	**877**	**5**	**(4)**	**878**	1,100	4	(3)	1,101
Securities issued by FNMA or FHLMC	**661**	**7**	**-**	**668**	180	-	(1)	179
Other mortgage-backed securities (including CMO and Stripped MBS)	**5**	**-**	**-**	**5**	316	-	(13)	303
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**5**	**-**	**-**	**5**	134	-	(8)	126
Total mortgage-backed securities (MBS)	**1,543**	**12**	**(4)**	**1,551**	1,596	4	(17)	1,583
Total held-to-maturity mortgage-backed securities	**1,543**	**12**	**(4)**	**1,551**	1,596	4	(17)	1,583

Note 12 - Securities (cont.)

Additional Information on Mortgage-Backed and Asset-Backed Available-for-Sale Securities

	December 31							
	2019				2018			
		Accumulated other comprehensive income (loss)[(a)]				Accumulated other comprehensive income (loss)[(a)]		
	Amor-tized cost	Gains	Losses	Fair value	Amor-tized cost	Gains	Losses	Fair value
	In NIS millions							
Mortgage-backed securities (MBS)								
Pass-through securities	**2,627**	**21**	**(3)**	**2,645**	2,956	5	(58)	2,903
Of which: GNMA-backed securities	**538**	**3**	**(1)**	**540**	460	-	(1)	459
Securities issued by FNMA or FHLMC	**2,089**	**18**	**(2)**	**2,105**	2,496	5	(57)	2,444
Other mortgage-backed securities (including CMO and Stripped MBS)	**3,425**	**20**	**(7)**	**3,438**	4,398	10	(97)	4,311
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**3,036**	**14**	**(6)**	**3,044**	4,156	9	(97)	4,068
Total mortgage-backed securities (MBS)	**6,052**	**41**	**(10)**	**6,083**	7,354	15	(155)	7,214
Asset-backed securities (ABS)	**1,664**	**4**	**(3)**	**1,665**	2,254	-	(35)	2,219
Of which: Loans to non-private individuals - CLO-type bonds	**1,152**	**3**	**(2)**	**1,153**	1,547	-	(21)	1,526
Loans to non-private individuals - SBA-guaranteed securities	**438**	**-**	**(1)**	**437**	648	-	(14)	634
Total mortgage-backed and asset-backed available-for-sale securities	**7,716**	**45**	**(13)**	**7,748**	9,608	15	(190)	9,433

(a) Amounts charged to the capital reserve as part of other comprehensive income, net of tax effect.

Note 12 - Securities (cont.)

Additional Information on Mortgage-Backed and Asset-Backed Held-for-Trading Securities (cont.)

	December 31							
	2019				2018			
	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value
	In NIS millions							
Mortgage-backed securities (MBS)								
Pass-through securities	**3**	**-**	**-**	**3**	4	-	-	4
Of which: Securities issued by FNMA or FHLMC	**3**	**-**	**-**	**3**	4	-	-	4
Other mortgage-backed securities (including CMO and Stripped MBS)	**40**	**-**	**-**	**40**	49	-	(1)	48
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**-**	**-**	**-**	**-**	-	-	-	-
Total mortgage-backed securities (MBS)	**43**	**-**	**-**	**43**	53	-	(1)	52
Total asset-backed securities (ABS)	**110**	**1**	**-**	**111**	219	1	(1)	219
Total mortgage-backed and asset-backed held-for-trading securities	**153**	**1**	**-**	**154**	272	1	(2)	271

(a) Gains (losses) carried to the income statement.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision

A. Debts[(a)], Loans to the Public and Outstanding Loan Loss Provision

	December 31 2019					
	Loans to the public					
	Corporate	Housing	Private indivi-duals - Other	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debts:[(a)]						
Examined on specific basis	130,760	-	795	131,555	12,800	144,355
Examined on a collective basis[1]	42,589	84,421	27,241	154,251	282	154,533
[1]Of which: By extent of arrears	714[(c)]	84,220	-	84,934	-	84,934
Total debt[(a)2]	173,349	84,421	28,036	285,806	13,082	298,888
[2]Of which:						
Debt restructuring	729	-	290	1,019	-	1,019
Other impaired non-performing debts	1,491	-	21	1,512	-	1,512
Total impaired non-performing debts	2,220	-	311	2,531	-	2,531
Debts in arrears of 90 days or more	114	830	58	1,002	-	1,002
Other troubled debt	1,836	-	244	2,080	-	2,080
Total troubled debt	4,170	830	613	5,613	-	5,613
Outstanding loan loss provision in respect of debts:[(a)]						
Examined on specific basis	1,721	-	176	1,897	2	1,899
Examined on collective basis[3]	503	467	461	1,431	-	1,431
[3]Of which: By extent of arrears	-[(d)]	466[(b)]	-	466	-	466
Total loan loss provision[4]	2,224	467	637	3,328	2	3,330
[4]Of which: For impaired non-performing debts	372	-	167	539	-	539

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 299 million.
(c) Outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) Balances of less than NIS 1 million.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)], Loans to the Public and Outstanding Loan Loss Provision (cont.)

	December 31 2018					
	Loans to the public					
	Corporate	Housing	Private individuals - Other	Total - Public	Banks and governments	Total
	In NIS millions					
Recorded outstanding debts:[(a)]						
Examined on specific basis	121,621[(f)]	31	901	122,553	13,662[(f)]	136,215
Examined on a collective basis[1]	46,070[(f)]	80,860	34,681[(f)]	161,611	673	162,284
[1]Of which: By extent of arrears	913[(c)]	80,432	-	81,345	-	81,345
Less balances classified as held-for-sale assets[(d)]	(655)	-	(7,555)	(8,210)	(35)	(8,245)
Total debt[(a)2]	167,036	80,891	28,027	275,954	14,300	290,254
[2]Of which:						
Debt restructuring	1,318	8[(f)]	337[(f)]	1,663	-	1,663
Other impaired non-performing debts	1,063	23[(f)]	47[(f)]	1,133	-	1,133
Total impaired non-performing debts	2,381	31	384	2,796	-	2,796
Debts in arrears of 90 days or more	110[(f)]	862	51[(f)]	1,023	-	1,023
Other troubled debt	2,595[(f)]	-	540[(f)]	3,135	-	3,135
Less balances classified as held-for-sale assets[(d)]	(7)	-	(361)	(368)	-	(368)
Total troubled debt	5,079	893	614	6,586	-	6,586
Outstanding loan loss provision in respect of debts:[(a)]						
Examined on specific basis	1,792[(f)]	5	165[(f)]	1,962	3	1,965
Examined on collective basis[3]	478[(f)]	474	606[(f)]	1,558	-	1,558
[3]Of which: By extent of arrears	-[(e)]	473[(b)]	-	473	-	473
Less balances classified as held-for-sale assets[(d)]	(11)	-	(157)	(168)	-	(168)
Total loan loss provision[4]	2,259	479	614	3,352	3	3,355
[4]Of which: For impaired non-performing debts	459	4	150	613	-	613

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 295 million.
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.
(e) Balances of less than NIS 1 million.
(f) Reclassified.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Outstanding Loan Loss Provision

	For the year ended December 31 2019					
	Loan loss provision					
	Loans to the public					
	Corporate	Housing	Private individuals - Other	Total - Public	Banks and governments	Total
	In NIS millions					
Outstanding loan loss provision as at the beginning of the year	2,700	479	634	3,813	3	3,816
Loan loss expenses (income)	454	22	134	610	(1)	609
Accounting write-offs	(1,003)	(29)	(417)	(1,449)	-	(1,449)
Collection of debts written off in previous years	475	-	307	782	-	782
Write-offs, net	(528)	(29)	(110)	(667)	-	(667)
Adjustments from translation of financial statements	(16)	-	-	(16)	-	(16)
Disposal of an investment in a previously-consolidated subsidiary	(20)	(5)	(1)	(26)	-	(26)
Outstanding loan loss provision as at year end[1]	2,590	467	657	3,714	2	3,716
[1]Of which: For off-balance-sheet credit instruments	366	-	20	386	-	386

	For the year ended December 31 2018					
	Loan loss provision					
	Loans to the public					
	Corporate	Housing	Private individuals - Other	Total - Public	Banks and governments	Total
	In NIS millions					
Outstanding loan loss provision as at the beginning of the year	2,506[c]	450	741[c]	3,697	3	3,700
Changes recognized in equity[a]	21	-	-	21	-	21
Balance as at January 1 2018	2,527	450	741	3,718	3	3,721
Loan loss expenses	254[c]	32	233[c]	519	-	519
Accounting write-offs	(740)[c]	(4)	(453)[c]	(1,197)	-	(1,197)
Collection of debts written off in previous years	654[c]	-	287[c]	941	-	941
Write-offs, net	(86)	(4)	(166)	(256)	-	(256)
Adjustments from translation of financial statements	16	1	(1)	16	-	16
Less balances classified as held-for-sale assets[b]	(11)	-	(173)	(184)	-	(184)
Outstanding loan loss provision as at year end[1]	2,700	479	634	3,813	3	3,816
[1]Of which: For off-balance-sheet credit instruments	441	-	20	461	-	461

(a) Effect of first-time application of IFRS 9 on foreign subsidiaries.

(b) Comparative results of: Outstanding loan loss provision as at the beginning of the period is presented less assets classified as held-for-sale. For more information regarding comparative results of balances and changes classified as held for sale, please see Note 36F to the financial statements as at December 31 2018.

(c) Reclassified.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Outstanding Loan Loss Provision (cont.)

	For the year ended December 31 2017					
	Loan loss provision					
	Loans to the public					
	Corporate	Housing	Private individu-als - Other	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Outstanding loan loss provision as at the beginning of the year	2,708	473	778	3,959	1	3,960
Loan loss expenses (income)	(9)[(a)]	(13)	192[(a)]	170	2	172
Accounting write-offs	(785)[(a)]	(9)	(516)[(a)]	(1,310)	-	(1,310)
Collection of debts written off in previous years	612[(a)]	-	286[(a)]	898	-	898
Write-offs, net	(173)	(9)	(230)	(412)	-	(412)
Adjustments from translation of financial statements	(20)	(1)	1	(20)	-	(20)
Outstanding loan loss provision as at year end[1]	2,506	450	741	3,697	3	3,700
[1]Of which: For off-balance-sheet credit instruments	448	-	36	484	-	484

(a) Reclassified.

Note 14 - Loans to Governments

	December 31	
	2019	2018
	In NIS millions	
Loans to the Israeli Government	**11**	75
Loans to foreign governments	**733**	707
Total loans to governments	**744**	782

Note 15 - Investments in Investees and Details Thereof

A. Composition of Associates

	December 31	
	2019	2018[b]
	Associates	
	In NIS millions	
Total investments in equity securities accounted for by the equity method (including goodwill)	**765**	630
Of which – Gains accrued since the acquisition date	**184**	238
Items accrued in equity since the acquisition date:		
Adjustments for associates	**(30)**	(25)
Information regarding goodwill:		
Net original amount	**135**[a]	171[a]
Carrying value	**131**	161

B. Group's Share in Associates' Profits or Losses

	For the year ended December 31		
	2019	2018[b]	2017
	In NIS millions		
Group's share in associates' profits (losses)	**(19)**	39	94
Provision for deferred taxes	**4**	(3)	(2)
Group's share in profits (losses) of associates after tax effect	**(15)**	36	92

(a) Attribution of the acquisition price to assets and liabilities acquired by the subsidiary ceases following the reporting date.
(b) Including balances classified as held-for-sale assets. For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 15 - Investments in Investees and Details Thereof (cont.)

C. Details Regarding Major Investees

Consolidated subsidiaries[(a)]

		December 31			
		2019	2018	**2019**	2018
		Share in equity conferring rights to receive profits		Share in voting rights	
Company	Information about the company	In %			
In Israel					
Leumi Partners Ltd.[(c)]	Business and financial services	**100.0**	100.0	**100.0**	100.0
Leumitech Ltd.[(d)]	Loans to high-tech companies	**99.8**	99.8	**99.8**	99.8
Leumi Card Ltd.	Provision of credit card services	-	80.0	-	80.0
Leumi Capital Market Services Ltd.	Operating services provided to provident and mutual funds	**100.0**	100.0	**100.0**	100.0
Abroad					
Bank Leumi of Israel Corporation[(e)]	Holding company – registered in the USA	**84.7**	84.7	**84.7**	84.7
Bank Leumi USA[(e)]	General banking – registered in the USA	**84.6**	84.6	**84.6**	84.6
Bank Leumi (UK) PLC	General banking – registered in the UK	**100.0**	100.0	**100.0**	100.0
Leumi Re Limited	Insurance – registered in the Channel Islands	**100.0**	100.0	**100.0**	100.0
Bank Leumi Romania S.A.	General banking – registered in Romania	-	99.9	-	99.9

(a) Data regarding consolidated companies reflect the Bank's investment therein net of each company's investment in other Group companies and the Bank's share in their results of operations net of each company's share in the financial performance of operations of other Group companies in respect of said investments.
(b) Other equity investments include capital notes.
(c) The Bank's share in a capital reserve in respect of a benefit arising from NIS 176 million in shareholders' loans (2018 – NIS 161 million).
(d) The Bank's share in a capital reserve in respect of a benefit arising from NIS 82 million in shareholders' loans (2018 – NIS 82 million).
(e) The functional currency of Bank Leumi USA and Bank Leumi of Israel Corporation is other than NIS. Please see Note 1.D.
(f) Less than NIS 1 million.

D. Details Regarding Previously Consolidated Subsidiaries

On February 25 2019, the sale of Leumi Card Ltd. to Warburg Pincus Financial Holdings Israel Ltd. was completed. Following the loss of control, the Bank recognized a gain totaling NIS 314 million stated in the noninterest finance income item.

On July 10 2019, the transaction for the sale of the Bank's interests in Leumi Romania to First Bank S.A - a Romania-based bank controlled by Investment Fund JC Flowers - was completed. Following the loss of control, the Bank recognized a loss totaling NIS 99 million stated in the noninterest finance income item.

Investment in equity securities accounted for by the equity method		Other equity investments[b]		Contribution to net income (loss) attributable to the Bank's shareholders		Other comprehensive income (loss)		Guarantees on behalf of the Company in favor of entities outside the Company	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
In NIS millions									
1,915	1,783	**1,192**	1,065	**121**	168	**11**	17	**637**	714
1,019	1,014	**-**	-	**5**	12	**-**	-	**5**	-
-	1,513	**-**	-	**-**	185	**-**	(19)	**-**	-
30	49	**-**	-	**(1)**	-[f]	**-**	-	**-**	-
45	19	**-**	-	**(5)**	(6)	**1**	6	**-**	-
2,481	2,582	**-**	-	**215**	203	**(104)**	154	**7**	7
1,019	1,033	**244**	257	**(9)**	86	**(5)**	(6)	**-**	-
51	65	**-**	-	**(14)**	18	**-**	-	**-**	-
-	182	**-**	-	**2**	21	**-**	-	**-**	-

Note 16 - Buildings and Equipment

A. Composition

	Buildings and land[a]	Equipment, furniture and vehicles	Software costs	Total
	In NIS millions			
Cost of assets				
Balance as at December 31 2017	3,190	3,897	4,952	12,039
Additions	56	154	524	734
Derecognitions	(191)	(95)	(121)	(407)
Adjustments from translation of financial statements	8	2	18	28
Less balances classified as held-for-sale assets	(54)	(311)	(858)	(1,223)
Balance as at December 31 2018	3,009	3,647	4,515	11,171
Additions	**182**	**112**	**549**	**843**
Derecognitions	**(120)**	**(85)**	**(1,048)**	**(1,253)**
Adjustments from translation of financial statements	**(26)**	**(17)**	**(19)**	**(62)**
Balance as at December 31 2019	**3,045**	**3,657**	**3,997**	**10,699**
Depreciation and impairment losses				
Balance as at December 31 2017	1,869	3,008	4,176	9,053
Depreciation for the year	69	140	363	572
Derecognitions	(154)	(88)	(118)	(360)
Adjustments from translation of financial statements	1	1	8	10
Less balances classified as held-for-sale assets	(44)	(260)	(653)	(957)
Balance as at December 31 2018	1,741	2,801	3,776	8,318
Depreciation for the year	**61**	**144**	**395**	**600**
Derecognitions	**(85)**	**(85)**	**(1,044)**	**(1,214)**
Adjustments from translation of financial statements	**(21)**	**(17)**	**(10)**	**(48)**
Balance as at December 31 2019	**1,696**	**2,843**	**3,117**	**7,656**
Book value as at December 31 2017	1,321	889	776	2,986
Book value as at December 31 2018	1,268	846	739	2,853
Book value as at December 31 2019[b]	**1,349**	**814**	**880**	**3,043**

(a) Including installations and leasehold improvements.
(b) Including expenses capitalized in connection with costs of development of internally-used software totaling NIS 531 million as of December 31 2019 (2018 – NIS 406 million).

Note 16 - Buildings and Equipment (cont.)

B. Average Depreciation Rate

	December 31	
	2019	2018
Buildings and land	**2.36%**	2.69%
Equipment, furniture and vehicles	**14.90%**	14.02%
Software costs	**22.26%**	21.58%

C. The Group has lease or capitalized lease rights in land and equipment for a period of 1 to 99 years as from balance sheet date at the total amount (after depreciation) of NIS 137 million (December 31 2018 – NIS 137 million). The maximum remaining capitalized lease term is approx. 77 years.

D. Buildings and land not used by the Group, mainly leased buildings, are stated in the balance sheet at NIS 20 million (December 31 2018 – NIS 40 million).

E. Assets amounting to NIS 211 million (December 31 2018 – NIS 127 million) have not been registered in the Bank's name with the Land Registry Office, with the main reason being the lack of land registry arrangements in the area ("parcellation") and a building project that was not registered as a condominium by the contractor/developer.

F. The book balance of held-for-sale buildings and equipment as of December 31 2019 is NIS 4 million (December 31 2018 – NIS 23 million). No loss is expected from disposal of available-for-sale buildings and equipment in excess of the provisions made in respect thereof.

G. The buildings and equipment item includes leasehold improvements and lease rights, including payments in respect of some of the buildings for leased land.

Note 17 - Goodwill

A. Change in Goodwill

	Goodwill - Total
	In NIS millions
Cost	
As at December 31 2017	16
Adjustments from translation of financial statements	1
As at December 31 2018	17
Adjustments from translation of financial statements	**(1)**
As at December 31 2019	**16**
Amortization and impairment losses	
As at December 31 2017	-
Amortization for the year	-
As at December 31 2018	-
Amortization for the year	**-**
As at December 31 2019	**-**
Amortized balance as at December 31 2019	**16**
Book value	
As at December 31 2017	16
As at December 31 2018	17
As at December 31 2019	**16**

Note 17 - Goodwill (cont.)

B. Changes in Goodwill by Regulatory Operating Segments and Management Approach

	Foreign operations
	Other
	In NIS millions
As at December 31 2017	16
Translation differences	1
As at December 31 2018	17
Translation differences	**(1)**
As at December 31 2019	**16**

Note 18 - Other Assets

	December 31	
	2019	2018
	In NIS millions	
Deferred tax receivable, net – please see Note 8(D)	**5,939**	4,858
Excess of advance tax payments over current provisions	**21**	62
Central severance pay fund	**238**	377
Assets received for repaid loans	**2**	3
Balance of amortizable issuance expenses of bonds, promissory notes and subordinated bonds	**41**	34
Assets for activity in the MAOF Clearing House[(a)]	**46**	477
Value of insurance policy for foreign office	**397**	430
Prepaid expenses	**204**	248
Receivables	**192**	175
Other receivables and debt balances	**1,406**	198
Less balances classified as held-for-sale assets[(b)]	**-**	(220)
Total other assets	**8,486**	6,642

(a) Stated at fair value.
(b) For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 19 - Deposits by the Public

A. Types of Deposits by Location and Type of Depositor

	December 31	
	2019	2018
	In NIS millions	
In Israel		
Demand deposits		
Noninterest bearing deposits	**86,908**	88,151
Interest-bearing deposits	**135,846**	124,016[c]
Total demand deposits	**222,754**	212,167
Fixed deposits	**128,526**	126,710[c]
Less balances classified as held-for-sale liabilities[a]	**-**	(71)
Total deposits in Israel[1]	**351,280**	338,806
Outside Israel		
Demand deposits		
Noninterest bearing deposits	**8,118**	9,017[c]
Interest-bearing deposits	**6,287**	6,136[c]
Total demand deposits	**14,405**	15,153
Fixed deposits	**7,959**	10,755
Of which: Non-interest bearing	**-**	19
Total deposits outside Israel	**22,364**	25,908
Total deposits by the public	**373,644**	364,714
[1]Of which:		
Deposits by private individuals	**130,513**	130,669[b][c]
Deposits by institutional entities	**68,329**	61,126[c]
Deposits by corporations and others	**152,438**	147,011[c]

B. Deposits by the Public by Amount

	December 31	
	2019	2018
Maximum deposit	In NIS millions	
Up to 1	**103,709**	101,176[b]
From 1 to 10	**92,249**	95,364
From 10 to 100	**66,169**	64,272
From 100 to 500	**36,318**	37,944
Over 500	**75,199**	65,958
Total	**373,644**	364,714

(a) For more information, please see Note 36F to the financial statements as at December 31 2018.
(b) Excluding balances classified as held-for-sale liabilities in the amount of NIS 71 million.
(c) Reclassified.

Note 20 - Deposits by Banks

	December 31	
	2019	2018
	In NIS millions	
In Israel		
Commercial banks:		
Demand deposits	5,517	5,570[b]
Acceptances	391	701
Less balances classified as held-for-sale liabilities[a]	-	(1,150)
Central banks:		
Demand deposits	133	-
Outside Israel		
Commercial banks:		
Demand deposits	4	27
Fixed deposits	7	-
Acceptances	67	62
Central banks:		
Demand deposits	57	-
Total deposits by banks	6,176	5,210

(a) For more information, please see Note 36F to the financial statements as at December 31 2018.
(b) Reclassified.

Note 21 - Bonds, Promissory Notes and Subordinated Bonds

	Average duration[a]	Internal rate of return[b]	December 31	
			2019	2018
	Years	In %	In NIS millions	
Bonds and promissory notes:[c]				
In Israeli currency linked to the CPI	1.5	0.8	6,679	6,660
In Israeli currency unlinked to the CPI	4.0	2.4	2,880	2,289
Less balances classified as held-for-sale liabilities[h]	-	-	-	(1,130)
Subordinated bonds:[c][f][g]				
In Israeli currency unlinked to the CPI[e]	2.5[d]	2.4	2,741	3,020
In Israeli currency linked to the CPI[e]	2.4[d]	2.4	7,658	7,098
Less balances classified as held-for-sale liabilities[h]	-	-	-	(139)
Total bonds, promissory notes and subordinated bonds			19,958	17,798

(a) Average duration is the average of the payments periods weighted by the projected cash flows discounted at the internal rate of return.
(b) Internal Rate of Return is an interest rate that discounts the projected payments flow to the balance-sheet balance stated in the financial statements.
(c) The balance of discount net of the premium on bonds and subordinated bonds not yet carried to the income statement was offset against the bonds.
(d) The average duration as of interest rate change date is based on calculation of the effective average duration as calculated for purposes of the exposure to changes in interest rates. In unlinked subordinated bonds - 2.2 years, in linked subordinated bonds - 2.5 years (as at December 31 2018 - unlinked - 3.8 years. Linked and CPI - 2.8 years).
(e) Of which: Subordinated capital notes (non-tradable), which constitute CPI-linked Tier 2 capital totaling of NIS 3,522 million and non-CPI-linked totaling NIS 926 million (as at December 31 2018: CPI-linked - NIS 825 million and non-CPI-linked - NIS 926 million), which are convertible into equity securities under certain circumstances. Please see Note 25A.A.
(f) Of which: NIS 7,040 million is linked to the CPI and NIS 2,738 million - unlinked (2018 - NIS 5,344 million linked to the CPI and NIS 3,017 million non-linked) are listed for trade on the Tel Aviv Stock Exchange.
(g) Tier 2 capital according to Basel III's Transition Provisions.
(h) For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 22 - Other Liabilities

	December 31	
	2019	2018
	In NIS millions	
Deferred tax reserve, net – please see Note 8(D)	**82**	163
Excess of current provisions for income tax over advances paid	**625**	716
Excess of liabilities for employee benefits over plan assets – please see Note 23(I)	**12,856**	9,632
Prepaid income	**333**	345
Payables for credit card activities	**4,349**	5,918
Accrued expenses for salaries and related expenses	**766**	816
Market value of securities sold short	**68**	686
Loan loss provision for off-balance sheet items	**386**	477
Accrued expenses	**305**	406
Other provisions for employee benefits	**426**	365
Provision for paid leave	**215**	191
Cumulative jubilee vacation leave	**36**	41
Liabilities for activity in the MAOF Clearing House[a]	**32**	459
Other payables and credit balances	**684**	853
Less balances classified as held-for-sale liabilities[b]	**-**	(6,288)
Total other liabilities	**21,163**	14,780

(a) Stated at fair value.
(b) For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 23 - Employee Benefits

A. Signing of a Collective Agreement

Following are additional details about the main points of the collective agreement:

1. Salary updates - Annual salary updates at an average rate of 3.5 percent in each of the years 2019-2022.
2. A one-time salary bonus of 2 percent for participating in the efficiency plan, which will be paid in two installments: 1 percent in 2019 and 1 percent in 2020. All salary updates detailed in Sections 1 and 2 above will be differential, according to each employee's performance.
3. Adjusting Leumi to the new era in banking - A new collective agreement, with special terms and conditions, was signed, according to which up to 450 employees specializing in technology, digital and data will be employed, with the understanding that these fields are essential for taking the Bank forward towards the new era in banking, and due to the changes in the banking domain, where more and more transactions are technology-based. The new agreement will not include permanent employee status or additional components, and will provide the Bank with the flexibility needed to hire and manage its human capital in these areas.
4. The basic minimum monthly salary will be revised to NIS 6,200 in two phases, in 2019 and 2021.
5. An additional component will be included in the salaries of tenured employees eligible for contributory pension.
6. Various agreements were reached regarding revision of additional payments, global overtime arrangements as well as increasing the number of employees hired under individual professional agreements.
7. Transitioning of headquarters units to the Bank's Lod compound.
8. As part of the agreement, the Bank paid a one-time sign-on bonus of NIS 6,000 to each employee.

Note 23 - Employee Benefits (cont.)

Due to the collective agreement, the Bank will incur a one-time increase in its actuarial liabilities totaling NIS 526 million before tax (about NIS 329 million after tax) and a pre-tax increase of approximately NIS 100 million in salary expenses before tax in 2019 due to the one-time bonus, totaling approximately NIS 60 million, recorded in the second quarter of the year.

As part of the understandings underlying the collective agreement, the Bank announced its intention to increase its efficiency by 700 positions by the end of 2020. To implement the plan, the Bank's Board of Directors approved a voluntary retirement plan for approximately 250 employees. The plan will be completed no later than the end of 2019. On September 5 2019, due to the extensive response to the plan, the Bank's Board of Directors approved an expansion of the voluntary retirement plan, which allowed approximately 400 employees to retire early from the Bank by the end of 2019.

The main benefits offered under the plan, as a function of defined criteria, are as follows: An early retirement arrangement until the employee reaches legal retirement age for employees eligible for funded pension who meet the plan's criteria or increased severance pay.

The total cost of the plan is estimated by the Bank at approximately NIS 254 million before tax. The cost constitutes an actuarial loss, which will be stated in other comprehensive income. In subsequent reporting periods, the plan costs will be amortized to profit and loss on a straight-line basis over the average remaining service period of the employees expected to receive benefits under the plan. The Bank estimates the effect of the efficiency plan on capital adequacy to be immaterial.

B. Pension and Severance Pay

1. Overview

Ongoing contributions for an external pension plan have been made for employees who began working with the Bank as from January 1 1999 (hereinafter - "Generation B Employees") and have not yet received permanent employee status as at the signing of the 2000 special external pension agreement. The Bank shall have no pension obligations in respect of these employees, except for supplementary contributions towards severance pay, pursuant to the agreement.

Employees who started working for the Bank before January 1 1999 (hereinafter - "Generation A Employees") and were granted permanent employee status before the date of signing the aforementioned agreement, and who retire from the Bank at retirement age, except those mentioned above and in Section C below, may choose between receiving severance pay and pension savings or a pension from the Bank while waiving the severance pay and savings, all subject to the provisions of the law. Entitlement to a pension is calculated at a rate of 40 percent in respect of the first 15 years of employment, i.e. 2.67 percent per annum, and 1.5 percent for each additional year, up to a maximum rate of 70 percent.

Provisions for pension are based on an actuarial calculation that factors in the retirement age pursuant to the Retirement Age Law, 2004. The actuarial calculation was made according to the accrued benefits valuation method, taking into account various parameters including the probability, based on past experience, as to the rate of utilization of pension benefits and the rate of withdrawal of severance pay and pension savings, disability benefits, etc.

The results of a study carried out in 2017, which relies on past experience, showed that approximately 3.5 percent withdraw severance pay and pension savings upon reaching retirement age; the rate of withdrawal in early retirement was approximately 10%. Furthermore, those who retire upon reaching retirement age will capitalize approximately 20 percent of the liability, whereas those who retired early will capitalize approximately 25 percent of the liability. The result of the study led to increasing the liability by NIS 80 million, carried to other comprehensive income.

Note 23 - Employee Benefits (cont.)

The liability is accrued on a straight-line basis until the early retirement age (the average of actual retirement ages of Generation A Employees in recent years, both men and women). After this date, additional benefits attributed to subsequent years are accrued based on the formula of Generation A Employees' benefit plan. The calculation also factors in a realistic pay increase, which is based on past experience and varies according to the employee's age.

The actuarial calculation is based on revised directives of the Chief Actuary at the Ministry of Finance regarding mortality rates, published in November 2019, which were established for insurance companies by the Commissioner of the Capital Market, Insurance and Savings and applied to the Bank's employees.

The employee benefits liability amount is affected by several key variables, which include market variables (interest capitalization rates of the liabilities for various periods) and actuarial variables, with some of the actuarial variables being associated with employees' behavior. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables. For example, in case of a sharp interest rate hike in the Israeli economy, government bond yields may rise (lowering the pension liability amounts), causing the number of employees opting for the pension fund track to decrease (a decision which will also decrease the Bank's pension liability amounts).

In this context, it should be noted that on November 6 2019, the Capital Market Insurance and Savings Commissioner published a circular regarding the updating of demographic assumptions in life insurance and updating of the improvement in life expectancy model. The circular had no material effect on the total liabilities for employees.

The Bank's actuarial liability for pension was calculated based on the yield on Israeli Government bonds plus an average spread on corporate bonds rated AA or higher as of the reporting date. For practical reasons, it was decided that the calculation of the spread will be based on spreads of US corporate bonds.

During 2019, a net actuarial loss of NIS 2.2 billion was reclassified from tax stated directly in shareholders' equity to change in employee benefits, mainly on the back of the interest rate decrease, salary agreement and voluntary retirement plan. This change reflects a change net of tax in liabilities of approx. NIS 3 billion less a change net of tax in plan assets and amortization of in the amount of NIS 0.8 billion mainly as a result of excess return over the expected return on the back of the high returns in the capital market and on the back of the transition to the paying fund in respect of the retirees (NIS 0.3 billion, net of tax) and current amortization of the capital reserve to the income statement. In 2019, the following were recorded in the income statement: An expense for cost of service in the amount of NIS 149 million; an expense for interest cost in the amount of NIS 640 million, less expected return on plan assets in the amount of NIS 364 million; and an expense for current amortizations in the amount of NIS 401 million.

The Bank's pension liability for retired employees who have opted for pension and the Bank's liability mentioned in Section B. below are covered by a pension provision calculated according to the present value of the liability, as calculated by an actuary.

2. Benefits for "Leumi Alumni"

In addition to their pension and/or pension savings and severance pay, "Leumi Alumni" are entitled to further benefits comprising mainly holiday gifts, tuition for the retiree's children and medical tests.

Leumi Alumni are former employees who left their jobs at the Bank after 25 years, or whose age is at least 50 and have left the Bank after 15 years of service.

According to an actuarial calculation, the amount accrued as of December 31 2019 for expected costs in respect of the above benefits payable after the employment period totals NIS 320 million (December 31 2018 – NIS 255 million).

Note 23 - Employee Benefits (cont.)

C. Employment and Retirement Terms and Conditions of Employees with Personal Employment Contracts

1. Overview

The accepted terms and conditions of employment and retirement for employees with personal contracts with the Bank include fixed compensation components, such as a monthly salary, social benefits, related benefits, such as study fund, health insurance, insurance arrangements, exemption and indemnification, as well as terms and conditions of retirement and severance and termination of employment, such as paid early notice. Employees who have personal contracts with the Bank also enjoy variable compensation components, such as any award that is not given on a regular basis, i.e., annual performance bonus, qualitative personal mission bonus, and special bonus for special events. Key employees who are not officers may be entitled to additional bonuses such as success bonus and outstanding excellence award. Officers may also be entitled to, in addition to the above, an adaptation bonus of up to 6 monthly salaries on termination of their employment in the Bank. In addition, officers with the Bank may be required to sign a non-compete clause of up to 6 months from leaving the Bank.

Retirement and pension arrangements for employees with personal contracts

The retirement and pension benefits of Bank employees with personal contracts are determined according to their classification into the Bank’s employment period categories (Generation A, Generation B and Generation C) and according to the circumstances under which their employment ended (such as redundancy, resignation or retirement). The Bank's retirement arrangement with these employees includes entitlement to severance pay ranging between 100 percent and 250 percent, in addition to the funds accrued in their pension savings. This right is in lieu of the employees' legal severance pay benefits and includes the funds and benefits accrued in the employee’s severance pay funds during his/her employment period (including any gains).

In case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the terms and conditions of the personal contract), Generation A Employees may waive the benefits and funds which they have accrued in their severance pay and pension savings (in respect of Generation A benefits) in return for being eligible for an unfunded pension from the Bank (hereinafter - the “Pension Annuity"). Employees are eligible for a Pension Annuity on reaching retirement age or, alternatively - subject to meeting seniority and age criteria - to receive the Pension Annuity immediately (in full or in part, as relevant).

In case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the personal contract's terms and conditions) and subject to meeting seniority and/or age conditions, Generation B employees may opt to receive an Interim Annuity from the Bank (in full or in part, as relevant) in lieu of severance pay, until they become eligible for the amount saved pursuant to the pension fund's Articles of Association and the provisions of the law.

The percentage of the Pension Annuity or interim annuity, as relevant, is 2.67 percent per annum for the first 15 years of employment. Subsequently – 1.5 percent per annum for each year until a personal contract is signed; 2 percent per annum for each year of employment under a personal contract and 2.5 percent per annum for each year of service as member of management, up to a maximum of 70 percent. Eligibility for Pension Annuity from the Bank is subject to the employee having all the benefits and funds accrued in the pension savings and severance pay fund (in respect of Generation A benefits) in his/her name available as the source from which the Pension Annuity will be paid by the Bank as aforesaid.

The maximum additional expense incurred by the Bank, assuming that the employees included in this section are made redundant effective immediately and according to the eligibility for each period, shall total NIS 153 million (including salary tax payable on pension) (2018 – NIS 161 million). The decrease is due to changes in assumptions regarding the date and likelihood of termination.

Note 23 - Employee Benefits (cont.)

2. President and CEO

Incoming President and CEO

Mr. Hanan Friedman serves as an officer with the Bank as of September 1 2014, and as the Bank's President and CEO from November 1 2019 (the "Commencement Date") On December 23 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO, which become effective on the Commencement Date. The service and employment terms and conditions of the President and CEO are in line with the Bank's Officer Compensation Policy, and in line with Directive 301A and the limitations prescribed in the Compensation Limitation Law.

The President and CEO's service and employment terms and conditions:

1. **Salary** – as from the Commencement Date, the President and CEO is entitled to a monthly salary totaling NIS 228,000, linked to the increase in the known Consumer Price Index (CPI) on the Commencement Date[1] and may also be linked to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter: The "Salary").

   The President and CEO may be eligible, subject to the approval of the Compensation Committee and the Board of Directors, to an additional fixed compensation component that will be calculated such that the total amount of the compensation components payable to the President and CEO (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set in Section 2(b) of the Compensation Limitation Law[2] No provisions for social benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

2. **Termination of employment by giving advance notice** – The employment term of the President and CEO's employment agreement is indefinite. Each of the parties may terminate the agreement by giving a 6-month advance notice.

3. **Contributions and deductions for pension, severance pay and social benefits** - the Bank shall make contributions towards pension and disability insurance for the President and CEO; these contributions, amounting of 7.5 percent of the President and CEO's Salary, will be transferred, on a monthly basis, to managers' insurance policies, provident funds and/or a pension arrangement, as agreed between the parties from time to time; the Bank will also deduct an additional 6 percent of the President and CEO's Salary in respect of pension contributions (hereinafter - "Pension Contributions"). The Bank will make contributions towards severance pay, which will be transferred, on a monthly basis, to a severance pay fund, at a rate of $8^1/_3$ percent of the Salary[3] of the President and CEO; the Bank will also make monthly contributions to a study fund for the President and CEO at a rate of 7.5 percent of the Salary; at the same time, the Bank shall deduct a total of 2.5 percent, at the expense of the President and CEO, from the Salary, up to the maximum tax deductible amount and shall remit it to a study fund.

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1 It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

2 It should be noted that the contributions for severance pay and pension as required by law will not be included in the calculation of the ceilings set in the Compensation Limitation Law. It should also be noted that since the total cost of the President and CEO's compensation exceeds the ceiling set in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

3 Including all components in respect of which severance pay is payable by law.

4. Note 23 - Employee Benefits (cont.)

5. **Retirement terms and conditions -** as aforesaid, the President and CEO serves as an officer with the Bank as of September 1 2014. On the date on which the Compensation Limitation Law entered into effect, on October 12 2016 (the "Effective Date") the service and employment terms and conditions of office and employment of the incumbent Bank officers according to the provisions of the said Law, including the service and employment terms and conditions of Mr. Friedman, including his benefits in the event of retirement. Therefore, in the event of retirement, the President and CEO will be entitled to retirement benefits for his service term with the Bank from the Commencement Date of his service with the Bank until the Effective Date, and to retirement benefits for his terms of office with the Bank from the Effective Date until the termination of his employment relations with the Bank, as specified below: In the event that the employment relations between the President and CEO and the Bank are severed (dismissal, resignation or retirement), the President and CEO will be entitled to the following benefits (cumulatively):
   (1) For the term of the President and CEO's employment as of the Effective Date: The President and CEO will be entitled to severance pay in an amount equal to 100%[4] of the last known monthly Salary on the termination of employment relations with the Bank multiplied by the number of years from the Commencement Date until the termination date of the employment relations as aforesaid, plus the funds and benefits accumulated in the pension funds from pension contributions made by the Bank and by the President and CEO in respect of the President and CEO's term of employment during the abovementioned term (from the Effective Date until the termination date of the employment relations).
   (2) For the term of the President and CEO's employment until the Effective Date: The President and CEO will be entitled to severance pay in an amount equal to 250 percent of the monthly Salary immediately prior to the Effective Date multiplied by the number of years he will have been employed by the Bank until the Effective Date, plus the funds and benefits accumulated in the pension funds from pension contributions made by the Bank and by the President and CEO for the President and CEO's term of employment during the above period (until the Effective Date).[5] In addition, the President and CEO will also be entitled to an adaptation bonus in the amount of the adaptation bonus allocated to him in the Bank's books immediately prior to the Effective Date.[6]
6. **Non-compete** - The President and CEO will undertake towards the Bank to maintain a 6 month non-compete period from the date of termination of his office (hereinafter: The "Non-Compete Period"). During the Non-Compete Period the President and CEO will be entitled to receive a Salary and all other related benefits, excluding contributions for social benefits.
7. **Exemption, insurance and indemnification -** The President and CEO will be entitled to exemption, insurance and indemnification of officers, as is customary at the Bank, from time to time.
8. **Paid leave, convalescence pay and sick leave** – as normally paid to the Bank's senior officers according to Bank's procedures.
9. **Related benefits** - The President and CEO is entitled to benefits as is customary for senior executives of the Bank.
10. **Provisions regarding annual bonuses -** The President and CEO will not be entitled to an annual variable bonus as of the Commencement Date. However, it is clarified that the President and CEO may be entitled to an annual variable bonus for a relative part of 2019 for the period up to the Commencement Date.

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4 Entitlement to severance pay as aforesaid is conditional on the transfer to the Bank of the contributions towards severance pay made during that period, or of an amount equal to the amount of those contributions.

5 Entitlement to severance pay as aforesaid is subject to the transfer to the Bank of the contributions to the severance pay fund.

6 Six times the monthly Salary immediately prior to the Effective Date.

Note 23 - Employee Benefits (cont.)

Departing President and CEO

Ms. Rakefet Russak-Aminoach served as the President and CEO of the Bank from May 1 2012 to October 31 2019 (hereinafter: The "End Date"). In November 2016, the Bank's general meeting approved a revision to the service and employment terms and conditions of the Bank's President and CEO which were in effect since October 12 2016 (hereinafter: The "Commencement Date"). The aforesaid service and employment terms and conditions of the departing President and CEO are in line with the Bank's former Officers Compensation Policy, which was also approved by the General Meeting in November 2016.

As part of the revision to the departing President and CEO's service terms and conditions of service and employment as aforesaid, the overall compensation of the departing President and CEO was adjusted and reduced in accordance with the Compensation Limitation Law. As part of the aforesaid revision, the departing President and CEO waived her entitlement to continue accumulating towards unfunded pension benefits from the Bank in accordance with employment terms and conditions of Generation A Employees in respect of the period after the Commencement Date; any pension benefits accrued in favor of the President and CEO up until the Commencement Date were retained and frozen and the accumulated amount was deposited in an external fund.

The departing President and CEO's service and employment terms and conditions:

1. **Salary** – as from the Commencement Date, the departing President and CEO is entitled to a monthly salary totaling NIS 195,400, linked to the increase in the known Consumer Price Index (CPI) on the Commencement Date as well as to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter: The "Salary").

   The departing President and CEO may be eligible, subject to the approval of the Compensation Committee and the Board of Directors, to an additional fixed compensation component that will be calculated such that the total amount of the compensation components payable to the departing President and CEO (excluding compensation the payment of which is not expected under generally accepted accounting principles) does not exceed the ceiling set in Section 2(b) of the Compensation Limitation Law[7] No provisions for social benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

2. **Termination of employment by giving an advance notice** – the employment term of employment agreement of the departing President and CEO was indefinite. Each of the parties was entitled to terminate the agreement by giving a 6-month advance notice.

3. **Contributions and deductions for pension, severance pay and social benefits** - the Bank made contributions towards pension and disability insurance for the departing President and CEO; these contributions, amounting of 7.5 percent of the President and CEO's Salary, were transferred, on a monthly basis, to managers' insurance policies, provident funds and/or a pension arrangement, as agreed between the parties from time to time; the Bank also deducted an additional 6 percent of the departing President and CEO's Salary in respect of pension contributions (hereinafter - "Pension Contributions"). The Bank made contributions towards severance pay, which were transferred, on a monthly basis, to a severance pay fund, at a rate of $8^1/_3$ percent of the Salary[8] of the departing President and CEO; the Bank also made monthly contributions to a study fund for the departing President and CEO at a rate of 7.5 percent of the Salary; at the same time, the Bank deducted a total of 2.5 percent, at the expense of the President and CEO, from the Salary, up to the maximum tax deductible amount and remitted it to a study fund.

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7 It should be noted that the contributions for severance pay and pension as required by law were included in the calculation of the ceilings set in the Compensation Limitation Law. It should also be noted that as a result of the total cost of the departing President and CEO's compensation exceeding the ceiling set in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

8 Including all components in respect of which severance pay is payable by law.

Note 23 - Employee Benefits (cont.)

4. **Departing President and CEO's benefits upon severance of employment relations –** In the event severance of employment relations (due to redundancy, resignation or retirement), the departing President and CEO is entitled to all of the following benefits: In respect of her employment as from the Commencement Date, the departing President and CEO is entitled to severance pay amounting to 100 percent of her last monthly Salary multiplied by the number of years that elapsed since the Commencement Date until the End Date, plus the pension savings and benefits accrued in the pension funds in respect of severance pay contributions made by the Bank and the departing President and CEO in respect of her employment period during the period from the Commencement Date through the End Date.

5. In respect of departing President and CEO's employment through the Effective Date, she is entitled to the following benefits: (a) Benefits according to Generation A terms and conditions: the benefits accrued in her name until the Commencement Date in respect of the Bank's immediate pension annuity obligation; and (b) benefits according to Generation B terms and conditions: the departing President and CEO will be entitled to funds and benefits accrued in the pension fund in respect of pension provisions by the Bank and by the departing President and CEO in respect of her employment through the Commencement Date under Generation B terms and conditions; the departing President and CEO will also be entitled to the benefits she accrued through the Commencement Date in respect of the Bank's Interim Annuity until she has reached retirement age in respect of Generation B terms and conditions.

6. **Adaptation grant and non-compete bonus** - the President and CEO has committed to a 6-month non-compete period as from the actual termination date (hereinafter - the "Non-Compete Period"). During the Non-Compete Period, the President and CEO is entitled to receive the Salary and all other related benefits, excluding provisions for social benefits. Upon termination, the President and CEO is also entitled to an adaptation bonus of 6 monthly Salaries. According to the salary amount of the departing President and CEO prior to the 2016 update, which was deposited in an external fund, as detailed above.

7. **Exemption, insurance and indemnification -** The departing President and CEO will be entitled to exemption, insurance and indemnification of officers, as is customary at the Bank, from time to time.

8. **Paid leave, convalescence pay and sick leave** – as normally paid to the Bank's senior officers according to Bank's procedures.

9. **Related benefits** - The departing President and CEO is eligible for the benefits normally given to the Bank's senior officers.

10. **Provisions regarding annual bonuses -** The departing President and CEO was not entitled to an annual variable bonus as of the Commencement Date.

3. The Bank's Chairman of the Board

Incoming Chairman of the Board

Dr. Haj Yehia serves as a director of the Bank as of September 30 2014, and began serving as Chairman of the Board (the "Chairman" or "Chairman of the Board") on July 22 2019 (in this Section, the "Commencement Date").

On December 23 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO, which become effective on the Commencement Date. The service and employment terms and conditions of the Chairman of the Board as aforesaid are in compliance with the Bank's officer compensation policy.

Note 23 - Employee Benefits (cont.)

The service terms and conditions of the Chairman of the Board were set pursuant to Directive 301A, which stipulates that the Chairman of the Board will only be entitled to a fixed compensation, social benefits and related expenses.

The Chairman of the Board's service and employment terms and conditions:

1. **Salary** – as of the Effective Date, the Chairman of the Board is entitled to a monthly salary totaling NIS 228,000, linked to the increase in the known CPI as at the Effective Date[10], and which may be linked to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter - the "Salary").

2. **Fixed compensation subject to legal provisions** - The Chairman of the Board may be entitled, subject to the approval of the Audit Committee and the Board of Directors, to an additional fixed compensation component. This component will be calculated such that the total amount of the compensation components payable to the Chairman of the Board (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set in Section 2(b) of the Compensation Limitation Law.[11] No provisions for social benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

3. **Term of employment and end thereof -** The terms and conditions of employment of the Chairman of the Board apply to his employment term from the Commencement Date (the "Employment Period") and shall be in effect as long as he serves as the Bank's Chairman of the Board, or as required under the directive of the Banking Supervision Department in this matter until the end of 2020[12] or another date which shall be determined in accordance with the provisions of the Banking Supervision Department. During the Employment Period, each of the parties may terminate the agreement by giving a 6-month advance notice.

4. **Contributions and deductions for pension, severance pay and social benefits**

   4.1 The Bank shall make contributions towards pension[13] for the Chairman of the Board, which shall be remitted each month to managers' insurance fund, provident funds and/or pension arrangement, as agreed by the parties, from time to time, at a rate of 7.5 percent; the Bank shall also deduct another 6 percent from the Chairman of the Board's Salary for pension (hereinafter - the "Pension Contributions").

   4.2 The Bank will make contributions towards severance pay, which will be transferred, on a monthly basis, to a severance pay fund; the amount of the contributions will be equal to $8^{1/3}$ percent[14] of the Chairman of the Board's Salary.

   4.3 The Bank will also make monthly contributions to a study fund in respect of the Chairman of the Board of Director at an amount equal to 7.5 percent of the Salary; at the same time, the Bank shall deduct a total equal to 2.5 percent from the Salary and will transfer the amount to a study fund.

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10 It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

11 It should be noted that the contributions for severance pay and pension as required by law will not be included in the calculation of the ceilings set in the Compensation Limitation Law. It should also be noted that since the total cost of the Chairman of the Board's compensation exceeds the ceiling set in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

12 According to the letter of the Supervisor of Banks dated August 1 2020, "Principles for Determining Service Terms and Conditions of a Chairman of the Board of a Bank without a Controlling Core".

13 Including disability insurance, provided such insurance is taken out.

14 Including all components in respect of which severance pay is payable by law.

Note 23 - Employee Benefits (cont.)

5. **Termination benefits** - the Chairman of the Board's benefits upon tenure termination will be as follows:

   5.1. **Severance pay and pension savings –** Upon termination of the Chairman of the Board's service for any reason whatsoever, he shall be entitled to the following benefits: The Chairman of the Board will be entitled to severance pay amounting to 100 percent[15] of his last monthly Salary multiplied by the number of years (or any portion thereof) of service as the Chairman of the Board during the employment period, plus the funds and benefits accrued in the pension funds in respect of severance pay contributions by the Bank and the Chairman of the Board in respect of his service during the employment period.

   5.2 **Non-compete** - The Chairman of the Board will undertake towards the Bank to maintain a 6 month non-compete period after the date of termination of his office (hereinafter: The "Non-Compete Period"). During the Non-Compete Period the Chairman of the Board will be entitled to receive a Salary and all other related benefits, excluding contributions for social benefits.

6. **Exemption, insurance and indemnification** - the Chairman of the Board is eligible for officers' exemption, insurance and indemnification, as is customary in the Bank from time to time.

7. **Paid leave, recreation pay and sick leave** – as is customary in the Bank.

8. **Related benefits** - the Chairman of the Board of Directors is eligible for the benefits as is customary in the Bank.

9. **Provisions regarding annual bonuses** - the Chairman of the Board is not entitled to a variable annual bonus.

Departing Chairman of the Board

Mr. David Brodet was first elected to serve as director in the Bank and as the Chairman of the Board of Directors in 2010. In 2013 and 2016, the Chairman of the Board was elected to serve as director in the Bank and as the Chairman of the Board of Directors for further two three-year tenures. Mr. Brodet ended his term of office as director and Chairman of the Board of Directors on July 21 2019 (hereinafter: The "End Date").

In November 2016, the Bank's general meeting approved the revision of the departing Chairman of the Board of Directors' service and employment terms and conditions, which were effective as from July 22 2016, the date on which Mr. Brodet started his last term as director and Chairman of the Board in the Bank (hereinafter: The "Commencement Date"). The service and employment terms and conditions of the departing Chairman of the Board as aforesaid are in compliance with the Bank's previous officer compensation policy, which was also approved by the General Meeting held in November 2016.

The service terms and conditions of the departing Chairman of the Board were revised pursuant to Directive 301A, which stipulates that the departing Chairman of the Board will only be entitled to a fixed compensation, social benefits and related expenses, as is customary with regard to Bank's officers. Furthermore, and in view of the Compensation Limitation Law, the departing Chairman of the Board's terms and conditions of service and employment were adjusted and reduced such that they comply with the provisions of that law.

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15 Entitlement to severance pay as aforesaid is subject to the transfer to the Bank of the contributions for severance pay made or an amount equal to the amount of such contributions.

Note 23 - Employee Benefits (cont.)

The departing Chairman of the Board's service and employment terms and conditions:

1. **Salary** – As of the Commencement Date, the departing Chairman of the Board was entitled to a monthly salary totaling NIS 168,200, linked to the increase in the known CPI as at the Commencement Date[16] and linked to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter - the "Salary").
2. **Fixed compensation** - The departing Chairman of the Board was entitled, subject to the approval of the Audit Committee and the Board of Directors, to an additional fixed compensation component. This component was calculated such that the total amount of the compensation components payable to the departing Chairman of the Board (excluding compensation the payment of which is not expected under generally accepted accounting principles) did not exceed the ceiling set in Section 2(b) of the Compensation Limitation Law.[17] No provisions for social benefits were made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.
3. **Period of employment and end thereof -** During the Employment Period, each of the parties was entitled to terminate the agreement by giving a 6-month advance notice.
4. **Contributions and deductions for pension, severance pay and social benefits**

   4.1. The Bank made contributions towards pension for the Chairman of the Board, which were remitted each month to managers' insurance fund, provident funds and/or pension arrangement, as agreed by the parties, from time to time, at a rate of 6.5 percent; the Bank shall also deduct another 6 percent from the Chairman of the Board's Salary for pension (hereinafter - the "Pension Contributions"). Alternatively, the Chairman of the Board was entitled to opt, at his sole discretion, to receive, in lieu of some or all of the pension contributions, amounts that should have been contributed by the Bank towards his pension.

   4.2. The Bank made contributions towards severance pay, which were transferred, on a monthly basis, to a severance pay fund; the amount of the contributions will be equal to $8^{1/3}$ percent[18] of the departing Chairman of the Board's Salary.

   4.3. The Bank made monthly contributions to a study fund in respect of the departing Chairman of the Board of Director at an amount equal to 7.5% of the Salary; at the same time, the Bank deducted a total equal to 2.5% from the Salary and remitted the amount to a study fund.
5. **Termination benefits** - the departing Chairman of the Board's benefits upon tenure termination are as follows:

   5.1. **Severance pay and pension savings –** upon termination of the departing Chairman of the Board's service for any reason whatsoever, he is entitled to the following benefits:

16 It is hereby clarified, that if the CPI decreases, the Salary did not decrease accordingly.

17 It should be noted that the contributions for severance pay and pension as required by law were included in the calculation of the ceilings set in the Compensation Limitation Law. It should also be noted that as a result of the total cost of the Chairman of the Board's compensation exceeding the ceiling set in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

18 Including all components in respect of which severance pay is payable by law.

Note 23 - Employee Benefits (cont.)

A. In respect of his service until the Commencement Date - the departing Chairman of the Board is entitled to severance pay amounting to 150 percent of his last monthly Salary prior to the Commencement Date multiplied by the number of years (or any portion thereof) until the Commencement Date, plus the funds and benefits accrued in the pension fund in respect of pension and severance pay contributions by the Bank and the departing Chairman of the Board in respect of the period through the Commencement Date.

B. In respect of his service as from the Commencement Date through the termination of his service (hereinafter - the "Additional Period"), the departing Chairman of the Board will be entitled to severance pay amounting to 100 percent[19] of his last monthly Salary multiplied by the number of years (or any portion thereof) of service as the departing Chairman of the Board during the Additional Period, plus the funds and benefits accrued in the pension funds in respect of severance pay contributions by the Bank and the departing Chairman of the Board in respect of his service during the Additional Period.

5.2. **Adaptation bonus -** As of the End Date, the departing Chairman is entitled to an adaptation bonus at an amount equal to 6 monthly salaries[20]. The Chairman is bound by a non-compete clause for a period of 6 months from the End Date.

6. **Exemption, insurance and indemnification** - The departing Chairman of the Board is eligible for officers' exemption, insurance and indemnification, as is customary in the Bank from time to time.
7. **Paid leave, recreation pay and sick leave** – as is customary in the Bank.
8. **Related benefits** - The departing Chairman of the Board of Directors was eligible for the benefits as is customary in the Bank.
9. **Provisions regarding annual bonuses** - As of the Commencement Date, the departing Chairman of the Board was not entitled to a variable annual bonus.

D. Provision for Paid Leave

The other liabilities item includes a provision in respect of unutilized paid leave, calculated based on the last salary plus related benefits. The Bank also provides for sick leave that will be converted to paid leave, calculated on an actuarial basis. The provisions amount to NIS 215 million (December 31 2018 – NIS 191 million).

E. Pension and Severance Pay for the Bank's Employees

The Bank pays contributions towards severance pay and pension for Generation A Employees into the Bank employees' provident fund towards severance pay and pension, which is administered by a management company held by fund's members.

In March 2015, the Bank and institutional entities from the Migdal Group entered into an agreement to transfer the severance pay and pension funds which accumulated or will be accumulated as from 2008 and thereafter in the name of Generation A Employees who opted or will opt to receive a (full or partial) pension annuity on retirement, to a paying fund administered by Migdal.

Furthermore, on March 25 2015, the Bank received the Tax Authority's approval to transfer the severance pay funds accrued in the Bank's main severance pay fund to the severance pay component in personal provident funds in the employees' name; terms and a mechanism for withdrawal of excess funds from the main severance pay fund were also set.

[19] Entitlement to severance pay as aforesaid is conditional on the transfer to the Bank of the contributions towards severance pay made in respect of the Additional Period, or of an amount equal to the amount of the contributions.
[20] Including all other related benefits, but excluding social benefits.

Note 23 - Employee Benefits (cont.)

Retirement and pension benefits are determined according to classification of employment periods at the Bank: Employees who began working at the Bank from January 1 1999 make ongoing pension and provident fund contributions, for which the Bank has no pension liability, except for supplementary severance pay. Employees who began working at the Bank prior to January 1 1999 may choose - on reaching retirement age, under certain circumstances - to either receive severance pay and compensation from the Bank and a pension annuity or other social security arrangement, or a combination of the above, all in accordance with, and subject to, the provisions of the various agreements applicable to these employees. For these employees, the Bank deposits contributions in the employees' provident, pension and severance pay funds, which are managed by a management company held by the fund's members. During 2019, the Bank entered into an agreement with additional institutional entities to transfer the severance pay and pension funds which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a social security arrangement to a paying fund. The Bank also entered into an agreement to purchase an insurance policy for the retirees, payable by the Bank.

F. The Bank’s Officer Compensation Policy

On December 23 2019, the Bank’s general meeting approved the revised compensation policy for the Bank’s officers (hereinafter - the “Compensation Policy”). The Compensation Policy shall be effective from the beginning of 2020 to the end of 2022. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank’s officers’ service and employment terms and conditions, on Proper Conduct of Banking Business Directive 301A regarding compensation policy of a banking corporation and on the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the “Compensation Limitation Law”).

The Compensation Policy sets out a framework for the compensation of Bank’s officers and refers, among other things, to fixed compensation components, which is the principal compensation paid to officers and includes: A fixed salary, social benefits, related benefits, as well as severance and retirement benefits, as well as variable compensation components which include any compensation which is not fixed in nature, such as a measurable annual performance bonus comprised of a bonus component based on the Bank’s return on equity, based on the weighted earnings per share of the Bank compared to the return of the TA-Banks Index and a bonus component based on the Bank’s weighted efficiency ratio; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officer’s areas of responsibility; and a retention bonus. It should be noted that directors, including the Chairman of the Board, are not entitled to variable annual bonuses. The Bank’s President and CEO is not entitled to an annual variable bonus, unless decided otherwise by the Bank’s competent organs.

The total amount payable in variable bonuses to an officer is limited to 8 monthly salaries per year; (under special circumstances, the Audit Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officer).

The Board of Directors may also reduce the amount of the variable annual bonus, after obtaining the approval of the Audit Committee, at its discretion. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment to officers of variable bonus, whose payment is subject to the Bank’s meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately before each vesting date.

The Compensation Policy includes various mechanisms and arrangements designed to allow the Audit Committee and the Board of Directors to revise the Compensation Policy or service and employment terms and conditions of officers to whom the Compensation Policy applies, without being required to obtain the approval of the Bank’s general meeting for every such revision. Such revisions will be made if - in the opinion of the Compensation Committee and the Board of Directors - justified under the circumstances on revision date.

Thus, for example, according to the Compensation Policy, the Audit Committee and the Board of Directors will be entitled to link the lowest compensation paid by the Bank for purposes of Section 2(B) of the Compensation Limitation Law to the maximum compensation of Bank's officers such that the total compensation amount to officers (excluding compensation the payment of which is not expected under generally accepted accounting principles) and the lowest compensation paid by the Bank at that time will increase by the same rate. Additionally, according to the Compensation Policy, the compensation of any of the officers at the Bank reporting to the President and CEO (in addition to the Chairman of the Board and the President and CEO) may also increase according to a decision by the Audit Committee and Board of Directors beyond the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance.

G. Compensation Policy for Key Employees

The compensation policy for key Bank employees who are not officers sets out a framework for compensation of key employees, including inter alia, salaries, related benefits, retirement terms and conditions and annual bonuses. This policy was formed bearing in mind the principles of the Bank's Officer Compensation Policy, with the required adjustments and according to the provisions of Proper Conduct of Banking Business Directive 301A. The Bank intends to develop and set a revised compensation policy for these key employees, subject to obtaining the approval of the Audit Committee and the Bank's Board of Directors.

H. Compensation Policy for All Employees

The compensation policy for all employees (who are not key employees) is based on the provisions of Proper Conduct of Banking Business Directive 301A.

The compensation policy for all such Bank employees is designed to serve as a tool to promote the achievement of the Bank's business targets, including facilitating the recruitment and retention of high-quality employees, motivating them to improve performance and achieve the Bank's business objectives and targets while staying within the Bank's risk appetite.

The compensation policy deals, inter alia, with salary and related benefits, bonuses, retirement terms and conditions and other compensation components payable to all employees.

The Bank intends to develop and set a revised compensation policy for all of the Bank's employees, subject to obtaining the approval of the Audit Committee and the Bank's Board of Directors.

I. Sale of State-Owned Leumi Shares

On July 18 2019, an annual extraordinary general meeting of the Bank was held, in which it was resolved to approve an offering of 12,364 ordinary shares of NIS 1 par value each of the Bank to Mr. David Brodet, then Chairman of the Board, as part of the Shares Offering Outline of the State of Israel to the Bank's employees.

For information regarding the sale of Bank shares held by the State of Israel to the Bank's employees, please see Note 23H in the Bank's 2018 Annual Financial Statements.

Note 23 - Employee Benefits (cont.)

J. Composition of Benefits

1. Employee benefits

	As at December 31		
	2019	2018	2017
	In NIS millions		
Retirement benefits - Pension and severance pay			
Liability amount	**20,470**	15,867	17,995
Fair value of plan assets	**7,614**	6,235	6,708
Excess liability over plan assets (included in "other liabilities")	**12,856**	9,632	11,287
Cumulative jubilee vacation leave			
Liability amount	**36**	41	47
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in "other liabilities")	**36**	41	47
Other benefits			
Liability amount	**635**	533	584
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in "other liabilities")	**635**	533	584
Total[1]			
Amount by which the liability for employee benefits exceeds the plan assets included in other liabilities	**13,527**	10,206	11,918
[1]Of which: For benefits to employees abroad	**61**	64	74

2. Defined benefit plan

A. Obligation and funding status

1. Change in the Obligation for expected benefit

	As at December 31		
	2019	2018	2017
	In NIS millions		
Obligation for expected benefit as at the beginning of the year	**15,867**	17,995	16,948
Cost of service	**149**	145	146
Cost of interest	**640**	653	696
Contributions by planholders	**39**	39	46
Actuarial loss (gain)	**4,526**	(1,801)	1,560
Changes in foreign exchange rates	**(22)**	20	(18)
Paid benefits[(a)]	**(698)**	(1,184)	(1,383)
Other	**(31)**	-	-
Obligation for expected benefit as at the end of the year	**20,470**	15,867	17,995
Obligation for cumulative benefit as at the end of the year	**18,902**	15,063	17,016

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

A. Obligation and funding status (cont.)

2. Change in the fair value of plan assets and plan's funding status

	As at December 31		
	2019	2018	2017
	In NIS millions		
Fair value of plan assets as at the beginning of the year	**6,235**	6,708	6,819
Actual return on plan assets[b]	**1,143**	(60)	399
Plan contributions by the banking corporation	**403**	110	131
Contributions by planholders	**39**	39	46
Changes in foreign exchange rates	**(24)**	3	(17)
Paid benefits[a]	**(182)**	(572)	(691)
Other	**-**	7	21
Fair value of plan assets as at the end of the year	**7,614**	6,235	6,708
Funding status - Net liability recognized at the end of the year	**12,856**	9,632	11,287

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.
(b) In 2019, including the effect of the transition to a paying fund in respect of the retirees. Please see Section E in this note.

3. Amounts recognized in the consolidated balance sheet

	As at December 31		
	2019	2018	2017
	In NIS millions		
Amounts recognized in the "Other assets" item	**-**	-	-
Amounts recognized in the "Other liabilities" item	**12,856**	9,632	11,287
Net liability recognized at the end of the year	**12,856**	9,632	11,287

4. Amounts recognized in accumulated other comprehensive income before the tax effect

	As at December 31		
	2019	2018	2017
	In NIS millions		
Net actuarial loss	**5,908**	2,668	4,408
Net liability for transition	**-**	-	-
Closing balance of accumulated other comprehensive income	**5,908**	2,668	4,408

Note 23 - Employee Benefits (cont.)

L. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

B. Expenditures for the period

1. Components of the benefit cost included in profit and loss

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Cost of service	**149**	145	146
Cost of interest	**640**	653	696
Expected return on plan assets	**(364)**	(356)	(364)
Amortization of unrecognized amounts - net actuarial loss (profit)	**401**	356	330
Other	**31**	-	-
Total benefit cost, net	**857**	798	808
Total expense for defined contribution pension plan	**170**	200	204
Total expenses included in profit and loss	**1,027**	998	1,012

2. Changes in plan assets and obligation for benefit recognized in other comprehensive income before tax effect

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Net actuarial loss (gain) for the year	**3,678** [(a)]	(1,385)	1,525
Amortization of unrealized amounts - Net actuarial loss	**(401)**	(356)	(330)
Other incl. restructuring	**(31)**	(7)	(21)
Changes in foreign exchange rates	**(6)**	8	(7)
Total recognized in other comprehensive income	**3,240**	(1,740)	1,167
Total benefit cost, net	**857**	798	808
Total recognized in net benefit cost for the period and in other comprehensive income	**4,097**	(942)	1,975

(a) Including adjustments for previous years.

3. Estimate of the amounts included in accumulated other comprehensive income that are expected to be deducted as a loss from accumulated other comprehensive income to the income statement in 2020, before the tax effect

	In NIS millions
Net actuarial loss	**556**
Total expected to be deducted from other comprehensive income	**556**

Note 23 - Employee Benefits (cont.)

M. Composition of Benefits (cont.)

3. Assumptions[a]

A. The assumptions, based on the weighted average, used for calculating the benefit obligation and for measuring the benefit's net cost for the years ended December 31.

1. The main assumptions used to measure the benefit obligation.

	December 31		
	2019	2018	2017
	In %		
Discount rate	**1.22**	2.74	2.06
Rate of increase in the CPI	**1.42**	1.59	1.60
Departure rate	**0.1-3.7**	0.1-3.7	0.1-3.7
Rate of compensation increase	**0-6.3**	0-6.3	0-6.3

2. The main assumptions used for calculating the net benefit cost for the period

	For the year ended December 31		
	2019	2018	2017
	In %		
Discount rate	**2.16**	2.22	2.51
Expected return on long-term plan assets	**5.50**	5.50	5.50
Rate of compensation increase	**0-6.3**	0-6.3	0-6.3

B. The effect of a one percentage point change on the expected benefit obligation before the tax effect

	Increase by one percentage point			Decrease by one percentage point		
	December 31			December 31		
	2019	2018	2017	**2019**	2018	2017
	In NIS millions					
Discount rate	**(2,760)**	(1,993)	(2,360)	**3,435**	2,457	2,943
Rate of increase in the CPI	**(635)**	-	(69)	**714**	-	69
Departure rate	**233**	200	217	**(202)**	(179)	(191)
Rate of compensation increase	**714**	571	702	**(635)**	(499)	(610)

(a) The assumptions are only for the Bank's data.

The employee benefit liability amount is affected by several key variables, which include market variables (interest capitalization rates of the liabilities for various periods) and actuarial variables, with some of the actuarial variables being associated with employees' behavior. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables. For example, in case of a sharp interest rate hike in the Israeli economy, government bond yields may rise (lowering the pension liability amounts), causing the number of employees opting for the pension fund track to decrease (a decision which will also decrease the Bank's pension liability amounts).

In this context, it should be noted that on November 6 2019, the Capital Market Insurance and Savings Commissioner published a circular regarding the updating of demographic assumptions in life insurance and updating of the improvement in life expectancy model. The circular had no material effect on the total liabilities for employees.

Note 23 - Employee Benefits (cont.)

N. Composition of Benefits (cont.)

4. Plan assets

A. Composition of fair value of plan assets

	As at December 31 2019			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
Cash and deposits with banks	323	-	-	323
Equity securities	1,823	82	106	2,011
Government bonds	698	186	-	884
Corporate bonds	1,284	35	-	1,319
Other	204	94	2,779	3,077
Total	4,332	397	2,885	7,614

	As at December 31 2018			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
Cash and deposits with banks	160	-	-	160
Equity securities	2,225	-	101	2,326
Government bonds	881	159	-	1,040
Corporate bonds	1,684	30	-	1,714
Other	305	89	601	995
Total	5,255	278	702	6,235

B. Fair value of plan assets by type of asset and allocation target for 2020

	Allocation target	Percentage of plan assets	
		December 31	
	2020	2019	2018
	In %		
Cash and deposits with banks	4	4	3
Equity securities	38	27	37
Government bonds	13	12	17
Corporate bonds	27	17	27
Other	18	40	16
Total	100	100	100

Note 23 - Employee Benefits (cont.)

O. Composition of Benefits (cont.)

4. Plan assets (cont.)

C. Changes in the fair value of plan assets whose value is measured based on significant unobservable inputs (Level 3)

	For the year ended December 31 2019					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/from Level 3	Closing balance
	In NIS millions					
Equity securities	**101**	**4**	**(11)**	**12**	**-**	**106**
Other	**601**	**(1)**	**460**	**490**	**1,229**	**2,779**
Total	**702**	**3**	**449**	**502**	**1,229**	**2,885**

	For the year ended December 31 2018					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/from Level 3	Closing balance
	In NIS millions					
Equity securities	130	-	-	(29)	-	101
Other	413	37	18	133	-	601
Total	543	37	18	104	-	702

Note 23 - Employee Benefits (cont.)

P. Composition of Benefits (cont.)

5. Cash flows

A. Contributions

	Forecast[a]	Actual contributions For the year ended		
	2020	**2019**	2018	2017
	In NIS millions			
Contributions	**136**	**442**	149	177

(a) The estimated contributions the Bank expects to pay for the defined benefit plan during 2020.

B. Benefits the Bank expects to pay in the future[a]

Year	In NIS millions
2020	1,055
2021	727
2022	683
2023	716
2024	728
2025-2029	4,181
From 2030	9,796
Total	17,886

(a) In discounted values.

Note 24 – Stock-based Compensation Transactions

A. Overview

According to the Compensation Policy approved on February 11 2014 by the Bank's general meeting, half of the variable bonus to senior Bank officers will be paid in the form of Performance Share Units (PSUs).

For more information, please see note 25A.C.

In addition, the Bank awarded Restricted Share Units (RSU) to two officers.
RSUs are units of restricted shares which, upon fulfillment of the applicable vesting terms and conditions, are automatically converted into ordinary shares of the Bank, which are held by the Bank as treasury shares, without paying any exercise price.

The RSUs are allotted according to the Capital Gain Track pursuant to Section 102(b)(2) of the Income Tax Ordinance, 1961.

For more information, please see note 25A.C.

B. Details Regarding Equity-Settled Stock-based Compensation Transactions

	Number of units as of December 31 2019									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at beginning of year	-	30,270	-	166,944	-	94,100	-	63,368	-	344,189
Awarded during the year	-	-	-	-	-	-	-	-	-	-
Vested during the year	-	(22,565)	-	(120,677)	-	(68,836)	-	(48,997)	-	(244,798)
Retired managers	-	(4,614)	-	(25,477)	-	(25,264)	-	(14,371)	-	69,726
Appointed managers	-	-	-	(8,017)	-	8,017	-	-	-	-
Outstanding as at year-end	-	3,091	-	12,773	-	8,017	-	-	-	169,117

	Number of units as of December 31 2018									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at beginning of year	-	52,834	-	373,028	-	162,935	-	112,364	-	503,575
Awarded during the year	-	-	-	-	-	-	-	-	-	-
Vested during the year	-	(22,564)	-	(156,757)	-	(68,835)	-	(48,996)	-	(208,713)
Retired	-	-	-	(49,327)	-	-	-	-	-	49,327
Outstanding as at year-end	-	30,270	-	166,944	-	94,100	-	63,368	-	344,189

Note 25A - Equity

A. Share Capital

	December 31 2019		December 31 2018	
	Authorized	Issued and paid up[(a)]	Authorized	Issued and paid up[(a)]
	NIS			
Ordinary shares of NIS 1.0 each	**3,215,000,000**	**1,524,527,267**	3,215,000,000	1,524,021,394

(a) All the issued shares were registered shares which have been (or will be) issued have been (or will be) converted to ordinary shares transferrable in NIS 1.0 units. The rights attached to the Bank's shares are prescribed by the Bank's Articles of Association.

The ordinary shares are listed on the Tel Aviv Stock Exchange.

NIS 925,750,000 par value in Series 400 Subordinated Bonds were issued by the Bank on January 21 2016, convertible under certain circumstances to up to 150,680,438 of ordinary shares of the Bank, as at December 31 2019.

NIS 613,800,000 par value in Series 401 Subordinated Bonds and NIS 209,100,000 par value in Series 402 Subordinated Bonds were issued by the Bank on July 8 2018, convertible under certain circumstances to up to 59,299,188 and 20,201,140 ordinary shares of the Bank, respectively, as at December 31 2019.

NIS 664,150,000 par value in Series 403 Subordinated Bonds were issued by the Bank on January 31 2019, and an additional NIS 777,000,000 p.v. in Series 403 Subordinated Bonds were issued by the Bank on March 13 2019 by way of series expansion. These Subordinated Bonds are convertible, under special circumstances, to up to 129,026,491 ordinary shares of the Bank, as at December 31 2019.

NIS 1,240,950,000 par value in Series 404 Subordinated Bonds were issued by the Bank on July 15 2019. These Subordinated Bonds are convertible, under special circumstances, to up to 101,709,609 ordinary shares of the Bank, as at December 31 2019.

USD 750,000,000 par value in Series Leumi $ 2031 Subordinated Notes were issued by the Bank on January 29 2020, convertible under certain circumstances to up to 208,055,925 ordinary shares of the Bank as of the issue date.

B. The Bank's Share Buyback Plan

During 2019, the Bank implemented a share buyback program in the amount of NIS 700 million, by way of the safe harbor protection mechanism published by the Israel Securities Authority (Legal Position No. 199-8). The buyback was carried out in two stages. In the first phase, according to the said program - which began on May 28 2019 and ended on August 2 2019 - 11,961,092 shares totaling approximately NIS 301 million were bought through an external member of the Tel Aviv Stock Exchange. In the second phase, which began on August 15 2019, an additional NIS 399 million were remitted to the external member of the Stock Exchange to continue the share buyback program's execution. On November 21 2019, the buyback plan ended, with a total number of shares purchased under the said plan reaching 27,923,659, for which NIS 700 million was paid.

As of the reporting date, the Bank owns 58,336,237 treasury shares.

Note 25A – Equity (cont.)

On February 26 2020, the Bank's Board of Directors approved a share buyback plan for a total of up to NIS 700 million, from March 1 2020 to February 26 2021. The share buyback plan will take place as part of the trading on the Tel Aviv Stock Exchange (TASE) and/or through transactions outside the TASE, through an external, independent member of the TASE, which will act under an irrevocable power of appointment, in accordance with the safe harbor mechanism published by the Israel Securities Authority. The buyback plan will take place in three separate stages, each of which shall be irreversible, in accordance with the safe harbor mechanism (hereinafter: "Stage A", "Stage B" and "Stage C"). Stage A will begin on March 1 2020 and will end on the earlier of (a) May 3 2020; or (b) Completion of the purchase of the Bank's shares in the amount of NIS 250 million. After the completion of Stage A, if the Bank decides to proceed to Stage B, it shall give the Tel Aviv Stock Exchange member an irreversible order to initiate Stage B on the second trading day following the publication of the first financial statements after the decision to go forward with Stage B has been made. In this case, Stage B will end on the earlier of (a) August 2 2020; or (b) Completion of the purchase of the Bank's shares in the amount of NIS 250 million. After the completion of Stage B, if the Bank decides to proceed to Stage C, it shall give the Tel Aviv Stock Exchange member an irreversible order to initiate Stage C on the second trading day following the publication of the first financial statements after the decision to go forward with Stage C has been made. In such a case, Stage C will end on the earlier of: (a) February 26 2021; or (b) Completion of the purchase of the Bank's shares in the amount of NIS 700 million, less the total amount purchased as part of Stage A and Stage B. If, following the end of Stage A or Stage B, a decision will be made not to proceed with Stage B or Stage C, as the case may be, the Bank will publish an immediate report to that effect.

Approval of the Banking Supervision Department to carry out the buyback plan, as required under Proper Conduct of Banking Business Directive No. 332, was received subject to meeting the restrictions and capital targets, including the condition whereby the plan will be discontinued effective immediately if, during the plan term, the most recent financial statements published by the Bank will not comply with a Common Equity Tier 1 capital ratio of at least 10.9 percent.

C. Stock-based Compensation Plan

On February 11 2014, the Bank's general meeting approved the compensation policy for the Bank's officers for 2013-2016 (hereinafter - the "Previous Compensation Policy"), following the Board of Directors' approval and the Compensation Committee's recommendation. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding Bank's officers' service and employment terms and conditions and on Proper Conduct of Banking Business Directive 301A regarding compensation policy in a banking corporation.

According to the Previous Compensation Policy, half of the variable bonus to the Bank's senior officers will be paid in the form of Performance Share Units (PSUs).

According to the Previous Compensation Policy, the total and cumulative percentage of PSUs allotted to all senior employees (Chairman of the Board, President and CEO and members of the Bank's management) in respect of all the bonus plan years (2013 to 2016) shall not exceed 0.38 percent of the Bank's issued and paid up share capital.

As part of the approval of the annual performance bonus for the Bank's officers in respect of 2015 and according to the Previous Compensation Policy, on March 15 2016, the Bank issued 938,657 new PSUs (hereinafter - the "**2016 PSUs**") in the name of the trustee, Esop Management and Trust Services Ltd. (hereinafter - the "**Trustee**") for the Chairman of the Board, President and CEO and other officers of the Bank in the equity with trustee track in accordance with Section 102 to the Income Tax Ordinance. When the precondition for exercising the 2016 PSUs is met at each vesting date, as outlined below, the 2016 PSUs will vest and be automatically converted into 938,657 ordinary shares of NIS 1 par value each, which constituted 0.064 percent of the Bank's issued and paid up share capital on the date of the 2016 PSUs' vesting date. As at December 31 2019, all 2016 PSUs have vested.

According to the Private Offering Report published by the Bank on February 29 2016, including the clarifications thereto published on March 13 2016, the cumulative fair value of all 2016 PSUs totaled approximately NIS 12.3 million.

Note 25A – Equity (cont.)

In addition, as part of the approval of the performance bonus for the Bank's officers in respect of 2016 and in accordance with the Previous Compensation Policy as well as the new Compensation Policy for 2017-2019, which was approved by the Bank's general meeting on November 3 2016, after the Board of Directors' approval in accordance with the approval and recommendations of the Compensation Committee (hereinafter - the "**New Compensation Policy**"), on April 6 2017, the Bank issued 578,969 new PSUs (hereinafter - the "**2017 PSUs**") in the name of the trustee for the Chairman of the Board, the President and CEO and other officers at the Bank on an equity track with a trustee pursuant to Section 102 of the Income Tax Ordinance. When the precondition for exercising the 2017 PSUs is met at each vesting date, as outlined below, the 2017 PSUs will vest and be automatically converted into 578,969 ordinary shares of NIS 1 par value each, which constituted 0.038 percent of the Bank's issued and paid up share capital on the date of the 2017 PSUs' vesting date. According to the Private Offering Report published by the Bank on March 30 2017, the cumulative fair value of all 2017 PSUs totaled approximately NIS 9.3 million. As of December 31 2019, 385,972 2017 PSUs vested into ordinary shares, with 192,997 2017 PSUs still unvested.

The vesting of the 2016 PSUs and 2017 PSUs at each of the vesting dates will be conditioned on the Bank having the required capital adequacy ratio pursuant to the Banking Supervision Department's directives, in accordance with the most recent financial statements published by the Bank immediately prior to each vesting date. If the Bank does not comply with the aforesaid ratio, the tranche's vesting will be postponed to the next date on which the Bank meets the required capital adequacy ratio, as stated, in accordance with the published financial statements.

The aforesaid allotted 2016 PSUs and 2017 PSUs are not tradable. Under the approval of the Tel Aviv Stock Exchange Ltd. (hereinafter - the "**TASE**"), the shares arising from the vesting of the above units will be listed for trading on the TASE in the name of Bank Leumi Le-Israel B.M.

The vesting of the 2016 PSUs and 2017 PSUs is carried out in three equal tranches and is contingent upon the Bank's performance in each of the 2016, 2017, and 2018 calendar years in respect of the 2016 PSUs and for each of the 2017, 2018 and 2019 calendar years in respect of the 2017 PSUs, in accordance with and subject to the precondition set forth in the New Compensation Policy and as outlined in the 2016 Private Offering Report and the 2017 Private Offering Report, respectively. Subject to meeting the precondition for each vesting date, each PSU will automatically be converted into one ordinary share of NIS 1 par value each of the Bank on each vesting date (hereinafter - the "**PSU Vesting Preconditions**".)

D. Changes in the Bank's Equity

Under the Bank's compensation plan, the precondition for the vesting of the third and last of the PSUs (which were allotted to the Chairman of the Board, to the President and CEO and to other officers of the Bank (hereinafter: The "**Bank's Officers**") as part of the approval of the performance-based annual bonus for half of the 2016 annual bonus) (hereinafter: The "**2016 PSUs**") as well as for the vesting of the second of the PSUs allotted to the Bank's Officers as part of the approval of the performance-based annual bonus for half of the 2017 annual bonus) (hereinafter: The "**2017 PSUs**") has been met; therefore, the third and last of the 2016 PSUs and the second third of the 2017 PSUs have vested. As a result, on March 6 2019, the Bank's officers were allotted shares, according to the number of 2016 PSUs and 2017 PSUs vested as of that date.

For more information, please see Note 25A to the 2018 Annual Financial Statements.

Under the compensation policy, the shares allotted following the vesting of the said 2016 PSUs and 2017 PSUs were deposited with the trustee of the compensation plan, ESOP Management and Trust Services Ltd. (hereinafter: The "**Plan Trustee**").

The shares allotted in respect of the 2017 PSUs, as detailed above, were restricted until two years from the date of allotment of the 2017 PSUs, i.e. - until April 5 2019.

Note 25A – Equity (cont.)

The vesting of the 2016 PSUs and 2017 PSUs at each of the vesting dates will be conditioned on the Bank having the required capital adequacy ratio pursuant to the Banking Supervision Department's directives, in accordance with the most recent financial statements published by the Bank immediately prior to each vesting date. If the Bank does not comply with the aforesaid ratio, the relevant tranche's vesting will be postponed to the next date on which the Bank meets the required capital adequacy ratio, as stated, in accordance with the financial statements to be published.

For more information, please see Note 25A to the 2018 Annual Financial Statements.

On March 20 2016, the Bank's Board of Directors decided to issue 48,938,037 ordinary shares of NIS 1 par value each of the Bank, which constitute 3.21 percent of the Bank's issued and paid up share capital after the allotment, in the name of the trustee, Tamir Fishman Trusts 2004 Ltd., in respect of the results of the offering to the employees and officers reported by the Bank on March 16 2016 and March 20 2016 according to an outline published by the Bank on February 18 2016 (conversion of employee and officers' benefits), revised on February 23 2016.

For more information, please see Note 23 to the 2016 Annual Financial Statements.

All the allotted shares were restricted for a period of two years until March 19 2018, except in respect of key employees (excluding officers, for whom half of the bonus was paid in PSUs rather than in restricted shares), for whom 664,727 of the allotted shares will be restricted for a period of three years until March 19 2019, in accordance with the Previous Compensation Policy.

For more information, please see Note 25A to the 2018 Annual Financial Statements.

E. Shelf prospectus and bond issue

On May 25 2018, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority.

According to a shelf prospectus as at January 30 2019, the Bank issued, on January 31 2019, a total of NIS 1.69 billion in Bonds Series 180. The bonds are repayable in two equal installments on February 28 2023 and February 28 2025 and carry an annual interest rate of 2.02 percent, payable annually on February 28 of each year from 2020 to 2025 (inclusive). The Series 180 Bonds are not recognized for regulatory capital purposes.

According to a shelf prospectus dated January 30 2019, the Bank issued, on January 31 2019, a total of NIS 664.2 million in Subordinated Bonds Series 403.

According to a shelf prospectus as at March 12 2019, the Bank issued, on March 13 2019, an extension of Series 403, under which the Bank issued a total of NIS 777 million par value in subordinated bonds in consideration of NIS 798.4 million.

The Subordinated Bonds Series 403 are repayable by a lump sum on February 28 2030, with an early repayment option for the issuer exercisable not before January 31 2025 and no later than February 28 2025. The Subordinated Bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 2.42 percent until February 28 2025. At that date, if the Bank does not exercise its early repayment option, the nominal interest rate of the Series 403 Subordinated Bonds shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at the interest revision date.

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Series 403 Subordinated Bonds shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued or according to the set minimum rate (NIS 11.53, subject to adjustments), the highest of the two.

Note 25A – Equity (cont.)

According to a shelf offering report as at July 4 2019, which was amended on July 9 2019, the Bank made two exchange tender offers, as follows: 1) Offer to all holders of Series 201 Subordinated Capital Notes, whereby the Bank will purchase from them all Series 201 Subordinated Capital Notes held by them, by way of an unlimited exchange tender offer, in exchange for the issue of units of NIS 50,000 p.v. each of Series 404 Subordinated Bonds of the Bank, carrying an annual interest rate of 1.95 percent, at an exchange rate of 50,000 : 49,262, as detailed in the Shelf Offering Report. 2) Offer to all holders of Series N Subordinated Capital Notes, whereby the Bank will purchase from them all Series N Subordinated Bonds held by them, by way of an unlimited exchange tender offer, in exchange for the issue of units of NIS 50,000 p.v. each of Series 404 Subordinated Bonds of the Bank, carrying an annual interest of 1.95 percent, at an exchange rate of 50,000 : 44,445, as detailed in the Shelf Offering Report.

According to the investors' response to said exchange tender offers, on July 15 2019, NIS 139.9 million p.v. in Series 201 Subordinated Capital Notes were exchanged for NIS 142 million p.v. in Series 404 Subordinated Bonds and NIS 976.9 million p.v. in Series N Subordinated Bonds were exchanged for 1,099 million p.v. in Series 404 Subordinated Bonds, bringing the total issued Series 404 Subordinated Bonds to NIS 1,241 million p.v. As a result of the exchange, an accounting loss of NIS 54 million was recorded.

The Subordinated Bonds Series 404 are repayable by a lump sum on September 30 2029, with an early repayment option for the issuer exercisable not before September 19 2024 and no later than September 30 2024. The Subordinated Bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 1.95 percent until September 30 2024. At that date, if the Bank does not exercise its early repayment option, the nominal interest rate of the Series 404 Subordinated Bonds shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at the interest revision date.

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Series 404 Subordinated Bonds shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued or according to the set minimum rate (NIS 12.54, subject to adjustments), the highest of the two.

On January 29 2020, the Bank issued a total of USD 750 million in par value Subordinated Notes Series Leumi $ 2031. The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

Subordinated Notes Series Leumi $ 2031 are repayable in one lump sum, 11 years after their issue date, with the Bank having an early repayment option exercisable 6 years after the issue date, subject to certain terms and conditions.

Subordinated Notes Series Leumi $ 2031 carry a fixed annual interest rate of 3.275 percent per year, until January 29 2026, to be paid semi-annually. On that date, if the Bank does not exercise its early repayment option, the nominal interest rate of Subordinated Notes Series Leumi $ 2031 shall be updated, such that as from that date, the annual interest shall be equal to the sum of the 5-year treasury yield rate at the interest rate change rate and a spread of 1.631 percent, as outlined in the issue documents.

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Series Leumi $ 2031 Subordinated Notes shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice (translated into USD according to the rate as of that date) was issued or according to the set minimum rate (USD 3.6048, subject to adjustments), the highest of the two.

These Subordinated Notes (Series 403, 404 and Series Leumi $ 2031) are eligible for inclusion in Tier 2 capital as of the issue date.

For more information, please see Section A above.

Note 25A – Equity (cont.)

On February 17 2020, the Bank reported it was evaluating a public issuance of a new series of ordinary bonds of the Bank and listing them on the TASE.

F. Early Redemption of Subordinated Capital Notes

On February 10 2019, the Bank’s Board of Directors decided to fully redeem in April-May 2019, NIS 1 billion p.v. in (non-tradable) subordinated capital notes linked to the Consumer Price Index and issued in 2009. Accordingly, during April and May 2019, NIS 1.2 billion in capital notes were redeemed.

G. Dividend Distribution Policy

On November 20 2017, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 40 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution.

On March 6 2019, the Bank's Board of Directors approved a change in the Bank's dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions being passed by the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

On February 26 2020, the Board of Directors approved, in respect of Q4 2019, a dividend consisting of 40 percent of the quarter’s net income. The dividend approved amounted to NIS 297 million, which is approx. 20.251 agorot per share of NIS 1 par value. The final per-share dividend amount is subject to changes following the share buyback and due to the share issue after the vesting of the PSUs, as detailed in Section C above and subject to meeting the terms and conditions for the vesting of the PSUs, as detailed in Section D. If the PSUs vest, the dividend amount for each NIS 1 p.v. share will be 20.248 agorot, subject to changes following the share buyback plan. The Board of Directors designated March 12 2020 as the record date for purposes of payment of the dividend and March 23 2020 as the payment date.

Details of paid dividend

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
March 6 2018	March 28 2018	22.41	342
May 24 2018	June 19 2018	19.18	292
August 14 2018	September 6 2018	23.96	361
November 12 2018	December 10 2018	25.08	375
March 6 2019	April 3 2019	18.40	275
May 26 2019	June 23 2019	29.27	437
August 13 2019	September 8 2019	24.95	369
November 26 2019	December 22 2019	20.87	306

Note 25B - Capital Adequacy, Leverage and Liquidity

Overview

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directives Nos. 201-211 on Capital Measurement and Adequacy, in order to adapt them to the Basel III rules.

It should be noted that Basel III rules introduce significant changes in the calculation of regulatory capital requirements, inter alia, in relation to the following:

- Regulatory capital components
- Capital deductions and regulatory capital adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk for impaired non-performing debts.
- Capital allocation for CVA risk.

The abovementioned amendments became effective on January 1 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299, "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

According to the transitional provisions, the regulatory adjustments and deductions from capital, as well as minority interests - which do not qualify as regulatory capital - were gradually deducted from the capital at a rate of 20 percent per year, from January 1 2014 to January 1 2018. Capital instruments that no longer qualify as regulatory capital were recognized up to a maximum of 80 percent on January 1 2014 and in each subsequent year, the maximum is lowered by an additional 10 percent until January 1 2022. As of 2019, the ceiling of the instruments that qualify as regulatory capital is 30 percent.

In addition, on August 29 2013, the Banking Supervision Department published a circular on Basel disclosure requirements, addressing the composition of capital and setting forth revised disclosure requirements for banks as part of the adoption of the Basel III rules.

On March 15 2018, the Banking Supervision Department published a circular which updated the weighting rates of loans fully secured by mortgages on residential properties, so that the 75 percent weighted risk was replaced by 60 percent for loans with an LTV ratio of more than 60 percent, only in respect of loans granted as of that day.

On November 13 2018, the Banking Supervision Department published a circular which updated the conversion coefficient rate for the loan in respect of guarantees securing investments by apartment buyers under the Sales Law. Pursuant to the circular, if the apartment has not yet been delivered to the buyer, the loan conversion coefficient was reduced from 50 percent to 30 percent.

Volatile Capital Components

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's Common Equity Tier 1 capital, mainly due to the liability being measured in accordance with market interest rates, which are at historical lows, and also due to the considerable volatility such measurement has brought to the Bank's regulatory capital.

In this context, on July 12 2016, the Bank received individual approval from the Bank of Israel regarding the method of calculating the discount rate to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the discount rate is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented from the financial statements for the period ended June 30 2016.

On January 13 2020, the Bank of Israel approved the extension of the validation of the approval for the financial statements as at December 31 2024 (inclusive).

The new method significantly moderates the volatility resulting from changes in the capitalized interest rate.

On November 15 2016, the Bank's Board of Directors decided, based on the recommendation of the Audit Committee, to calculate the liabilities for employee pensions according to a fixed spread of AA-rated bonds.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

For regulatory capital purposes, the pension liability amounts to NIS 17,934 million and the Common Equity Tier 1 capital - to NIS 37,603 million, compared with a pension liability of NIS 20,915 million and Common Equity Tier 1 Capital of NIS 33,125 million.

	December 31	
	2019	2018
	In NIS millions	
A. Data		
Capital for capital ratio calculation purposes		
CET1 capital, after regulatory capital deductions and adjustments[b]	**37,603**	35,190
Tier 2 capital, after deductions	**11,987**	11,033
Total capital	**49,590**	46,223
Balance of risk-weighted assets		
Credit risk[b][f]	**288,340**	288,862
Market risks	**5,008**	6,295
Operational risk	**23,116**	22,713
Total balance of risk-weighted assets	**316,464**	317,870
Capital to risk-weighted assets ratio		
Ratio of CET1 capital to risk-weighted components	**11.88%**	11.07%
Total capital to risk-weighted assets ratio	**15.67%**	14.54%
Minimum CET 1 capital ratio set by the Banking Supervision Department[a]	**10.27%**	10.25%
Minimum total capital ratio set by the Banking Supervision Department[a]	**13.77%**	13.75%
B. Major subsidiaries		
Leumi Card Ltd.[e]		
Ratio of CET1 capital to risk-weighted components	-	15.10%
Total capital to risk-weighted assets ratio	-	17.30%
Minimum CET1 capital ratio required by the Banking Supervision Department[d]	-	8.00%
Minimum total capital ratio set by the Banking Supervision Department[d]	-	11.50%
Bank Leumi USA (BLUSA)		
Ratio of CET1 capital to risk-weighted components	**14.04%**	14.06%
Total capital to risk-weighted assets ratio	**14.91%**	14.97%
Minimum CET1 capital ratio set by the local authorities[c]	**7.00%**	6.38%
Minimum total capital ratio set by the local authorities[c]	**10.50%**	9.88%

(a) The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required from January 1 2015 to December 31 2016 are 9 percent and 12.5 percent, respectively, and from January 1 2017 - 10 percent and 13.5 percent, respectively. As of January 1 2015, a capital requirement is added to these ratios, representing 1 percent of the outstanding housing loans as of the reporting date. The requirement is being implemented gradually, in equal quarterly rates, from April 1 2015 through January 1 2017. Thus, the minimum Common Equity Tier 1 capital ratio and the minimum total capital ratio required by the Banking Supervision Department as of December 31 2019, are 10.27 percent and 13.77 percent, respectively.

(b) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12 2016, "Operational Efficiency of the Banking System in Israel" (hereinafter: "Adjustments for the efficiency plans"). According to the said letter, the reliefs granted in respect of capital adequacy ratios and leverage ratio for the efficiency plans, which were approved by the Board of Directors in June 2016 and in July 2017, are being gradually withdrawn until June 30 2021 and June 30 2022, respectively. In June 2019, the Board of Directors approved an additional efficiency plan. According to the Banking Supervision Department's letter, the exemptions granted in respect of the regulatory capital will be deducted gradually until September 30 2024. For more information regarding the effect of the transitional provisions and adjustments for the efficiency plan, please see Section D below. Of the total balances of risk-adjusted assets, NIS 283 million was deducted from adjustments for the efficiency plan (on December 31 2018 - NIS 157 million was added).

(c) The minimum Common Equity Tier 1 capital ratio and the minimum total capital ratio are 4.5 percent and 8 percent, respectively. These ratios are compounded by a capital conservation buffer of 2.5 percent as at December 31 2019.

(d) On June 1 2016, Proper Conduct of Banking Business Directive No. 472, "Clearing Houses and Clearing Transactions in Debit Cards", came into force, according to which the Common Equity Tier 1 capital ratio shall not fall below 8 percent and the total capital ratio shall not fall below 11.5 percent.

(e) For more information, please see Note 36F to the financial statements as at December 31 2018.

(f) Restated.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

H. Capital Components for the Calculation of Capital Ratios

	December 31	
	2019	2018
	In NIS millions	
1. CET1 capital		
Shareholders' equity	**35,406**	35,305
Differences between shareholders' equity and Common Equity Tier 1 capital - Non-controlling interests	**266**	399
Differences between shareholders' equity and Common Equity Tier 1 capital - for employee benefits	**-**	-
Adjustments for the transition between the accounting curve and the 8-quarter average yield curve[(a)]	**1,687**	(577)
Total CET1 capital before regulatory adjustments and deductions	**37,359**	35,127
Regulatory adjustments and deductions:		
Goodwill and intangible assets	**(148)**	(178)
Deferred taxes receivable	**-**	(251)
Regulatory adjustments and other deductions - CET1 capital	**(11)**	(17)
Total regulatory adjustments and deductions - CET1 capital	**(159)**	(446)
Total adjustments for the efficiency plan	**403**	509
Total CET1 capital, after regulatory adjustments and deductions	**37,603**	35,190
2. Tier 2 capital		
Tier 2 capital: Instruments before deductions	**8,897**	7,790
Tier 2 capital: Provisions before deductions	**3,090**	3,243
Total Tier 2 capital before deductions	**11,987**	11,033
Deductions:		
Total deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**11,987**	11,033
Total capital	**49,590**	46,223

(a) Pursuant to specific approval by the Banking Supervision Department.

Note: The total capital ratio is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, and 299 regarding capital measurement and capital adequacy, which became effective on January 1 2014.

I. Effect of the Transitional Provisions and Adjustments for the Efficiency Plan on the CET 1 Capital Ratio

	December 31	
	2019	2018
	In %	
Capital to risk-weighted assets ratio		
Ratio of CET1 capital to risk-weighted components before the effect of the transitional provisions and adjustments for the efficiency plan[(a)]	**11.74%**	10.92%
Effect of adjustments for the efficiency plan[(b)]	**0.14%**	0.15%
Ratio of CET1 capital to risk-weighted components	**11.88%**	11.07%

(a) Including the effect of adopting the US GAAP for employee benefits.

(b) On January 12 2016, the Banking Supervision Department published a letter titled Operational Efficiency of the Banking System in Israel. According to the said letter, a banking corporation's Board of Directors should set out a multi-year efficiency plan. A banking corporation which meets the conditions prescribed in the letter will be granted a relief, according to which it may spread the effect of the plan, on a straight-line basis, over a period of 5 years, in respect of calculations for capital adequacy purposes. For more information, please see Note 23.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

J. Leverage ratio pursuant to the Banking Supervision Department's directives

On April 28 2015, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 218, "Liquidity Coverage Ratio". The directive sets a simple, transparent and non-risk based leverage ratio to serve as a supplementary and reliable measure for risk-based capital requirements, with the purpose of limiting excess leverage in banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio between the capital measurement and exposure measurement. As defined in Proper Conduct of Banking Business Directive No. 202, Tier 1 capital is used for calculating the leverage ratio, taking into account the transitional provisions. A bank's total exposure is the sum of its balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and to off-balance-sheet items. As a rule, the measurement is consistent with the accounting values, and no risk-weighting is applied. In addition, unless specifically permitted to do so under the Directive, the Bank may not use physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the exposure measurement. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive No. 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives according to Appendix C of Proper Conduct of Banking Business Directive No. 203, and the exposures for off-balance-sheet items - by converting the items' notional amount by credit conversion coefficients, as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations shall have a consolidated leverage ratio of no less than 5 percent. A banking corporation whose total consolidated assets constitute at least 20 percent of the Israeli banking sector's total assets shall have a consolidated leverage ratio of no less than 6 percent. Thus, the Bank is required to have a minimum leverage ratio of 6 percent.

Banking corporations are required to comply with the minimum leverage ratio as of January 1 2018. A banking corporation meeting its applicable minimum leverage ratio on the date of the Directive's publication shall not fall below the threshold prescribed by the Directive. A banking corporation which fails to meet its applicable minimum leverage ratio on the date of the Directive's publication shall be required to increase its leverage ratio by regular quarterly rates until January 1 2018.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2019	2018
	In NIS millions	
A. Consolidated data[a]		
Tier 1 capital	**37,603**	35,190
Total exposures	**512,173**	499,412
Leverage ratio		
Leverage Ratio	**7.34%**	7.05%
Minimum total leverage ratio set by the Banking Supervision Department	**6.00%**	6.00%
B. Major subsidiaries		
Leumi Card Ltd.[b]		
Leverage Ratio	-	10.80%
Minimum total leverage ratio set by the Banking Supervision Department	-	5.00%
Bank Leumi USA (BLUSA)		
Leverage Ratio	**12.46%**	11.72%
Minimum leverage ratio set by the local authorities	**5.00%**	5.00%

(a) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12 2016, "Operational Efficiency of the Banking System in Israel." According to the said letter, the reliefs granted in respect of capital adequacy ratios and leverage ratio for the efficiency plans, which were approved by the Board of Directors in June 2016 and in July 2017, are being gradually withdrawn until June 30 2021 and June 30 2022, respectively. In June 2019, the Board of Directors approved an additional efficiency plan. According to the Banking Supervision Department's letter, the exemptions granted in respect of the regulatory capital will be deducted gradually until September 30 2024. The effect on the leverage ratio of the relief for the efficiency plans was approximately 0.08 percent as at December 31 2019 (0.1 percent as at December 31 2018). For more information regarding the effect of the transitional provisions and adjustments for the efficiency plans, please see Section D above.
In addition, when calculating the leverage ratio, adjustments in respect of the implementation of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities, as outlined above, were taken into account.

(b) For more information, please see Note 36A.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

K. Liquidity Coverage Ratio Pursuant to the Banking Supervision Department's Directives

On September 28 2014, a circular was published adding Proper Conduct of Banking Business Directive No. 221, "Liquidity Coverage Ratio", which applies the recommendations of the Basel Committee regarding liquidity coverage ratio to the banking system in Israel. The liquidity coverage ratio examines a time-horizon of 30 days under a stress scenario, and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that is able to cover the corporation's liquidity requirements in this time horizon. The Directive prescribes the manner of calculating the liquidity coverage ratio, including the characteristics and operational requirements for an "inventory of high-quality liquid assets" (the numerator) and sufficient buffers for them; it also prescribes the net cash outflow expected under the stress scenario defined in the Directive for 30 calendar days (the denominator).

The stress scenario set forth in the directive includes a shock scenario combining a corporation-specific shock and a systemic shock; in this context, standard withdrawal and deposit rates were defined for outflows and inflows, respectively, according to the various balance categories.

The liquidity coverage ratio became effective on April 1 2015.

Pursuant to the transitional provisions, as of April 1 2015, the minimum requirement was set at 60 percent, increasing to 80 percent on January 1 2016, and to 100 percent on January 1 2017 and thereafter. However, in a period of financial pressure, a banking corporation may fall below these minimum requirements.

	December 31	
	2019	2018
	In %	
A. Consolidated data		
Liquidity coverage ratio	**123**	121
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
B. Banking corporation's data		
Liquidity coverage ratio	**121**	122
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

Note: Leumi Card and Bank Leumi USA are not required to meet a liquidity coverage ratio.

Note 26 - Contingent Liabilities and Special Commitments

A. Off-Balance Sheet Commitment for Activity by Extent of Collection[a]

Outstanding loans extended out of deposits by extent of collection[b]

	As at December 31	
	2019	2018
	In NIS millions	
Unlinked NIS	**295**	288
CPI-linked NIS	**1,197**	1,336
Total	**1,492**	1,624

Please see comments below.

Cash flows arising from collection fees and interest margins in respect of loans extended out of deposits by extent of collection as at December 31

	Up to one year	More than one year and up to three years	More than three years and up to five years	More than five years and up to ten years	More than ten years and up to twenty years	Over twenty years	Total for 2019	Total for 2018
	In NIS millions							
In the CPI-linked segment[c]								
Future cash flows	**8**	**11**	**7**	**7**	**3**	**1**	**37**	47
Projected future cash flows after management's estimate of early repayments	**8**	**11**	**7**	**7**	**3**	**-**	**36**	46
Discounted projected cash flows after management's estimate of early repayments[d]	**8**	**10**	**6**	**6**	**2**	**-**	**32**	41
Unlinked NIS segment								
Future cash flows	**1**	**1**	**-**	**-**	**-**	**-**	**2**	3
Projected future cash flows after management's estimate of early repayments	**1**	**1**	**-**	**-**	**-**	**-**	**2**	3
Discounted projected cash flows after management's estimate of early repayments[d]	**1**	**1**	**-**	**-**	**-**	**-**	**2**	3

(a) Loans and deposits out of loans the repayment of which is conditional upon the extent of collection of the loans (or the deposits) plus interest margins or collection fees (instead of interest margins).
(b) Non-recourse loans and government deposits extended at the total amount of NIS 118 million (2018 – NIS 99 million) were not included in this table.
(c) Including foreign currency segment.
(d) Capitalization was carried out at a rate of 2.31 percent (2018 – at a rate of 3.08 percent).

Information regarding loans extended over the year by mortgage banks

	2019	2018
	In NIS millions	
Information regarding loans extended over the year by mortgage banks:		
Loans out of deposits according to the extent of collection	**118**	95
Non-recourse loans	**27**	19

Note 26 - Contingent Liabilities and Special Commitments (cont.)

B. Contingent Liabilities and Other Special Commitments

	As at December 31	
	2019	2018
	In NIS millions	
(1) Long-term leases - rental fees for buildings, equipment and vehicles and maintenance fees in respect of agreements to pay in coming years		
In first year	**244**	259
In second year	**182**	199
In third year	**152**	141
In fourth year	**113**	130
In fifth year	**102**	116
In more than 5 years	**657**	1,078
Total long-term leases	**1,450**	1,923[(a)]
(2) Commitments to purchase securities	**692**	674
(3) Commitments to invest in, and purchase of, buildings and equipment	**30**	38[(a)]

(a) Including lease balances of NIS 441 million and commitments to invest in buildings and equipment in the amount of NIS 24 million for held-for-sale assets.

C. Guarantees by Repayment Date

	As at December 31 2019				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS millions				
Loan guarantees	**4,119**	**809**	**124**	**241**	**5,293**
Guarantees for apartment buyers	**-**	**21,248**	**-**	**-**	**21,248**
Guarantees and other commitments	**9,629**	**3,043**	**2,072**	**1,513**	**16,257**
Total guarantees	**13,748**	**25,100**	**2,196**	**1,754**	**42,798**

	As at December 31 2018				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS millions				
Loan guarantees	3,953	888	87	303	5,231
Guarantees for apartment buyers	2	18,665	-	-	18,667
Guarantees and other commitments	8,733	3,884	2,058	1,796	16,471
Total guarantees	12,688	23,437	2,145	2,099	40,369

If the balance of cash available to the Bank to cover for losses realized under these guarantees and indemnities totaled NIS 809 million (as at December 31 2018 - NIS 816 million). In addition, the balance of securities and other tradable assets held as collateral, totaled NIS 200 million (as of December 31 2018 - NIS 250 million).
The collateral information reflects collateral the Bank has received specifically against guarantees.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

D. Legal Claims

During the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including class actions certification motions.

In the opinion of the management of the Bank and the managements of the consolidated companies, the total amount of additional exposure arising from legal claims filed against the Bank and the consolidated companies on various issues the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, is NIS 180 million.

1. Set forth below are details of legal claims filed against the Bank, whose amounts are material. In the opinion of the management of the Bank, which is based on legal opinions regarding the expected results of such claims, the financial statements reflect adequate provisions, if needed, to cover any damages resulting from such claims.

1.1 Legal claims filed during and after the reporting period

a. On June 5 2019, a motion for class certification was filed against the Bank and other banks. According to the plaintiff, the exchange rate differentials constitute a “commission”, requiring the banks to provide fair disclosure thereof. As a result, charging the commission was illegal and the commission is too high. The claimed damage for the entire class the claimant purports to represent is NIS 8 billion (the plaintiff claims additional damages, which have not been quantified), of which NIS 2.2 billion is attributed to the Bank.

b. On January 21 2020, a motion for class certification was filed against the Bank and against other banks. The motion claims that the Bank allegedly charges all of its customers (whether private individuals, small businesses or corporations) for transactions to purchase products and/or services overseas, whether for private use or in order to transfer them overseas or import them into Israel, according to Chapter 7 of the Foreign Trade price list, rather than charge lower fees in accordance with Chapter 5 of the Foreign Currency price list. The claimants value the damage incurred by all members of the group they purport to represent at tens of millions of shekels.

1.2 Pending legal claims filed in previous reporting periods

a. On December 2 2013, a motion for class certification was filed against the Bank regarding early repayment fees for non-housing loans. According to the applicants, the early repayment fee, both in respect of loans subject to calculation principles set in the Proper Conduct of Banking Business Directives and in respect of loans subject to rules set by the Bank, are calculated by the Bank in an unlawful manner. According to the applicants, at this stage it is impossible to estimate the overall claim amount. On November 3 2019, a decision was handed down by the Tel Aviv District Court, which partially approved the application for class action certification regarding the manner of calculating the early repayment fee for unsupervised loans, and on December 22 2019, the claimants appealed the ruling to the Supreme Court.

b. On February 11 2015, a motion for class certification was filed against the Bank. The amount claimed is NIS 2.3 billion (later reduced to NIS 1.5 billion). According to the applicant, the Bank has a "black list" of customers, which it flags in its systems for an unlimited period of time, in a manner which harms them or makes it difficult for them to obtain credit or carry out other business transactions with the Bank.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

c. A motion to approve a legal claim as a class action was filed against the Bank on April 29 2015. The amount claimed is NIS 150 million. According to the applicant, funds of Holocaust survivors which were deposited with the Anglo Palestine Bank before World War II and which were not withdrawn by them during the war are paid to survivors or their next of kin without being purportedly revalued to real terms.

d. On July 22 2015, a motion for class certification was filed against the Bank. According to the applicant, the Bank's reporting to the Execution Office regarding amounts paid directly to the Bank on account of debt in respect of which a collection procedure is being conducted by the Execution Office, is delayed by the bank and, as a result, a difference allegedly arises between the actual amount of debt and the debt amount recorded in the Execution Office file. The applicant estimates the amount of the class action at millions of shekels.

e. On February 11 2016, a motion to approve a class action lawsuit was filed against the Bank and four other banks, claiming that the banks give benefits to students, but restrict the students' age. The applicant estimates the amount of the class action at NIS 219 million. On September 26 2019, the District Court rejected the motion to approve the class action, and on November 4 2019, the applicant appealed the decision of the District Court to the Supreme Court.

f. On March 7 2016, a legal claim was filed with a US court by a large number of plaintiffs, against dozens of defendants, including the Bank, Bank Leumi USA, and Bank Hapoalim. The plaintiffs claimed that by making, among other things, funds transfers, the defendants support settlements in the West Bank in a manner that harms Palestinian residents, violating their property and rights. The original amount claimed from all the defendants was USD 34.5 billion. This amount was later reduced to USD 1 billion. On August 29 2017, the US court approved a motion to dismiss the legal claim in limine. On September 8 2017, the plaintiffs appealed the decision and on February 19 2019, the Court accepted the plaintiffs' appeal and overturned the in limine decision.

g. On May 22 2016, a motion for class certification was filed against the Bank and other banks, claiming that when a teller conducts a cash transaction, he/she charges a fee according to a price list, without taking into account benefits which apply to certain population groups, and neither do the banks take into account such benefits when calculating the minimum fee they charge customers' accounts. According to the applicants, they are unable to estimate the exact amount allegedly collected from all the class members by the various defendants. On September 20 2018, the Tel Aviv District Court dismissed the motion for class certification and required the applicants to pay the defendants' expenses. On November 12 2018, the applicants appealed the ruling to the Supreme Court.

h. On January 22 2017, a motion for class certification was filed against the Bank. The applicant claims that the Bank allegedly converts foreign currency credit balances deposited with customers' NIS accounts even if customers did not ask for such conversion to be made. According to the applicant, the damage allegedly caused to the customer as a result of such conversion comprises the conversion fee amount and the difference between conversion at the representative exchange rate and the conversion rate actually used by the Bank (which is lower). According to the applicant, the personal damages caused to him total NIS 38 and the total amount of damages caused to the class of plaintiffs is estimated at NIS 1 million, but no breakdown was provided.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

i. On March 29 2017, a motion to approve a class action was filed against the Bank and similar legal claims was filed against other banks. According to the applicant, the Bank may not charge a “correspondent bank fee” when transferring foreign currency from a customer’s account to another bank account aboard. The applicant claims that the Bank may only charge a correspondent bank fee at the amount of the expense it actually incurred (the amount that it actually paid to the correspondent bank). According to the applicant, the personal damage he has incurred is USD 30, and the damage incurred by the class of plaintiffs cannot be estimated.

j. On May 6 2018, a motion for class certification was filed against the Bank. The applicant claims that the Bank does not fulfil its obligation to make a reasonable effort to locate inactive accounts with a balance exceeding the investment requirement under the Banking Ordinance (Inactive Accounts), 2000, and that it is insufficient that the Bank revalues the accounts according to the provisions of the Ordinance and that the Bank should revalue the accounts at higher amounts. According to the applicant, the total class damage amount is unquantifiable.

k. On September 16 2018, a motion for class certification was filed against the Bank. The applicant claims that when the Bank reimburses its customers for unlawful charges (for example, by mistake), it refunds them at face value - the same amount it has charged them - without taking into account the Bank's gains as a result of holding the funds or paying interest and linkage differentials. The applicant claims he has incurred a damage of NIS 0.51, and is unable to estimate the total class damage amount.

1.3 legal claims resolved during and after the reporting period

a. On August 28 2013, a motion for class certification was filed against the Bank and other banks. The Banking Supervision Department, Bank of Israel Governor and Antitrust Commissioner were included as formal respondents. The subject of the motion is the allegedly unlawful charging of fees and commissions for conversion and transfer of foreign currency, without providing fair disclosure thereof. The applicants claim that the damage caused to customers (according to an "abbreviated" motion filed by the applicants) is about NIS 2.6 billion (the applicants claim additional damages which have not been quantified).
On January 20 2015, a court hearing the proceedings of another motion for class certification concerning a similar matter - in the amount of NIS 200 million, also against the credit card companies (including against Leumi Card) - decided to transfer the case to the court hearing the abovementioned motion.
On March 1 2018, the District Court issued a ruling, which dismissed the motion for class certification and required the applicants to pay the respondents’ expenses. On April 1 2019, the Supreme Court dismissed the appeal, which was filed by the claimants on March 18 2018. The legal claim was thus concluded.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

b. On March 17 2014, the special administrator of a company under liquidation filed an application to issue orders against the Bank to the effect that the court will declare that the Bank shall pay the Company (liquidation assets) a total of NIS 1,200 million, of which NIS 635 million will be used to cover all of the company's debts to its creditors for reimbursement of the full value of the company's assets and a total of NIS 565 million for full reimbursement of the company's assets. According to the special administrator, the Bank is personally liable for the company's debts. As part of the motion, the special administrator reserved the right to file further legal proceedings against the Bank and/or other officers of the company and/or individuals on behalf of the Bank and the attorneys who advised the Bank. On August 4 2019, the Court approved a composition of creditors for the company under liquidation and on November 12 2019, the Court rejected the motions filed against the Bank, after all the terms and conditions of the composition with creditors was approved. The legal proceedings were thus concluded.

c. On June 21 2015, a motion for class certification against the Bank was filed. The applicant claims that the Bank allegedly charges currency conversion fees in respect of foreign currency transfers from a foreign currency account with the Bank to a foreign currency account in the name of that same customer with another bank, despite the fact that the funds were not converted into another currency. The applicant also claims that the Bank allegedly charges correspondent bank fees which are denominated in euro, at an exchange rate higher than the representative exchange rate; furthermore, the applicant claims that when a customer closes a bank account, the Bank allegedly charges fees and commissions exceeding the maximum amount collectible by law upon closing a bank account. The applicant estimates the total amount of the class action at NIS 1 million. On January 7 2019, the court approved a settlement agreement in this procedure, and the lawsuit was concluded.

d. On May 15 2017, a motion for class certification was filed against the Bank (similar claims have been filed against other banks, including the Bank, on February 12 2017, which are still pending). The petitioners claim that the Bank does not classify businesses as "small businesses" and, as a result, unlawfully charges them fees which are inapplicable to small businesses. The applicant estimates the damage amount for all respondents to be NIS 462 million. On April 17 2018, the Tel Aviv District court decided to reject the motion for class certification filed on May 15 2017. On May 21 2019, the Supreme Court dismissed the appeal filed by the applicants regarding the Tel Aviv District Court's ruling from April 17 2018. The lawsuit was thus concluded, and the court ruled that the motion for class certification, filed against the Bank on February 12 2017, will remain pending. The amount of damage claimed in this motion is NIS 100 million.

1.4 As at the publication date of the financial statements, there are no pending material legal claims against the Bank's subsidiaries. On February 25 2019, the sale of Leumi Card was completed. Therefore, any pending lawsuits against Leumi Card are not included in this note.

E. Contingent Liabilities and Miscellaneous Commitments

1. Other proceedings

On November 2 2017, a scoping meeting was held with the Enforcement Division of the Financial Conduct Authority (FCA) for a proceeding at Bank Leumi UK (hereinafter: "BLUK"), regarding controls and systems for the implementation of anti money laundering regulations. The procedure is in line with the FCA's purview. On July 11 2019, the FCA confirmed that the procedure had ended and that it would not take any action against BLUK.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

2. Financial sanction under Section 38A to the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995

On August 11 2019, the Israel Securities Authority placed a NIS 220 thousand financial sanction on the Bank. The original financial sanction amount was higher, and was reduced by 45 percent, inter alia due to actions taken by the Bank to prevent the violation from recurring. The financial sanction was imposed following a case where an investment consultant spoke to a customer who contacted the branch in order to grant a power of appointment to a portfolio manager, in a manner that is considered by the Israel Securities Authority as an attempt to prevent the customer from contacting a portfolio manager, in violation of the new provisions of the Israel Securities Authority regarding referral of customers for the purpose of obtaining portfolio management services.

F. The Bank serves as guarantor for members of some of the provident funds previously administered by Leumi Capital Market Services Ltd. (formerly Leumi Gemel Ltd.), whose operations were sold to Prisma Provident Funds Ltd. (“Prisma”). The guarantee secures the repayment of the original principal amounts that were deposited as at December 31 2018, for a total of NIS 1,806 million in nominal values. As of December 31 2018, the value of the above funds’ assets amounted to NIS 4,312 million. In addition, this guarantee does not apply to deposits in accounts opened in the aforementioned funds after January 22 2007.

Against the aforesaid undertaking, Prisma undertook to pay the Bank a participation amount of no more than NIS 35 million per calendar year, linked to the CPI as from October 30 2006 until the payment date in the event that the guarantees or any portion thereof, is realized. A deductible amount not utilized in a certain year cannot be carried forward to future years.

G. Indemnification Letters

1. The Bank has undertaken in advance to indemnify its directors, other officers and those whom it employs under personal managerial contracts and who are not Bank officers (hereinafter - “Managerial Contract Holders”) in respect of monetary liabilities arising from actions taken in their capacity as directors, officers and managers in the Bank and its investee companies. The indemnification undertaking covers a number of indemnity events that, in the opinion of the Bank’s Audit Committee and Board of Directors, can be expected in view of the Bank’s activities; those events include, among other things, the Bank’s ordinary banking activities, share offerings under a prospectus, reports to the public and to regulatory authorities, activities relating to Antitrust Law, cyber incidents and any other activity associated with the Bank’s activities. The cumulative maximum amount payable by the Bank per one indemnity event in respect of which the indemnification undertakings it has given and will give to all officers of the Bank and the subsidiaries will be exercised will not exceed 25 percent (twenty-five percent) of the Bank’s common equity as per its latest (annual or quarterly) financial statements published before actual indemnification date (hereinafter - the “Maximum Indemnity Amount”). The Maximum Indemnity amount is payable in addition to amounts received from the insurance company, if any, pursuant to an insurance policy taken out by the Bank, if any, and/or under an insurance policy and/or indemnification by any party other than the Bank (such that the Maximum Indemnity Amount will not be reduced due to such insurance and/or indemnification payments, if any). The Bank also undertook in advance, among other things, to indemnify directors, other Bank officers and managerial contract holders in respect of reasonable litigation costs, including costs incurred as a result of an investigation or procedure that was concluded without an indictment being filed and without the imposition of a monetary sanction in lieu of criminal proceeding, or an investigation or procedure that was concluded without am indictment being filed but with the imposition of a monetary liability in lieu of criminal proceedings relating to a criminal offence which does not require proof of criminal intent or in connection with a monetary sanction. The letter of indemnity also includes a further indemnification undertaking in respect of expenses and/or payment to the injured party of a breach in accordance with and subject to the provisions of the Streamlining of Enforcement Proceedings in the Securities Authority Law (Legislative Amendments), 2011 ("the Administrative Enforcement Law"), and in respect of expenses incurred in connection with proceedings under Section G-1 of the Antitrust Law, 1988.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

On December 23 2019, an extraordinary meeting of shareholders of the Bank decided to approve an amendment to the List of Events for the Indemnification Undertakings (hereinafter: The "**Indemnification Undertakings**") for directors serving in the Bank, including those who will serve in the Bank from time to time. The List of Events was updated according to events which the Bank deems expected in light of its actual activity at the time of granting the Indemnification Undertaking. In addition, in this meeting, it was decided to approve the terms and conditions of service and employment of the President and CEO and of the Chairman of the Board, including granting indemnification undertakings.

The amendment of said Indemnification Undertakings also applies to other officers in the Bank as well as to managers with personal contracts who are not officers of the Bank, in line with the decision of the Audit Committee dated September 24 2019 and the Bank's Board of Directors dated October 29 2019.

The amended List of Events to the Indemnification Undertaking for directors and officers in the Bank is in line with the Bank's Articles of Association and the Bank's updated Compensation Policy.

Furthermore, on February 15 2004, the Bank's general meeting passed a resolution whereby directors will be exempted in advance for a liability in respect of damages caused due to breach of their duty of care towards the Bank. The decision to grant such an exemption also applies to other Bank officers, in accordance with the decision of the Audit Committee and the Board of Directors of June 2003.

2. The Bank has undertaken to indemnify Bank's employees in respect of expenses and/or any payment to the injured party of a breach in accordance with and subject to the provisions of the Administrate Enforcement Law, in accordance with terms and conditions normally set out in indemnity letters issued by the Bank.

3. The Bank has undertaken to indemnify certain external advisors including in connection with plans for awarding or offering securities to Bank or subsidiaries' officers or employees, as applicable, in respect of a liability or loss, and in various cases including in respect of other legal expenses in connection with services they rendered to the Bank.

4. The Bank and its subsidiaries have undertaken to indemnify international credit companies Visa and MasterCard in respect of fulfillment of the Max It Finance Ltd.'s obligations in connection with Visa and MasterCard credit card activity, as the case may be.

5. The Bank and its subsidiaries provide, from time to time, in the ordinary course of business and under generally accepted circumstances, indemnification undertakings, which are limited or unlimited as to their amount or period, including with regard to the Bank's obligations as a member of the Tel Aviv Stock Exchange, including as part of transactions for disposal of the Group's subsidiaries and operation, issuance and clearing agreements with the credit card companies.

6. The Bank provides, from time to time, indemnity letters, which are limited or unlimited as to their amount and period, to secure indemnities provided by subsidiaries to officers due to risks applicable to companies' officers, and to ensure that subsidiaries comply with regulatory directives. In addition, the Bank provided indemnity letters to Bank employees and officers of subsidiaries in respect of a list of events which are specified therein.

7. As part of the transaction for the sale of Bank Leumi Switzerland's activity to Julius Baer, the Bank provided Julius Baer with a guarantee of up to CHF 250 million to back the indemnity given by Bank Leumi Switzerland in respect of events defined in the agreement for a two-year period as from the transaction's closing date (March 2015) (subject to exceptions in respect of which the undertaking will be for a five-year period).

Note 26 - Contingent Liabilities and Special Commitments (cont.)

8. Under the agreement of November 2015 for the sale of Bank Leumi (Luxembourg) S.A. (hereinafter: "Leumi Luxembourg") to Banque J. Safra Sarasin (Luxembourg) S.A. (hereinafter – the "Buyer"), Leumi Luxembourg has undertaken to provide various indemnifications to the Buyer over a two-year period from the transaction's closing date (January 2016) (subject to exceptions in respect of which the undertaking will be for a five-year period). The indemnification amount is limited to an amount derived from Leumi Luxembourg's common equity (about USD 37.4 million). Leumi Luxembourg's indemnification obligation is backed by a guarantee provided by the Bank in the event that Leumi Luxemburg will not be able to meet its aforesaid indemnification obligations.

9. The sale agreement of Leumi Card Ltd. included an indemnification mechanism for the buyer in respect of misrepresentation. The reimbursement mechanism determines a 1.5 percent minimum for activating the mechanism and is restricted to a maximum total reimbursement rate of 10 percent of the transaction amount (excluding in respect of breach of material representations or in case of fraud).

10. As part of the sale agreement of Leumi Romania in April 2019, indemnification was granted for various issues, some limited to EUR 15 million for a period of up to five years from the sale date, and others unlimited in amount. The Bank believes that the unlimited indemnification relates to issues which the exposure - if they materialize - is immaterial. Indemnification was also granted to directors who served in Leumi Romania until the sale date, in accordance with the indemnification undertakings accepted in the Bank for directors and officers, as well as indemnification for employees in Leumi Romania in relation to the sale procedure.

11. As part of an international offering of subordinated bonds with a mechanism for principal loss absorption through conversion into ordinary shares of the Bank, in accordance with the provisions of Proper Conduct of Banking Business Directive 202, which were offered to qualified institutional buyers as defined in and in reliance on Rule 144A under the United States Securities Act of 1933 (hereinafter: The "US Securities Act") and outside the United States in accordance with Regulation S under the US Securities Act, which took place in January 2020 (hereinafter: The "Offering"), the Bank was required, under the purchase agreement with the underwriters, which was signed shortly after the pricing of the offering was completed, to indemnify the underwriters and parties associated with them, for damages, lawsuits and losses which they shall incur, if incurred, in accordance with the US Securities Act or the United States Securities Exchange Act of 1934 in respect of material incorrect details, or which are purported to be incorrect, which were included in the offering documents or any other information submitted by the Bank or in its name in relation to the offering, or omission of material details and/or claim regarding such an omission of details from said documents or information.

H. Credit Cards

Interchange fee rate

On November 25 2018, the Banking (Customer Service) (Supervision of Cross Clearing Service of Debit Card Transactions and Immediate Debit Transactions) Ordinance, 2018 was published, declaring the service given by clearing houses to businesses for debit card transactions as a supervisable service in terms of the interchange fee, and setting an outline for reducing the interchange fee, as follows:

From January 1 2019 – a reduction from 0.7 percent to 0.6 percent;

From January 1 2020 – a reduction from 0.6 percent to 0.575 percent;

From January 1 2021 – a reduction from 0.575 percent to 0.55 percent;

From January 1 2022 – a reduction from 0.55 percent to 0.525 percent;

From January 1 2023 – a reduction from 0.525 percent to 0.5 percent.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

It was also determined that the interchange fee on immediate debit transactions (which is currently 0.3 percent) will be reduced as follows:

From January 1 2021 – a reduction from 0.3 percent to 0.275 percent;

From January 1 2023 – a reduction from 0.275 percent to 0.25 percent.

The said order also includes an outline of an accelerated reduction in the interchange fee for debit card transactions for customers who are public institutions.

Issuance and issuance operation agreements

Pursuant to the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, as of February 2019, the Bank is required to operate the issuance of new credit cards for the Bank's customers through at least two issuance operators, with any issuance operator's share reaching no more than 52 percent of the new cards issued by the Bank.

In 2018 and 2019, to implement the above, the Bank signed issuance and issuance operation agreements of debit cards with the following credit card companies: Isracard Ltd. and Europay (Eurocard) Israel Ltd. (of the Isracard group); Israel Credit Cards Ltd. and Diners Club Israel Ltd. (of the CAL group); and Max It Finance Ltd. (formerly Leumi Card Ltd.). As of the end of the reporting period, the Bank issues debit cards in accordance with the said agreements with the three credit card companies: The CAL Group, Max It Finance and the Isracard group).

Note 27 - Pledges and Restrictions

As of December 31 2019 and December 31 2018, the bonds and capital notes issued by Israeli consolidated companies are not secured by floating pledges on their assets. Consolidated companies placed pledges on securities and other assets to secure deposits received from Federal Home Loan Bank (FHLB) as well as certain obligations pursuant to requirements of the governments of countries in which they operate. The pledged assets amount to NIS 2,810 million (December 31 2018 – NIS 2,720 million). Total liabilities in respect of which pledges were placed on assets is NIS 1,987 million (December 31 2018 – NIS 1,919 million).

In its capacity as a member of the Tel Aviv Stock Exchange, the Bank is a member of the risk reserve of the Stock Exchange’s Clearing House.

The amount of the risk reserve shall be equal to the amount of the largest periodic debit balance that a member had during the six months that ended in the calendar month before the updating date. The risk reserve updates the amounts 4 times a year.

In addition – the Bank signed a credit facility agreement with Euroclear at the total amount of USD 150 million as surety for the clearing of customers’ securities. The credit facility is backed with securities held by the Bank with Euroclear.

Each risk reserve member places pledges on securities in favor of the Stock Exchange’s Clearing House to secure payment of the member's proportionate share in the Risk Fund and also as surety for the performance of all that member’s other obligations towards the Clearing House and its share in the Risk Fund. These collateral also secure the performance of all other obligations of risk reserve members in the event that the collaterals provided by another member do not cover all its obligations, according to the proportionate share of each member, up to the lower of the full amount of the collateral provided or the amount of the obligations towards the Stock Exchange’s clearing house. As of reporting date, the Bank’s-share in the Stock Exchange Clearing House’s risk reserve is NIS 171 million (December 31 2018 – NIS 124 million). The total amount of assets pledged by the Bank in favor of the Stock Exchange’s Clearing House is NIS 180 million (December 31 2018 – NIS 183 million).

The Bank is also a member of the risk reserve of the MAOF Clearing House. The Bank undertook to pay the MAOF Clearing House any financial obligation arising from the MAOF transactions it carries out for its customers, from its own portfolio and from MAOF transactions of other Stock Exchange members not clearing independently via the MAOF Clearing House. The amount of the Bank’s liability is presented in Note 30D, Off-Balance Sheet Financial Instruments.

The Bank provides collateral in favor of the MAOF Clearing House to secure payment of the its proportionate share in the risk reserve and also as a guarantee for the performance of all its aforementioned obligations towards the MAOF Clearing House and its share in the Risk Fund. These collateral also secure the performance of all other obligations of risk reserve members. In the event that the collateral provided by another member of the risk reserve do not cover all of its obligations, the MAOF Clearing House may also realize the collateral provided by other Risk Fund members, according to the proportionate share of each member, up to the lower of the full amount of the collateral provided or the amount of the commitments towards the MAOF Clearing House.

As of reporting date, the Bank’s share in the risk reserve of the MAOF Clearing House is approx. NIS 88 million.

Like any other clearing house member, the Bank may secure its obligations to the risk reserve of the MAOF Clearing House by placing pledges on government bonds and deposits. The total amount of bonds and deposits pledged by the Bank in favor of the MAOF Clearing House in respect of customers’ activity, the nostro portfolio and the risk reserve as of December 31 2019 is NIS 822 million (December 31 2018 – NIS 711 million).

Note 27 - Pledges and Restrictions (cont.)

In its capacity as a participant in the TGS ("Zahav") system, a holder of a clearing account of that system, a member of the MASAV payments system and the check clearing system (hereinafter: "Participant"), the Bank is a party to an arrangement whose aim is to ensure the finality of settlement of transactions in default events where funds in the clearing account of one or more of the other participants do not cover the obligations. In the event of default, each non-defaulting Participant ("Surviving Participant") is to bear the obligations of the defaulting Participant according to the proportionate share of the Surviving Participant divided by the difference between 100 percent and the defaulting participant's proportionate share. As of December 31 2019, the Bank's pro rata share in MASAV and in the check clearing system is 19.5 percent and 21.99 percent, respectively. This percentage is updated every six months according to the pro rata share of each Participant's transactions settled via the relevant payments system during the last six months. The overall ceiling for participation of all Participants in the MASAV and the check clearing system is NIS 300 million and NIS 150 million, respectively. In the event of default, the Bank of Israel will send a multi-party payment instruction debiting the clearing account of the defaulting Participant and crediting the clearing accounts of the Surviving Participant by the amount that each Surviving Participant paid under the arrangement, with the addition of interest at the Actual Bank of Israel Rate of Interest. Such instruction will be issued immediately after the system opens on the business day following the default day. The default arrangement is not intended to deal with a situation of a known or probable insolvency. In case of insolvency, the Supervision of Banking Department will deal with the matter.

The Bank and consolidated companies enter into Credit Support Annex (CSA) agreements with counterparties, whose purpose is to mitigate the mutual credit risks arising between the parties from derivatives trading. According the agreements, the value of all derivative transactions carried out between the parties is measured on a periodic basis and if the net exposure of one of the parties exceeds a pre-determined threshold, that party is required to transfer to the other party deposits at the exposure amount by the next measurement date. As of December 31 2019, the Group made available to the above counterparties deposits totaling USD 753 million (December 31 2018 - USD 742 million).

The Bank and its consolidated companies enter into agreements with counterparties for the purpose of entering into tradable futures in foreign exchanges on behalf of the Bank, the consolidated companies and their customers. As of December 31 2019, the Group deposited with the above counterparties USD 633 million (December 31 2018 - USD 1,120 million). In addition, to limit the exposure, the Group transferred as a transfer to hedge exposure totaling USD 565 million and EUR 315 million (2018 - USD 360 million and EUR 122 million). It should be noted that the majority of the collateral transferred in respect of customers' activity in connection with these transactions were customers' funds in accordance with the hedge exposure agreements they signed with the Bank.

The Bank signed a bond whereunder it placed a fixed first pledge and assignment by way of pledge, unlimited in amount, in favor of the Bank of Israel on all assets and rights in specific accounts in the name of the Bank Israel with the Tel Aviv Stock Exchange's Clearing House, with Euroclear Bank or with any other clearing house agreed about by the Bank and the Bank of Israel. Assets subject to a lien in the Euroclear Bank or in another account with a clearing house outside Israel are also subject to a first floating lien in favor of the Bank of Israel.

The purpose of this pledge is to secure all of the Bank's obligations in connection with loans extended to the Bank by the Bank of Israel and to function as surety to secure those loans, as set out in the loan documents, except for loans extended pursuant to a loan agreement between the Bank of Israel and the Bank and a secured bond of May 21 2008.

On May 21 2008, the Bank signed a bond whereunder it placed a first floating pledge, in favor of the Bank of Israel, on its rights to receive NIS-denominated funds and charges that are payable and will be payable to the Bank, from time to time, from its corporate customers (incorporated under the laws of the State of Israel), the loans extended to which by the Bank are not in arrears, in respect of NIS loans whose average duration does not exceed three years which were extended and will be extended by the Bank to the aforementioned customers.

The purpose of this pledge is to secure loans to be extended to the Bank by the Bank of Israel for the Bank's activity as the provider of shekel liquidity services to the Continuous Linked Settlement Bank (CLS), plus interest, costs and expenses arising from realizing the pledge, up to a total of NIS 1.1 billion, in accordance with the provisions of the loan agreement signed between the parties in connection with this matter. During 2010-2019, Leumi did not utilize credit of this type.

Note 27 - Pledges and Restrictions (cont.)

	December 31	
	2019	2018
	In NIS millions	
Sources of securities received and which the Bank may sell or pledge at fair value, before the effect of offsets		
Securities received in transactions for lending of securities against cash	**1,470**	1,257
Applications of securities received and which the Bank may sell or pledge at fair value, before the effect of offsets		
Securities lent in transactions for lending securities against cash	**476**	541

Apart from these securities, as of balance sheet date, additional securities were provided as collateral, shown under the securities item above; lenders are not allowed to sell or pledge those securities.

The Bank also deposits government bonds as collateral for tradable futures activity, in lieu of cash. These securities are held in the available-for-sale portfolio.

From time to time, the Bank deposits with Leumi USA, monetary deposits to back the Bank's liabilities in relation to credit provided by Bank Leumi USA to secure liabilities of Bank Leumi of Israel, in accordance with the directives of the Federal Reserve. These deposits are deposited as part of a designated deposit agreement signed in May 2018 and replaced a deed of pledge from September 2010. As of December 31 2019, the amount of deposits was USD 265 million (December 31 2018 - USD 323 million).

Note 28A – Derivatives and Hedging Activities

Overview

The aforementioned activity involves taking risks, the principal of which are:

- Credit risk which is measured according to the loss amount the Bank may incur if the counterparty to the transaction fails to meet the terms and conditions of the transaction. Customers' collateral are required to cover the risk in accordance with the risk arising from the transactions. The required collateral are included within the collateral required in respect of the total amount of the customer's indebtedness.
- Market risks include risks stemming from changes in interest rates, exchange rates, the CPI, prices of securities/indexes and prices of commodities. The market risks stemming from derivative instrument transactions constitute a part of the total market risks of the derivative instruments. Derivative activities are carried out within the limits set by Group companies' Board of Directors with regard to exposure to market risks.
- Liquidity risk is the risk arising due to uncertainty regarding the price which the Bank will be required to pay to cover the transaction. This risk arises mainly from instruments whose tradability or the tradability of their underlying asset is low. This risk was taken into account when calculating the required collateral.
- The aforesaid activity does not relate to derivative which are embedded in other activities.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates

A. Volume of Consolidated Activity

	December 31 2019		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	1,081	24,316	25,397
Written options	-	18,070	18,070
Purchased options	-	16,227	16,227
Swaps[(a)]	37,085	275,579	312,664
Total[(b)]	38,166	334,192	372,358
Of which: Hedging derivatives[(c)]	3,682	-	3,682
b) Foreign currency contracts			
Futures and forwards[(d)]	32,492	176,729	209,221
Written options	1,242	26,722	27,964
Purchased options	1,242	29,092	30,334
Swaps[(a)]	710	19,155	19,865
Total	35,686	251,698	287,384
Of which: Hedging derivatives[(c)]	-	-	-
c) Stock contracts			
Futures and forwards	618	141,575	142,193
Written options	1,103	61,474	62,577
Purchased options[(e)]	1,187	61,378	62,565
Swaps	29	52,584	52,613
Total	2,937	317,011	319,948
d) Commodities and other contracts			
Futures and forwards	-	1,133	1,133
Written options	-	444	444
Purchased options	-	441	441
Swaps	-	279	279
Total	-	2,297	2,297
e) Credit contracts			
Guaranteed by the Bank	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	76,789	905,198	981,987

(a) Of which: Swaps for which the banking corporation pays a fixed interest of NIS 164,068 million.
(b) Of which: NIS-CPI swaps totaling NIS 15,522 million.
(c) The Bank makes the hedging through interest rate swaps (IRS).
(d) Of which: Foreign exchange spots totaling NIS 11,436 million.
(e) Of which a total of NIS 61,181 million is traded on the Tel Aviv Stock Exchange.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2018[f]		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	4,651	69,935	74,586
Written options	-	39,682	39,682
Purchased options	-	37,097	37,097
Swaps[a]	25,319	233,740	259,059
Total[b]	29,970	380,454	410,424
Of which: Hedging derivatives[c]	2,246	-	2,246
b) Foreign currency contracts			
Futures and forwards[d]	35,792	179,038	214,830
Written options	1,181	41,180	42,361
Purchased options	1,181	41,545	42,726
Swaps[a]	812	23,363	24,175
Total	38,966	285,126	324,092
Of which: Hedging derivatives[c]	-	-	-
c) Stock contracts			
Futures and forwards	849	115,095	115,944
Written options	1,762	20,726	22,488
Purchased options[e]	1,902	20,929	22,831
Swaps	181	47,787	47,968
Total	4,694	204,537	209,231
d) Commodities and other contracts			
Futures and forwards	-	1,006	1,006
Written options	-	667	667
Purchased options	-	667	667
Swaps	-	211	211
Total	-	2,551	2,551
e) Credit contracts			
Guaranteed by the Bank	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	73,630	872,668	946,298

(a) Of which: Swaps for which the banking corporation pays a fixed interest of NIS 130,341 million.
(b) Of which: NIS-CPI swaps totaling NIS 18,744 million.
(c) The Bank makes the hedging through interest rate swaps (IRS).
(d) Of which: Foreign exchange spots totaling NIS 13,967 million.
(e) Of which a total of NIS 20,869 million is traded on the Tel Aviv Stock Exchange.
(f) Reclassified for first-time application of US GAAP for Banks' ASU 2017-12 - "Derivatives and Hedging, including updates thereof". Please see Note 1.W.1.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2019					
	Assets for derivatives, gross			Liabilities for derivatives, gross		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions					
(2) Gross fair value of derivatives						
a) Interest rate contracts	130	4,527	4,657	251	4,495	4,746
Of which: Hedging derivatives	10	-	10	168	3	171
b) Foreign currency contracts	149	2,294	2,443	158	2,819	2,977
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	105	3,721	3,826	104	3,708	3,812
d) Commodities and other contracts	-	44	44	-	43	43
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities for derivatives, gross[a]	384	10,586	10,970	513	11,065	11,578
Amounts netted on the balance sheet	-	-	-	-	-	-
Book balance	384	10,586	10,970	513	11,065	11,578
Of which: Not subject to a master netting- or similar arrangements	-	173	173	11	347	358

(a) Of which: NIS - million in gross fair value of assets in respect of embedded derivatives, NIS 50 million in gross fair value of liabilities in respect of embedded derivatives.

	December 31 2018[b]					
	Assets for derivatives, gross			Liabilities for derivatives, gross		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions					
(2) Gross fair value of derivatives						
a) Interest rate contracts	133	3,592	3,725	284	3,345	3,629
Of which: Hedging derivatives	48	-	48	17	-	17
b) Foreign currency contracts	98	4,345	4,443	119	3,767	3,886
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	16	4,491	4,507	34	4,475	4,509
d) Commodities and other contracts	-	81	81	-	81	81
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities for derivatives, gross[a]	247	12,509	12,756	437	11,668	12,105
Amounts netted on the balance sheet	-	-	-	-	-	-
Book balance	247	12,509	12,756	437	11,668	12,105
Of which: Not subject to a master netting- or similar arrangements	2	352	354	-	920	920

(a) Of which: NIS 6 million in gross fair value of assets in respect of embedded derivatives, NIS 16 million in gross fair value of liabilities in respect of embedded derivatives.

(b) Reclassified for first-time application of US GAAP for Banks' ASU 2017-12 - "Derivatives and Hedging, including updates thereof". Please see Note 1.W.1.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting Hedges

1. Effect of hedge accounting of cash flows and of fair value on the profit (loss)

	For the year ended December 31			
	2019		2018	
	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified from accumulated other comprehensive income (loss) to profit and loss[a]	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified from accumulated other comprehensive income (loss) to profit and loss[a]
	In NIS millions			
A. Derivatives used to hedge cash flows[b]				
Interest rate contracts	(3)	-	-	-

2. Effect of fair value hedge accounting on accumulated other comprehensive income (loss)

	For the year ended December 31	
	2019	2018
	In NIS millions	
Total interest income (expense) recognized in the income statement		
Profit or loss[a]	**(13)**	7
Effect of fair value hedges:		
A. Gain (loss) from fair value hedges		
Interest rate contracts		
Hedged items	**176**	(10)
Hedging derivatives	**(189)**	17

(a) Until January 1 2019, profit (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) item or in the noninterest finance income (expense) item according to the hedge effectiveness. As of January 1 2019, all of these amounts are included in the interest income (expense) item.

(b) Represents amounts included in the hedge effectiveness assessment.

3. Items hedged at Fair value hedges

	For the year ended December 31					
	2019			2018		
		Fair value adjustments which increased (decreased) the book value			Fair value adjustments which increased (decreased) the book value	
	Book value of hedged item	Existing hedge ratios	Discontinued hedge ratios	Book value of hedged item	Existing hedge ratios	Discontinued hedge ratios
	In NIS millions					
Securities - debt instruments classified as available-for-sale securities	4,024	127	-	2,259	(77)	-

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting Hedges (cont.)

4. The effect of hedging a net investment in a foreign operation on "Accumulated other comprehensive income (loss)" and on the income statement

	For the year ended December 31			
	2019		2018	
	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from accumulated other comprehensive income (loss)[(a)]	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from accumulated other comprehensive income (loss)[(a)]
	In NIS millions			
Deposits serving as investment hedges, net				
Foreign currency deposits	**178**	**-**	(182)	-

(a) Until January 1 2019, profit (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) item or in the noninterest finance income (expense) item according to the hedge effectiveness. As of January 1 2019, all of these amounts are included in the interest income (expense) item.

5. The effect of derivatives not designated as hedging instruments on the income statement

	For the year ended December 31	
	2019	2018
	Gain (loss) recognized in income (expense) from derivatives activity[(a)]	Gain (loss) recognized in income (expense) from derivatives activity[(a)]
	In NIS millions	
Derivatives not designated as hedging instruments		
Interest rate contracts	**(154)**	(100)
Foreign exchange contracts	**(1,145)**	2,730
Stock contracts	**183**	(147)
Commodity and other contracts	**4**	1
Total	**(1,112)**	2,484

(a) Included in the noninterest finance income (expense) item.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Credit risk for derivatives by contract counterparty

	December 31 2019					
	Stock ex-changes	Banks	Dealers/ brokers	Govern-ments and central banks	Others	Total
	In NIS millions					
Book balance for derivatives[a][b]	175	6,386	2,039	141	2,229	10,970
Gross amounts not netted on the balance sheet:						
Credit risk mitigation for financial instruments	-	4,165	1,352	-	1,303	6,820
Credit risk mitigation for cash collateral received	-	2,090	617	133	474	3,314
Net amount of assets for derivatives	175	131	70	8	452	836
Off-balance-sheet credit risk for derivatives[d][e]	467	6,312	4,825	84	9,014	20,702
Mitigation of off-balance-sheet credit risk	-	2,410	1,295	-	4,837	8,542
Net off-balance-sheet credit risk for derivatives	467	3,902	3,530	84	4,177	12,160
Total credit risk for derivatives	642	4,033	3,600	92	4,629	12,996
Book balance of liabilities for derivatives[a][c]	154	4,477	1,422	-	5,525	11,578
Gross amounts not netted on the balance sheet:						
Financial instruments	-	4,165	1,352	-	1,303	6,820
Pledged cash collateral	-	178	62	-	3,095	3,335
Net amount of liabilities for derivatives	154	134	8	-	1,127	1,423

	December 31 2018					
	Stock ex-changes	Banks	Dealers/ brokers	Govern-ments and central banks	Others	Total
	In NIS millions					
Book balance for derivatives[a][b]	204	4,591[f]	1,202[f]	19	6,740	12,756
Gross amounts not netted on the balance sheet:						
Credit risk mitigation for financial instruments	-	3,716	1,076	19	1,214	6,025
Credit risk mitigation for cash collateral received	-	706	68	-	4,125	4,899
Net amount of assets for derivatives	204	169	58	-	1,401	1,832
Off-balance-sheet credit risk for derivatives[d][e]	446	5,398[f]	3,834[f]	73	6,998	16,749
Mitigation of off-balance-sheet credit risk	-	2,841	1,663	44	1,010	5,558
Net off-balance-sheet credit risk for derivatives	446	2,557	2,171	29	5,988	11,191
Total credit risk for derivatives	650	2,726	2,229	29	7,389	13,023
Book balance of liabilities for derivatives[a][c]	254	6,488[f]	2,904[f]	101	2,358	12,105
Gross amounts not netted on the balance sheet:						
Financial instruments	-	3,716	1,076	18	1,214	6,024
Pledged cash collateral	-	2,549	1,197	83	93	3,922
Net amount of liabilities for derivatives	254	223	631	-	1,051	2,159

(a) The Bank did not offset netting agreements.
(b) Of which book balances of assets in respect of standalone derivatives totaling NIS 10,970 million (December 31 2018 - NIS 12,750 million).
(c) Of which book balances of liabilities in respect of standalone derivatives totaling NIS 11,528 million (December 31 2018 - NIS 12,089 million).
(d) Off-balance-sheet credit risk for derivatives (including derivatives with negative fair value) before credit risk mitigation, as calculated for the purpose of limitations on borrower indebtedness.
(e) The difference, if positive, between all total amounts for derivatives (including derivatives with negative fair value) included in the borrower's indebtedness, as calculated for the purpose of borrower credit limitations, before credit risk mitigation, and the book balance of assets for the borrower's derivatives.
(f) Reclassified.

Comment:

No loan losses were recognized in respect of derivatives in 2019 and 2018.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

D. Breakdown of settlement dates - par value: Balances

	December 31 2019				
	Up to three months	Over three months and up to one year	More than one year and up to five years	Over five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	2,001	4,635	6,268	2,618	15,522
Other	50,213	71,773	160,318	74,532	356,836
Foreign exchange contracts	185,140	85,138	13,290	3,816	287,384
Stock contracts	270,121	48,177	1,650	-	319,948
Commodity and other contracts	1,991	306	-	-	2,297
Total	509,466	210,029	181,526	80,966	981,987

	December 31 2018				
	Up to three months	Over three months and up to one year	More than one year and up to five years	Over five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	2,029	4,319	9,648	2,748	18,744
Other	101,363	59,524	158,082	72,711	391,680
Foreign exchange contracts	186,191	114,076	18,988	4,837	324,092
Stock contracts	172,096	35,879	1,256	-	209,231
Commodity and other contracts	1,254	966	331	-	2,551
Total	462,933	214,764	188,305	80,296	946,298

Note 29A - Regulatory Operating Segments and Geographic Areas

A. Overview

Regulatory operating segment – a component of the banking corporation engaged in certain activities or which pools certain customer classes defined by the Banking Supervision Department. A regulatory operating segment is defined mainly based on the classification of the customers.

B. Description of the Main Operating Segments Set Pursuant to the Directives of the Bank of Israel:

1. Households segment – private individuals excluding Private Banking customers.
2. Private Banking segment– private individuals with a financial portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 10 million.
4. Small businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of more than NIS 10 million and less than NIS 50 million.
5. Mid-sized businesses segment – businesses whose turnover is equal to or higher than NIS 50 million and lower than NIS 250 million.
6. Corporate segment – businesses whose turnover is equal to or higher than NIS 250 million.
7. Financial management segment – includes the following activities:
    a. Trading activities - investment in tradable securities, market-making activity involving securities and derivative instruments, activity in derivatives not designated as hedges and not used by the Bank in its Asset and Liability Management (ALM) activities, repurchase and lending transactions involving securities, short selling of securities, securities' underwriting services.
    b. Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and held-to-maturity bonds not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges in respect of investments in foreign offices, deposits with and by governments.
    c. Non-financial investment activity – investment in available-for-sale shares and investments in associate companies of businesses.
    d. Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
8. Other segment – including discontinued operations, gains on amounts funded for employee rights and other results related to employee rights which were not allocated to other operating segments, activities that were not allocated to the other segments and adjustments between the total amount of items allocated to segments and the total amount of items in the consolidated financial statements.

Customer classification

According to the Operating Segments Circular, customers should be classified by operating segments according to their turnovers or characteristics (private customers and other individuals). When a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total balance-sheet assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 - into the large business segment.

During the period, measures were taken to complete missing information, mainly regarding business customers' turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank's possession. The Bank continues to collect additional information and improve the data.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments

	For the year ended December 31 2019			
	Activity in Israel			
	House-holds	Private banking	Small- and micro-businesses[d]	Medium-sized businesses[d]
	In NIS millions			
Interest income from external	3,392	4	2,404	842
Interest expense for external	319	176	189	262
Interest income, net:				
From external	3,073	(172)	2,215	580
Inter-segmental	(505)	287	(16)	284
Total interest income, net	2,568	115	2,199	864
Total noninterest income	952	145	760	306
Total income	3,520	260	2,959	1,170
Loan loss expenses (income)	157	-	372	31
Operating and other expenses:				
For external	3,063	100	1,581	502
Inter-segmental	1	-	-	-
Total operating and other expenses	3,064	100	1,581	502
Profit before taxes	299	160	1,006	637
Provision for profit taxes	95	57	360	229
Profit after taxes	204	103	646	408
The Bank's share in associates' profits, after tax effect	-	-	-	-
Net income before amount attributable to non-controlling interests	204	103	646	408
Net income attributable to non-controlling interests	-	-	-	-
Net income attributable to the Bank's shareholders	204	103	646	408
Average balance of assets[a]	96,868	333	62,263	28,452
Of which: Investments in associates[a]	-	-	-	-
Average outstanding loans to the public[a]	97,500	328	62,744	28,702
Outstanding loans to the public as at the end of the reporting period	99,370	346	62,727	29,578
Outstanding impaired non-performing debts	310	-	762	259
Outstanding debts in arrears for over 90 days	888	-	72	-
Average outstanding liabilities[a]	107,842	23,498	58,035	38,456
Of which: Average balance of deposits by the public[a]	107,746	23,491	57,926	38,357
Balance of deposits by the public as at the end of the reporting period	106,796	23,717	57,988	40,919
Average balance of risk-weighted assets[a][b]	69,266	746	54,184	30,276
Balance of risk-weighted assets as at the end of the reporting period[b]	69,901	742	55,936	31,712
Average balance of assets under management[a][c]	67,701	43,681	51,617	26,111
Breakdown of interest income, net:				
Margin from loan granting to the public	2,153	2	1,941	652
Margin from deposit taking from the public	415	113	258	212
Other	-	-	-	-
Total interest income, net	2,568	115	2,199	864

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including outstanding housing loans to business customers of NIS 12,903 million as at the end of the period.

					Foreign operations				
Corporations[d]	Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity outside Israel	Total
1,973	33	1,449	-	10,097	72	1,106	162	1,340	11,437
353	490	517	-	2,306	103	172	15	290	2,596
1,620	(457)	932	-	7,791	(31)	934	147	1,050	8,841
(163)	631	(484)	5	39	135	(199)	25	(39)	-
1,457	174	448	5	7,830	104	735	172	1,011	8,841
559	170	1,541	369	4,802	86	113	80	279	5,081
2,016	344	1,989	374	12,632	190	848	252	1,290	13,922
27	(6)	(30)	-	551	(1)	59	-	58	609
496	252	269	813	7,076	211	483	138	832	7,908
1	1	4	-	7	-	-	(7)	(7)	-
497	253	273	813	7,083	211	483	131	825	7,908
1,492	97	1,746	(439)	4,998	(20)	306	121	407	5,405
536	36	661	(216)	1,758	(6)	77	1	72	1,830
956	61	1,085	(223)	3,240	(14)	229	120	335	3,575
-	-	(15)	-	(15)	-	-	-	-	(15)
956	61	1,070	(223)	3,225	(14)	229	120	335	3,560
-	-	-	-	-	(3)	29	12	38	38
956	61	1,070	(223)	3,225	(11)	200	108	297	3,522
64,489	2,138	163,553	10,207	428,303	1,237	23,386	7,573	32,196	460,499
-	-	625	-	625	-	-	-	-	625
64,807	2,142	-	-	256,223	856	23,476	1	24,333	280,556
67,167	3,399	-	-	262,587	552	22,667	-	23,219	285,806
699	-	-	-	2,030	1	500	-	501	2,531
17	-	-	-	977	-	25	-	25	1,002
51,155	66,919	40,126	13,152	399,183	5,198	18,494	1,647	25,339	424,522
47,612	65,932	-	-	341,064	5,121	18,348	870	24,339	365,403
53,531	68,329	-	-	351,280	6,192	15,334	838	22,364	373,644
81,743	995	25,422	18,104	280,736	562	28,770	3,092	32,424	313,160
82,749	1,022	26,200	17,675	285,937	433	27,849	2,245	30,527	316,464
71,165	735,417	51,368	-	1,047,060	16,255	1,198	-	17,453	1,064,513
1,301	1	2,593	4	8,647	10	440	729	1,179	9,826
156	172	(3,066)	-	(1,740)	94	295	(675)	(286)	(2,026)
-	1	921	1	923	-	-	118	118	1,041
1,457	174	448	5	7,830	104	735	172	1,011	8,841

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2018[g]			
	Activity in Israel			
	Households	Private banking	Small- and micro-businesses[d]	Medium-sized businesses[d]
	In NIS millions			
Interest income from external	3,737	5	2,466	823
Interest expense for external	388	170	142	163
Interest income, net:				
From external	3,349	(165)	2,324	660
Inter-segmental	(664)	273	(101)	134
Total interest income, net	2,685	108	2,223	794
Total noninterest income	1,603	145	857	338
Total income	4,288	253	3,080	1,132
Loan loss expenses (income)	266	-	288	(174)
Operating and other expenses:				
For external	3,478	104	1,636	535
Inter-segmental	3	-	-	-
Total operating and other expenses	3,481	104	1,636	535
Profit before taxes	541	149	1,156	771
Provision for profit taxes	181	51	400	270
Profit after taxes	360	98	756	501
The Bank's share in associates' profits, after tax effect	-	-	-	-
Net income before amount attributable to non-controlling interests	360	98	756	501
Net income attributable to non-controlling interests	46	-	3	2
Net income attributable to the Bank's shareholders	314	98	753	499
Average balance of assets[a]	99,915	326	63,000	26,116
Of which: Investments in associates[a]	-	-	-	-
Average outstanding loans to the public[a][e]	100,606	320	63,454	26,330
Outstanding loans to the public as at the end of the reporting period	103,004	325	63,421	27,470
Outstanding impaired non-performing debts	382	-	771	116
Outstanding debts in arrears for over 90 days	913	-	81	-
Average outstanding liabilities[a]	104,509	22,637	59,532	36,653
Of which: Average balance of deposits by the public[a][f]	104,478	22,624	56,397	35,319
Balance of deposits by the public as at the end of the reporting period	106,821	23,919	57,414	39,227
Average balance of risk-weighted assets[a][b]	75,463	787	53,965	28,601
Balance of risk-weighted assets as at the end of the reporting period[b]	75,866	742	55,341	29,233
Average balance of assets under management[a][c]	69,951	41,283	50,531	25,942
Breakdown of interest income, net:				
Margin from loan granting to the public	2,332	3	2,007	632
Margin from deposit taking from the public	353	105	216	162
Other	-	-	-	-
Total interest income, net	2,685	108	2,223	794

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including outstanding housing loans to business customers of NIS 12,956 million as at the end of the period.
(e) Including an average balance of assets classified as held-for-sale in the amount of NIS 8,461 million.
(f) Including an average outstanding liabilities classified as held for sale in the amount of NIS 77 million.
(g) Reclassified, incl. improvement effort carried out in 2019.

					Foreign operations				
Corpora-tions[(d)]	Institu-tional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity outside Israel	Total
1,828	27	1,080	-	9,966	45	1,154	181	1,380	11,346
321	522	487	-	2,193	32	219	12	263	2,456
1,507	(495)	593	-	7,773	13	935	169	1,117	8,890
(180)	660	(86)	1	37	118	(199)	44	(37)	-
1,327	165	507	1	7,810	131	736	213	1,080	8,890
623	213	713	79	4,571	74	124	102	300	4,871
1,950	378	1,220	80	12,381	205	860	315	1,380	13,761
22	4	21	-	427	(1)	93	-	92	519
488	268	275	663	7,447	248	554	88	890	8,337
-	1	(15)	8	(3)	-	-	3	3	-
488	269	260	671	7,444	248	554	91	893	8,337
1,440	105	939	(591)	4,510	(42)	213	224	395	4,905
499	37	315	(226)	1,527	(12)	52	52	92	1,619
941	68	624	(365)	2,983	(30)	161	172	303	3,286
-	-	36	-	36	-	-	-	-	36
941	68	660	(365)	3,019	(30)	161	172	303	3,322
3	(1)	(3)	(4)	46	(3)	9	13	19	65
938	69	663	(361)	2,973	(27)	152	159	284	3,257
58,912	1,318	161,283	7,594	418,464	1,042	23,916	8,276	33,234	451,698
-	-	758	-	758	-	-	-	-	758
58,798	1,291	-	-	250,799	1,053	23,472	5	24,530	275,329
63,504	687	-	-	258,411	1,101	24,650	2	25,753	284,164
917	-	-	-	2,186	33	577	-	610	2,796
2	-	-	-	996	-	27	-	27	1,023
50,866	68,820	35,396	12,484	390,897	4,825	20,034	1,646	26,505	417,402
47,794	67,058	-	-	333,670	4,784	19,824	869	25,477	359,147
50,370	61,126	-	-	338,877	4,903	20,120	885	25,908	364,785
78,049	754	23,386	16,152	277,157	721	28,717	3,149	32,587	309,744
79,459	1,122	25,685	16,265	283,713	666	30,031	3,460	34,157	317,870
73,996	693,109	43,110	-	997,922	16,517	1,702	1	18,220	1,016,142
1,202	12	2,698	1	8,887	22	411	765	1,198	10,085
125	152	(2,701)	-	(1,588)	109	325	(693)	(259)	(1,847)
-	1	510	-	511	-	-	141	141	652
1,327	165	507	1	7,810	131	736	213	1,080	8,890

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2017[e]			
	Activity in Israel			
	House-holds	Private banking	Small- and micro-busi-nesses[d]	Medium-sized busi-nesses[d]
	In NIS millions			
Interest income from external	3,334	5	2,385	749
Interest expense for external	365	129	101	104
Interest income, net:				
From external	2,969	(124)	2,284	645
Inter-segmental	(538)	200	(199)	38
Total interest income, net	2,431	76	2,085	683
Total noninterest income	1,529	135	826	335
Total income	3,960	211	2,911	1,018
Loan loss expenses (income)	185	-	250	(44)
Operating and other expenses:				
For external	3,552	100	1,634	527
Inter-segmental	1	-	-	-
Total operating and other expenses	3,553	100	1,634	527
Profit before taxes	222	111	1,027	535
Provision for profit taxes	55	43	391	208
Profit after taxes	167	68	636	327
The Bank's share in associates' profits, after tax effect	-	-	-	-
Net income before amount attributable to non-controlling interests	167	68	636	327
Net income attributable to non-controlling interests	27	-	2	1
Net income attributable to the Bank's shareholders	140	68	634	326
Average balance of assets[a]	100,067	303	61,689	24,479
Of which: Investments in associates[a]	-	-	-	-
Average outstanding loans to the public[a]	100,726	298	62,122	24,608
Outstanding loans to the public as at the end of the reporting period	101,233	323	62,766	25,311
Outstanding impaired non-performing debts	372	-	734	283
Outstanding debts in arrears for over 90 days	807	-	62	-
Average outstanding liabilities[a]	109,464	22,088	53,368	34,709
Of which: Average balance of deposits by the public[a]	105,591	22,015	52,540	34,254
Balance of deposits by the public as at the end of the reporting period	103,363	22,825	50,331	35,416
Average balance of risk-weighted assets[a][b]	75,502	758	52,281	27,625
Balance of risk-weighted assets as at the end of the reporting period[b]	75,493	828	53,525	27,573
Average balance of assets under management[a][c]	71,128	37,777	44,552	26,291
Breakdown of interest income, net:				
Margin from loan granting to the public	2,162	3	1,953	585
Margin from deposit taking from the public	269	73	132	98
Other	-	-	-	-
Total interest income, net	2,431	76	2,085	683

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including outstanding housing loans to business customers of NIS 12,446 million as at the end of the period.
(e) Reclassified, incl. improvement effort carried out in 2019.

					Foreign operations				
Corporations[d]	Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity outside Israel	Total
1,729	27	705	-	8,934	37	933	165	1,135	10,069
192	426	564	-	1,881	26	112	4	142	2,023
1,537	(399)	141	-	7,053	11	821	161	993	8,046
(351)	490	384	-	24	99	(178)	55	(24)	-
1,186	91	525	-	7,077	110	643	216	969	8,046
661	188	1,003	374	5,051	91	107	93	291	5,342
1,847	279	1,528	374	12,128	201	750	309	1,260	13,388
(251)	2	(24)	-	118	(4)	60	(2)	54	172
503	258	314	695	7,583	229	511	92	832	8,415
1	2	(21)	14	(3)	-	-	3	3	-
504	260	293	709	7,580	229	511	95	835	8,415
1,594	17	1,259	(335)	4,430	(24)	179	216	371	4,801
606	7	325	(96)	1,539	(8)	45	116	153	1,692
988	10	934	(239)	2,891	(16)	134	100	218	3,109
-	-	92	-	92	-	-	-	-	92
988	10	1,026	(239)	2,983	(16)	134	100	218	3,201
2	-	(1)	(2)	29	-	-	-	-	29
986	10	1,027	(237)	2,954	(16)	134	100	218	3,172
55,036	1,841	152,823	7,944	404,182	1,137	22,294	10,852	34,283	438,465
-	-	890	-	890	-	-	-	-	890
54,137	1,849	-	-	243,740	995	22,274	14	23,283	267,023
56,750	2,087	-	-	248,470	999	22,505	3	23,507	271,977
1,392	-	-	-	2,781	34	640	-	674	3,455
5	-	-	-	874	-	12	-	12	886
46,583	61,508	41,108	10,646	379,474	5,638	19,181	1,713	26,532	406,006
46,425	59,474	-	-	320,299	5,581	19,001	685	25,267	345,566
55,046	70,574	-	-	337,555	4,858	19,663	778	25,299	362,854
75,337	689	19,717	17,341	269,250	577	20,347	1,991	22,915	292,165
75,866	653	22,603	15,673	272,214	756	27,540	2,782	31,078	303,292
76,430	585,099	36,190	-	877,467	17,074	1,851	5	18,930	896,397
1,109	13	2,407	-	8,232	18	347	602	967	9,199
77	76	(1,912)	-	(1,187)	92	295	(529)	(142)	(1,329)
-	2	30	-	32	-	1	143	144	176
1,186	91	525	-	7,077	110	643	216	969	8,046

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Private individuals – Households and private banking

	For the year ended December 31 2019								
	Households				Private banking				Private individuals - Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS millions								
Interest income from external	1,918	71	1,403	3,392	2	-	2	4	3,396
Interest expense from external	-	-	319	319	-	-	176	176	495
Interest income, net:									
From external	1,918	71	1,084	3,073	2	-	(174)	(172)	2,901
Inter-segmental	(1,072)	-	567	(505)	(1)	-	288	287	(218)
Total interest income, net	846	71	1,651	2,568	1	-	114	115	2,683
Total noninterest income	43	204	705	952	-	1	144	145	1,097
Total income	889	275	2,356	3,520	1	1	258	260	3,780
Loan loss expenses	13	2	142	157	-	-	-	-	157
Operating and other expenses:									
For external	241	224	2,598	3,063	-	3	97	100	3,163
Inter-segmental	1	-	-	1	-	-	-	-	1
Total operating and other expenses	242	224	2,598	3,064	-	3	97	100	3,164
Profit (loss) before taxes	634	49	(384)	299	1	(2)	161	160	459
Provision for profit taxes (benefit)	226	18	(149)	95	-	(1)	58	57	152
Profit (loss) after taxes	408	31	(235)	204	1	(1)	103	103	307
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	408	31	(235)	204	1	(1)	103	103	307
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	408	31	(235)	204	1	(1)	103	103	307
Average balance of assets[(a)]	69,932	4,205	22,731	96,868	58	90	185	333	97,201
Of which: Investments in associates[(a)]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[(a)]	70,267	4,245	22,988	97,500	58	91	179	328	97,828
Outstanding loans to the public as at the end of the reporting period	71,962	4,176	23,232	99,370	70	94	182	346	99,716
Outstanding impaired non-performing debts	-	-	310	310	-	-	-	-	310
Outstanding debts in arrears of over 90 days	830	-	58	888	-	-	-	-	888
Average outstanding liabilities[(a)]	-	8	107,834	107,842	-	-	23,498	23,498	131,340
Of which: Average balance of deposits by the public[(a)]	-	-	107,746	107,746	-	-	23,491	23,491	131,237
Balance of deposits by the public as at the end of the reporting period	-	-	106,796	106,796	-	-	23,717	23,717	130,513
Average balance of risk-weighted assets[(a)(b)]	45,316	4,120	19,830	69,266	183	233	330	746	70,012
Balance of risk-weighted assets as at the end of the reporting period[(b)]	45,960	4,052	19,889	69,901	165	242	335	742	70,643
Average balance of assets under management[(a)(c)]	-	-	67,701	67,701	-	-	43,681	43,681	111,382
Breakdown of interest income, net:									
Margin from loan granting to the public	846	71	1,236	2,153	1	-	1	2	2,155
Margin from deposit taking from the public	-	-	415	415	-	-	113	113	528
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	846	71	1,651	2,568	1	-	114	115	2,683

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Private individuals – Households and private banking (cont.)

	For the year ended December 31 2018[d]								
	Households				Private banking				Private individuals - Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS millions								
Interest income from external	2,018	361	1,358	3,737	2	-	3	5	3,742
Interest expense from external	-	-	388	388	-	-	170	170	558
Interest income, net:									
From external	2,018	361	970	3,349	2	-	(167)	(165)	3,184
Inter-segmental	(1,250)	(2)	588	(664)	(1)	-	274	273	(391)
Total interest income, net	768	359	1,558	2,685	1	-	107	108	2,793
Total noninterest income	46	851	706	1,603	-	3	142	145	1,748
Total income	814	1,210	2,264	4,288	1	3	249	253	4,541
Loan loss expenses	32	105	129	266	-	-	-	-	266
Operating and other expenses:									
For external	250	751	2,477	3,478	-	2	102	104	3,582
Inter-segmental	1	2	-	3	-	-	-	-	3
Total operating and other expenses	251	753	2,477	3,481	-	2	102	104	3,585
Profit (loss) before taxes	531	352	(342)	541	1	1	147	149	690
Provision for profit taxes (benefit)	183	116	(118)	181	-	-	51	51	232
Profit (loss) after taxes	348	236	(224)	360	1	1	96	98	458
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	348	236	(224)	360	1	1	96	98	458
Net income attributable to non-controlling interests	-	46	-	46	-	-	-	-	46
Net income (loss) attributable to the Bank's shareholders	348	190	(224)	314	1	1	96	98	412
Average balance of assets[a]	66,174	11,763	21,978	99,915	59	85	182	326	100,241
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	66,538	11,758	22,310	100,606	59	86	175	320	100,926
Outstanding loans to the public as at the end of the reporting period	68,332	11,885	22,787	103,004	57	89	179	325	103,329
Outstanding impaired non-performing debts	-	44	338	382	-	-	-	-	382
Outstanding debts in arrears for over 90 days	862	-	51	913	-	-	-	-	913
Average outstanding liabilities[a]	-	86	104,423	104,509	-	-	22,637	22,637	127,146
Of which: Average balance of deposits by the public[a]	-	77	104,401	104,478	-	-	22,624	22,624	127,102
Balance of deposits by the public as at the end of the reporting period	-	71	106,750	106,821	-	-	23,919	23,919	130,740
Average balance of risk-weighted assets[a][b]	43,708	11,214	20,541	75,463	168	257	362	787	76,250
Balance of risk-weighted assets as at the end of the reporting period	44,932	11,085	19,849	75,866	188	222	332	742	76,608
Average balance of assets under management[a][c]	-	-	69,951	69,951	-	-	41,283	41,283	111,234
Breakdown of interest income, net:									
Margin from loan granting to the public	768	359	1,205	2,332	1	-	2	3	2,335
Margin from deposit taking from the public	-	-	353	353	-	-	105	105	458
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	768	359	1,558	2,685	1	-	107	108	2,793

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Reclassified, incl. improvement effort carried out in 2019.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)
C. Information on Regulatory Operating Segments (cont.)
Small, micro, mid-sized and large businesses

	For the year ended December 31 2019									
	Small- and micro-business			Mid-sized business			Large-sized business			
	Con-struction and real estate	Other	Total	Con-struction and real estate	Other	Total	Con-struction and real estate	Other	Total	Total
	In NIS millions									
Interest income from external	746	1,658	2,404	296	546	842	829	1,144	1,973	5,219
Interest expense from external	33	156	189	19	243	262	20	333	353	804
Interest income, net:										
From external	713	1,502	2,215	277	303	580	809	811	1,620	4,415
Inter-segmental	(69)	53	(16)	(28)	312	284	(153)	(10)	(163)	105
Total interest income, net	644	1,555	2,199	249	615	864	656	801	1,457	4,520
Total noninterest income	133	627	760	62	244	306	313	246	559	1,625
Of which: Income from credit cards	13	73	86	1	3	4	-	2	2	92
Total income	777	2,182	2,959	311	859	1,170	969	1,047	2,016	6,145
Loan loss expenses (income)	11	361	372	(25)	56	31	41	(14)	27	430
Operating and other expenses:										
For external	285	1,296	1,581	91	411	502	198	298	496	2,579
Inter-segmental	-	-	-	-	-	-	1	-	1	1
Total operating and other expenses	285	1,296	1,581	91	411	502	199	298	497	2,580
Profit before taxes	481	525	1,006	245	392	637	729	763	1,492	3,135
Provision for profit tax	171	189	360	89	140	229	252	284	536	1,125
Profit after taxes	310	336	646	156	252	408	477	479	956	2,010
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before attribution to non-controlling interests	310	336	646	156	252	408	477	479	956	2,010
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	310	336	646	156	252	408	477	479	956	2,010
Average balance of assets[(a)]	19,485	42,778	62,263	9,251	19,201	28,452	23,965	40,524	64,489	155,204
Of which: Investments in associates[(a)]	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[(a)]	19,620	43,124	62,744	9,445	19,257	28,702	24,003	40,8043	64,807	156,253
Outstanding loans to the public as at the end of the reporting period	20,270	42,457	62,727	9,850	19,728	29,578	25,545	41,622	67,167	159,472
Outstanding impaired non-performing debts	232	530	762	14	245	259	354	345	699	1,720
Outstanding debts in arrears for over 90 days	9	63	72	-	-	-	12	5	17	89
Average outstanding liabilities[(a)]	11,187	46,848	58,035	5,489	32,967	38,456	8,817	42,338	51,155	147,646
Of which: Average balance of deposits by the public[(a)]	11,096	46,830	57,926	5,422	32,935	38,357	8,453	39,159	47,612	143,895
Balance of deposits by the public as at the end of the reporting period	11,600	46,388	57,988	5,839	35,080	40,919	9,230	44,301	53,531	152,438
Average balance of risk-weighted assets[(a)(b)]	20,025	34,159	54,184	10,880	19,396	30,276	41,274	40,469	81,743	166,203
Balance of risk-weighted assets as at the end of the reporting period[(b)]	20,843	35,093	55,936	11,352	20,360	31,712	44,539	38,210	82,749	170,397
Average balance of assets under management[(a)(c)]	8,884	42,733	51,617	3,868	22,243	26,111	13,926	57,239	71,165	148,893
Breakdown of interest income, net:										
Margin from loan granting to the public	601	1,340	1,941	231	421	652	634	667	1,301	3,894
Margin from deposit taking from the public	43	215	258	18	194	212	22	134	156	626
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	644	1,555	2,199	249	615	864	656	801	1,457	4,520

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Small, micro, mid-sized and large businesses (cont.)

	For the year ended December 31 2018[d]									
	Small- and micro-business			Mid-sized business			Large-sized business			
	Con-struction and real estate	Other	Total	Con-struction and real estate	Other	Total	Con-struction and real estate	Other	Total	Total
	In NIS millions									
Interest income from external	713	1,753	2,466	289	534	823	751	1,077	1,828	5,117
Interest expense from external	20	122	142	10	153	163	13	308	321	626
Interest income, net:										
From external	693	1,631	2,324	279	381	660	738	769	1,507	4,491
Inter-segmental	(79)	(22)	(101)	(52)	186	134	(160)	(20)	(180)	(147)
Total interest income, net	614	1,609	2,223	227	567	794	578	749	1,327	4,344
Total noninterest income	133	724	857	57	281	338	304	319	623	1,818
Of which: Income from credit cards	10	138	148	1	42	43	-	71	71	262
Total income	747	2,333	3,080	284	848	1,132	882	1,068	1,950	6,162
Loan loss expenses (income)	(6)	294	288	(101)	(73)	(174)	(16)	38	22	136
Operating and other expenses:										
For external	267	1,369	1,636	86	449	535	117	371	488	2,659
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	267	1,369	1,636	86	449	535	117	371	488	2,659
Profit before taxes	486	670	1,156	299	472	771	781	659	1,440	3,367
Provision for profit tax	168	232	400	104	166	270	267	232	499	1,169
Profit after taxes	318	438	756	195	306	501	514	427	941	2,198
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before attribution to non-controlling interests	318	438	756	195	306	501	514	427	941	2,198
Net income attributable to non-controlling interests	-	3	3	-	2	2	-	3	3	8
Net income attributable to the Bank's shareholders	318	435	753	195	304	499	514	424	938	2,190
Average balance of assets[a]	18,564	44,436	63,000	8,416	17,700	26,116	21,200	37,712	58,912	148,028
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	18,669	44,785	63,454	8,461	17,869	26,330	21,183	37,615	58,798	148,582
Outstanding loans to the public as at the end of the reporting period	19,374	44,047	63,421	8,833	18,637	27,470	23,091	40,413	63,504	154,395
Outstanding impaired non-performing debts	245	526	771	6	110	116	302	615	917	1,804
Outstanding debts in arrears for over 90 days	25	56	81	-	-	-	-	2	2	83
Average outstanding liabilities[a]	10,256	49,276	59,532	5,066	31,587	36,653	8,423	42,443	50,866	147,051
Of which: Average balance of deposits by the public[a]	9,988	46,409	56,397	5,001	30,318	35,319	8,387	39,407	47,794	139,510
Balance of deposits by the public as at the end of the reporting period	10,455	46,959	57,414	5,308	33,919	39,227	9,127	41,243	50,370	147,011
Average balance of risk-weighted assets[a][b]	19,466	34,499	53,965	10,134	18,467	28,601	42,740	35,309	78,049	160,615
Balance of risk-weighted assets as at the end of the reporting period[b]	18,882	36,459	55,341	10,270	18,963	29,233	39,822	39,637	79,459	164,033
Average balance of assets under management[a][c]	7,625	42,906	50,531	3,275	22,667	25,942	11,915	62,081	73,996	150,469
Breakdown of interest income, net:										
Margin from loan granting to the public	582	1,425	2,007	216	416	632	559	643	1,202	3,841
Margin from deposit taking from the public	32	184	216	11	151	162	19	106	125	503
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	614	1,609	2,223	227	567	794	578	749	1,327	4,344

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Reclassified, incl. improvement effort carried out in 2019.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Financial management

	For the year ended December 31 2019				
	Trading activity	Assets and liabilities manage-ment activity	Non-financial investment activity	Other	Total
	In NIS millions				
Interest income from external	35	1,410	1	3	1,449
Interest expense from external	3	514	-	-	517
Interest income, net:					
From external	32	896	1	3	932
Inter-segmental	(63)	(457)	(5)	41	(484)
Total interest income, net	(31)[e]	439	(4)	44	448
Total noninterest income	397[f]	725	331	88	1,541
Total income	366	1,164	327	132	1,989
Loan loss expenses (income)	-	(7)	-	(23)	(30)
Operating and other expenses:	-	-	-	-	-
For external	165	(5)	18	91	269
Inter-segmental	-	(1)	4	1	4
Total operating and other expenses (income)	165	(6)	22	92	273
Profit before taxes	201	1,177	305	63	1,746
Provision for profit taxes	72	463	114	12	661
Profit after taxes	129	714	191	51	1,085
The Bank's share in associates' profits, after tax effect	-	-	(15)	-	(15)
Net income before amount attributable to non-controlling interests	129	714	176	51	1,070
Net income attributable to non-controlling interests	-	-	-	-	-
Net income attributable to the Bank's shareholders	129	714	176	51	1,070
Average balance of assets[a]	17,548	143,785	1,941	279	163,553
Of which: Investments in associates[a]	-	-	625	-	625
Average outstanding liabilities[a]	13,821	25,630	53	622	40,126
Of which: Average balance of deposits by the public[a]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[a][b]	5,868	16,930	2,624	-	25,422
Balance of risk-weighted assets as at the end of the reporting period[b]	8,527	14,814	2,859	-	26,200
Average balance of assets under management[c]	-	-	-	51,368	51,368
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[d]	208	38	-	-	-
Exchange rate differentials, CPI[d]	24	30	-	-	-
Interest exposures, net[d]	(134)	1,450	-	-	-
Equity exposures, net[d]	38	-	-	-	-
Interest spreads attributed to financial management	-	(614)	-	-	-
Total net interest income and noninterest income on accrual basis	136	904	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	172	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	97	-	-	-
Other noninterest income	230	(9)	-	-	-
Total net interest income and noninterest finance income	366	1,164	-	-	-

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including for securities and derivatives
(e) Net interest income from trading activities in Note 2 do not include inter-segmental balances in the amount of NIS 63 million.
(f) Noninterest finance income from trading activities in Note 3 do not include fees and commissions and other expenses in the amount of NIS 49 million and inter-segmental balances in the amount NIS 69 million and do include noninterest income for foreign activities in the amount of NIS 20 million.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Financial management (cont.)

	For the year ended December 31 2018[e]				
	Trading activity	Assets and liabilities manage-ment activity	Non-financial investment activity	Other	Total
	In NIS millions				
Interest income from external	39	1,035	1	5	1,080
Interest expense from external	2	476	-	9	487
Interest income, net:					
From external	37	559	1	(4)	593
Inter-segmental	(93)	(21)	(4)	32	(86)
Total interest income, net	(56)	538	(3)	28	507
Total noninterest income	135	140	377	61	713
Total income	79	678	374	89	1,220
Loan loss expenses	-	21	-	-	21
Operating and other expenses:	-	-	-	-	-
For external	173	2	22	78	275
Inter-segmental	-	(18)	1	2	(15)
Total operating and other expenses (income)	173	(16)	23	80	260
Profit (loss) before taxes	(94)	673	351	9	939
Provision for profit tax (benefit)	(32)	223	134	(10)	315
Profit (loss) after taxes	(62)	450	217	19	624
The Bank's share in associates' profits, after tax effect	-	-	36	-	36
Net income (loss) before attribution to non-controlling interests	(62)	450	253	19	660
Net income attributable to non-controlling interests	-	-	-	(3)	(3)
Net income (loss) attributable to the Bank's shareholders	(62)	450	253	22	663
Average balance of assets[a]	17,851	141,040	1,937	455	161,283
Of which: Investments in associates[a]	-	-	758	-	758
Average outstanding liabilities[a]	13,565	21,789	42	-	35,396
Of which: Average balance of deposits by the public[a]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[a][b]	5,264	15,659	2,410	53	23,386
Balance of risk-weighted assets as at the end of the reporting period[b]	10,074	12,936	2,675	-	25,685
Average balance of assets under management[c]	-	-	-	43,110	43,110
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[d]	206	(158)	-	-	-
Exchange rate differentials, CPI[d]	(54)	197	-	-	-
Interest exposures, net[d]	68	1,150	-	-	-
Equity exposures, net[d]	(13)	-	-	-	-
Interest spreads attributed to financial management	-	(367)	-	-	-
Total net interest income and noninterest income on accrual basis	207	822	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	(17)	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	(137)	-	-	-
Other noninterest income	(128)	10	-	-	-
Total net interest income and noninterest income	79	678	-	-	-

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including in respect of securities and derivatives.
(e) Reclassified.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

D. Information on Activity by Geographical Area[a]

	December 31 2019						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total con-solidated
	In NIS millions						
Total income (expenses)[b]	**12,751**	**1,062**	**109**	**(2)**	**2**	**1,171**	**13,922**
Net income (loss) attributable to the Bank's shareholders	**3,343**	**228**	**(64)**	**(13)**	**28**	**179**	**3,522**
Total assets	**439,276**	**23,774**	**6,058**	**-**	**26**	**29,858**	**469,134**

	December 31 2018						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS millions						
Total income (expense)[b]	12,282	1,075	331	74	(1)	1,479	13,761
Net income (loss) attributable to the Bank's shareholders	2,874	226	131	31	2	383	3,257
Total assets	426,000[c]	26,413	7,263	1,071	33	34,780	460,780

	December 31 2017						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total con-solidated
	In NIS millions						
Total income[b]	12,131[c]	961	235	54	7	1,257	13,388
Net income attributable to the Bank's shareholders	2,949	144	44	17	18	223	3,172

(a) The classification is based on the office's location.
(b) Interest income and noninterest income, net.
(c) Reclassified.

Note 29B – Operating Segments according to Management Approach

A. Overview

According to management approach, an operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial data is available for operating segments.
Operating segments reporting according to management approach presents the Bank's results by business line, in accordance with the Bank's organizational structure and decision of the Bank's management and Board of Directors.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activity in Israel is managed as follows:

1. Banking – provision of banking services to private customers and small businesses. This business line includes the mortgage activities and the Private Banking activities. This line of business comprises four departments: Small Businesses, Private Banking, Premium Banking and Retail Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.

2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies

3. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.

4. Real estate – providing banking and financial services to the construction and real estate sector.

5. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.

6. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

1. Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price in respect of deposits raised net of interest paid to customers.

2. Noninterest income (noninterest finance income, fees and commissions and other income) – is allocated to the business lines according to the customer's activity.

3. Business lines' expenses include their direct expenses. Expenses of corporate units providing services to business lines are allocated to the business lines.

The results of operations of the business lines, both in terms of balance sheet items and in terms of profit and loss items, are assessed on an ongoing basis by the Bank's management and Board of Directors. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach

	For the year ended December 31 2019											
	Bank									Subsidi-aries in Israel	For-eign subsi-diaries	
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - Total	Com-mercial	Corpo-rate	Real estate	Capital markets	Other			Total
	In NIS millions											
Interest income, net:												
Interest income from external	927	1,271	2,311	4,509	972	888	821	522	1	81	1,047	8,841
Interest income (expense) - Inter-segmental	1,224	43	(1,294)	(27)	305	(255)	(194)	192	3	12	(36)	-
Interest income, net	2,151	1,314	1,017	4,482	1,277	633	627	714	4	93	1,011	8,841
Noninterest income	1,294	454	3	1,751	413	205	323	1,366	420	324	279	5,081
Total income	3,445	1,768	1,020	6,233	1,690	838	950	2,080	424	417	1,290	13,922
Loan loss expenses (income)	231	329	7	567	80	(124)	71	(37)	(13)	7	58	609
Total operating and other expenses	2,870	1,097	278	4,245	721	350	133	371	1,059	204	825	7,908
Profit (loss) before tax	344	342	735	1,421	889	612	746	1,746	(622)	206	407	5,405
Tax expenses (income)	118	117	251	486	304	209	255	597	(141)	48	72	1,830
Net income (loss) attributable to the Bank's shareholders	226	225	484	935	585	403	491	1,151	(481)	141	297	3,522

Balances as at December 31 2019												
Loans to the public, net	29,192	25,110	85,390	139,692	40,661	37,696	26,387	8,358	5,760	958	22,966	282,478
Deposits by the public	156,934	39,125	-	196,059	53,313	20,632	6,940	74,326	10	-	22,364	373,644
Assets under management	186,261	18,175	-	204,436	24,183	21,766	2,294	547,613	20,734	313,901	17,100	1,152,027

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach (cont.)

	For the year ended December 31 2018											
	Bank									Subsidi-aries in Israel	Subsidi-aries outside Israel	
	Retail, premium and private banking	Small busi-nesses	Mortgages	Banking - Total	Commer-cial	Corpo-rate	Real estate	Capital markets	Other			Total
	In NIS millions											
Interest income, net:												
Interest income (expense) - From external	1,012	1,335	2,441	4,788	1,039	827	748	(23)[c]	6	390	1,115	8,890
Interest income (expense) - Inter-segmental	1,043	10	(1,529)	(476)	123	(242)	(207)	844[c]	(2)	(4)	(36)	-
Interest income, net	2,055	1,345	912	4,312	1,162	585	541	821	4	386	1,079	8,890
Noninterest income	1,322	487	10[c]	1,819	408	217	315	485[c]	147	1,180	300	4,871
Total income	3,377	1,832	922	6,131	1,570	802	856	1,306	151	1,566	1,379	13,761
Loan loss expenses (income)	213	270	30	513	28	(70)	(172)	23	(8)	113	92	519
Total operating and other expenses	2,733	1,099	274	4,106	713	276	132	363	958	896	893	8,337
Profit (loss) before tax	431	463	618	1,512	829	596	896	920	(799)	557	394	4,905
Tax expenses (income)[c]	147	158	211	516	283	204	306	315	(254)	158	91	1,619
Net income (loss) attributable to the Bank's shareholders	284	305	407	996	546	392	590	611	(545)	383	284	3,257
Balances as at December 31 2018												
Loans to the public, net	29,594	26,478	81,524	137,596	38,262[c]	33,532	24,384[c]	6,901	5,946[b]	560[a]	25,421	272,602
Deposits by the public	158,593	38,046	-	196,639	49,671	19,592	6,597	66,033[c]	274	-[b]	25,908	364,714
Assets under management	167,486	18,354	-	185,840	22,137	19,122	1,008	421,022	21,085	285,016	17,625	972,855

(a) Excluding balances classified as held-for-sale assets in the amount of NIS 8,042 million.
(b) Excluding balances classified as held-for-sale liabilities in the amount of NIS 71 million.
(c) Reclassified.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach (cont.)

	For the year ended December 31 2017[a]											
	Bank									Subsidiaries in Israel	Subsidiaries outside Israel	
	Retail, premium and private banking	Small businesses	Mortgages	Banking - Total	Commercial	Corporate	Real estate	Capital markets	Other			Total
	In NIS millions											
Interest income, net:												
Interest income (expense) - From external	1,040	1,336	2,060	4,436	1,042	854	610	(175)	3	283	993	8,046
Interest income (expense) - Inter-segmental	883	(29)	(1,217)	(363)	(29)	(273)	(149)	843	(4)	(2)	(23)	-
Interest income, net	1,923	1,307	843	4,073	1,013	581	461	668	(1)	281	970	8,046
Noninterest income	1,278	477	15	1,770	398	224	324	865	357	1,113	291	5,342
Total income	3,201	1,784	858	5,843	1,411	805	785	1,533	356	1,394	1,261	13,388
Loan loss expenses (income)	168	273	13	454	26	(72)	(316)	(24)	(27)	77	54	172
Total operating and other expenses	2,915	1,037	290	4,242	711	275	130	348	921	953	835	8,415
Profit (loss) before tax	118	474	555	1,147	674	602	971	1,209	(538)	364	372	4,801
Tax expenses (income)	41	166	194	401	236	211	340	299	(37)	89	153	1,692
Net income (loss) attributable to the Bank's shareholders	77	308	361	746	438	391	631	913	(501)	335	219	3,172

Balances as at December 31 2017												
Loans to the public, net	30,214	27,438	78,626	136,278	35,712	33,152	20,684	5,249	5,712	8,773	23,204	268,764
Deposits by the public	154,063	35,369	-	189,432	43,484	21,614	6,425	76,441	93	65	25,300	362,854
Assets under management	173,036	19,750	-	192,786	24,432	21,228	1,293	432,806	22,448	260,155	19,282	974,430

(a) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision

A. Debts[a] and Off-Balance Sheet Credit Instruments

1. Change in outstanding loan loss provision

	For the year ended December 31 2019					
	Loan loss provision					
	Loans to the public					
	Commer-cial	Housing	Private individuals - Other	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Outstanding loan loss provision as at the beginning of the year	2,700	479	634	3,813	3	3,816
Loan loss expenses (income)	454	22	134	610	(1)	609
Accounting write-offs	(1,003)	(29)	(417)	(1,449)	-	(1,449)
Collection of debts written off in previous years	475	-	307	782	-	782
Write-offs, net	(528)	(29)	(110)	(667)	-	(667)
Adjustments from translation of financial statements	(16)	-	-	(16)	-	(16)
Disposal of an investment in a previously-consolidated subsidiary	(20)	(5)	(1)	(26)	-	(26)
Outstanding loan loss provision as at year end[1]	2,590	467	657	3,714	2	3,716
[1]Of which: For off-balance-sheet credit instruments	366	-	20	386	-	386

	For the year ended December 31 2018					
	Loan loss provision					
	Loans to the public					
	Commer-cial[d]	Housing	Private individuals - Other[d]	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Outstanding loan loss provision as at the beginning of the year	2,506	450	741	3,697	3	3,700
Changes recognized in equity[b]	21	-	-	21	-	21
Balance as at January 1 2018	2,527	450	741	3,718	3	3,721
Loan loss expenses	254	32	233	519	-	519
Accounting write-offs	(740)	(4)	(453)	(1,197)	-	(1,197)
Collection of debts written off in previous years	654	-	287	941	-	941
Write-offs, net	(86)	(4)	(166)	(256)	-	(256)
Adjustments from translation of financial statements	16	1	(1)	16	-	16
Less balances classified as held-for-sale assets[c]	(11)	-	(173)	(184)	-	(184)
Outstanding loan loss provision as at year end[1]	2,700	479	634	3,813	3	3,816
[1]Of which: For off-balance-sheet credit instruments	441	-	20	461	-	461

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Effect of first-time application of IFRS 9 on foreign subsidiaries.
(c) For more information, please see Note 36F to the financial statements as at December 31 2018.
Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and Off-Balance-Sheet Credit Instruments (cont.)

1. Change in outstanding loan loss provision (cont.)

	For the year ended December 31 2017					
	Loan loss provision					
	Loans to the public					
	Commer-cial	Housing	Private in-dividuals - Other	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Outstanding loan loss provision as at the beginning of the year	2,708	473	778	3,959	1	3,960
Loan loss expenses (income)	(9)[(b)]	(13)	192[(b)]	170	2	172
Accounting write-offs	(785)[(b)]	(9)	(516)[(b)]	(1,310)	-	(1,310)
Collection of debts written off in previous years	612[(b)]	-	286[(b)]	898	-	898
Write-offs, net	(173)	(9)	(230)	(412)	-	(412)
Adjustments from translation of financial statements	(20)	(1)	1	(20)	-	(20)
Outstanding loan loss provision as at year end[1]	2,506	450	741	3,697	3	3,700
[1]Of which: For off-balance-sheet credit instruments	448	-	36	484	-	484

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(b) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and Off-Balance-Sheet Credit Instruments (cont.)

2. Additional information on calculating the loan loss provision for debts[(a)] and for the debts for which it was calculated[(a)]

	December 31 2019					
	Loans to the public					
	Commer-cial	Housing	Private in-dividuals - Other	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debts:[(a)]						
Examined on specific basis	130,760	-	795	131,555	12,800	144,355
Examined on a collective basis[1]	42,589	84,421	27,241	154,251	282	154,533
[1]Of which: The provision for which was calculated by extent of arrears	714[(c)]	84,220	-	84,934	-	84,934
Total debts[(a)]	173,349	84,421	28,036	285,806	13,082	298,888
Loan loss provision for debts:[(a)]						
Examined on specific basis	1,721	-	176	1,897	2	1,899
Examined on collective basis[2]	503	467	461	1,431	-	1,431
[2]Of which: The provision for which was calculated by extent of arrears	-[(e)]	466[(b)]	-	466	-	466
Total loan loss provision	2,224	467	637	3,328	2	3,330
Of which: For impaired non-performing debts	372	-	167	539	-	539

	December 31 2018					
	Loans to the public					
	Commer-cial	Housing	Private in-dividuals - Other	Total - Public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debts:[(a)]						
Examined on specific basis	121,621[(f)]	31	901	122,553	13,662[(f)]	136,215
Examined on a collective basis[1]	46,070[(f)]	80,860	34,681[(f)]	161,611	673	162,284
[1]Of which: The provision for which was calculated by extent of arrears	913[(c)]	80,432	-	81,345	-	81,345
Less balances classified as held-for-sale assets[(d)]	(655)	-	(7,555)	(8,210)	(35)	(8,245)
Total debts[(a)]	167,036	80,891	28,027	275,954	14,300	290,254
Loan loss provision for debts:[(a)]						
Examined on specific basis	1,792[(f)]	5	165[(f)]	1,962	3	1,965
Examined on collective basis[2]	478[(f)]	474	606[(f)]	1,558	-	1,558
[2]Of which: The provision for which was calculated by extent of arrears	-[(e)]	473[(b)]	-	473	-	473
Less balances classified as held-for-sale assets[(d)]	(11)	-	(157)	(168)	-	(168)
Total loan loss provision	2,259	479	614	3,352	3	3,355
Of which: For impaired non-performing debts	459	4	150	613	-	613

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 299 million (2018 - NIS 295 million).
(c) Outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.
(e) Balances of less than NIS 1 million.
(f) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)]

1. Credit quality and delinquency

	December 31 2019					
		Troubled debts[(b)]			Unimpaired debts - Additional information	
	Non-troubled	Unim-paired	Impaired non-per-forming[(c)]	Total	In arrears of 90 days or more[(d)(h)]	In arrears of 30 days to 89 days[(e)]
	In NIS millions					
Borrower activity in Israel						
Public - Commercial						
Construction & real estate - Construction[(g)]	23,601	102	79	23,782	8	48
Construction & real estate - Real estate activities[(g)]	26,703	94	300	27,097	13	28
Financial services	17,147	11	4	17,162	4	54
Commercial - Other	72,343	1,155	1,116	74,614	64	150
Total Commercial	139,794	1,362	1,499	142,655	89	280
Private individuals - Housing loans	83,383	830[(f)]	-	84,213	830	620
Private individuals - Other	27,065	302	310	27,677	58	154
Total - Public - Activity in Israel	250,242	2,494	1,809	254,545	977	1,054
Banks in Israel	2,167	-	-	2,167	-	-
Government of Israel	11	-	-	11	-	-
Total activity in Israel	252,420	2,494	1,809	256,723	977	1,054
Borrowers activity outside Israel						
Public - Commercial						
Construction & real estate[(g)]	11,523	77	362	11,962	3	17
Commercial - Other	17,862	511	359	18,732	22	139
Total Commercial	29,385	588	721	30,694	25	156
Private individuals	566	-	1	567	-	-
Total - Public - Activity outside Israel	29,951	588	722	31,261	25	156
Foreign-based banks	10,171	-	-	10,171	-	-
Foreign governments	733	-	-	733	-	-
Total activity outside Israel	40,855	588	722	42,165	25	156
Total - Public	280,193	3,082	2,531	285,806	1,002	1,210
Total - Banks	12,338	-	-	12,338	-	-
Total - Governments	744	-	-	744	-	-
Total	293,275	3,082	2,531	298,888	1,002	1,210

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

1. Credit quality and delinquency (cont.)

	December 31 2018					
		Troubled debts[b]			Unimpaired debts - Additional information	
	Non-troubled	Unimpaired	Impaired non-performing[c]	Total	In arrears of 90 days or more[d]	In arrears of 30 days to 89 days[e]
	In NIS millions					
Borrowers activity in Israel						
Public - Commercial						
Construction & real estate - Construction	21,600	162	233	21,995	10	220
Construction & real estate - Real estate activities	25,028	159	315	25,502	15	21
Financial services	10,867	7	8	10,882	2	4
Commercial - Other	72,080	1,718	1,242	75,040	56	169
Total Commercial	129,575[k]	2,046	1,798	133,419	83	414
Private individuals - Housing loans	79,555	862[f]	-	80,417	862	694
Private individuals - Other	33,963[k]	576	382	34,921	51	183
Less balances classified as held-for-sale assets[i]	(7,842)	(323)	(45)	(8,210)	-	(10)
Total - Public - Activity in Israel	235,251	3,161	2,135	240,547	996[k]	1,281
Banks in Israel	2,703	-	-	2,703	-	-
Government of Israel	74	-	-	74	-	-
Less balances classified as held-for-sale assets[i]	(33)	-	-	(33)	-	-
Total activity in Israel	237,995	3,161	2,135	243,291	996	1,281
Borrowers activity outside Israel						
Public - Commercial						
Construction and real estate	11,667[k]	12	109[k]	11,788	-	4
Commercial - Other	21,363[k]	647	474[k]	22,484	27	330
Total Commercial	33,030	659	583	34,272	27	334
Private individuals	1,087[k]	15	33	1,135	-	3
Total - Public - Activity outside Israel	34,117	674	616	35,407	27	337
Foreign-based banks	10,850[k]	-	-	10,850	-	-
Foreign governments	708	-	-	708	-	-
Less balances classified as held-for-sale assets[i]	(2)	-	-	(2)	-	-
Total activity outside Israel	45,673	674	616	46,963	27	337
Total - Public	269,368	3,835	2,751	275,954	1,023	1,618
Total - Banks[j]	13,518	-	-	13,518	-	-
Total - Governments	782	-	-	782	-	-
Total	283,668	3,835	2,751	290,254	1,023	1,618

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

1. Credit quality and delinquency (cont.)

Comments:

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(b) Credit risk that is impaired non-performing, substandard or special-mention, including housing loans for which there is a provision according to the extent of arrears and housing loans in arrears of 90 days or more for which there is no provision based on the extent of arrears.

(c) As a rule, impaired non-performing debts do not accrue interest income. For information regarding certain impaired non-performing debts restructured as part of troubled debt restructuring, please see Note 30B.2.C. below.

(d) Classified as unimpaired troubled debts. Accruing.

(e) Accruing. Debts in arrears of 30 to 89 days totaling NIS 210 million (December 31 2018 - NIS 416 million) were classified as unimpaired troubled debt.

(f) Including outstanding housing loans in the amount of NIS 85 million (December 31 2018 - NIS 87 million) with a provision for the extent of arrears, for which an agreement was signed for the borrower to repay the overdue balance, which involves changes in the repayment schedule of outstanding future payments.

(g) 2.7 percent of the credit granted to rental properties through the Bank's Construction and Real Estate Department features LTV rates in excess of 85 percent.

(h) Outstanding unimpaired debts in arrears of at least 90 days as at December 31 2019, in the amount of NIS 977 million constitutes credit granted by the Bank, of which NIS 147 million is for non-housing loans and NIS 830 million - for housing loans, of which a total of NIS 218 million is in arrears of up to 149 days, NIS 164 million is in arrears of 150-249 days and the remaining debt is in arrears of 250 days or more.

(i) For more information, please see Note 36F to the financial statements as at December 31 2018.

(j) Less balances for banks classified as held-for-sale assets.

(k) Reclassified.

Credit quality - Debt delinquency status

Regularly monitored, the extent of arrears constitutes one of the main indications for credit quality. The extent of arrears is determined according to the actual number of arrears days. Debt evaluated on a specific basis is handled as non-performing (non-accruing) after 90 days of arrears. For debt evaluated on a collective basis, the extent of arrears affects the debt classification (the greater the extent of arrears - the more severe the debt classification); usually, after 150 days of arrears, the Bank writes off the debt. Any debt restructured as troubled debt and which is once again accruing interest but is in arrears of 60 days under the new repayment terms, shall be treated once again as non-performing. For housing loans, except loans without quarterly or monthly repayments, the Bank sets a provision using the extent of arrears method.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a]

2. Additional information on impaired non-performing debts

A. Impaired non-performing debts and specific provision

	December 31 2019				
	Outstanding [b] non-performing loans in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding balance[b] of impaired debts in respect of which there is no specific provision[c]	Total outstanding balance[b] of impaired non-performing debts	Outstanding contractual principal for impaired non-performing debts
	In NIS millions				
Borrowers activity in Israel					
Public - Commercial					
Construction & real estate - Construction	57	11	22	79	323
Construction & real estate - Real estate activities	65	2	235	300	1,097
Financial services	3	1	1	4	410
Commercial - Other	575	217	541	1,116	2,981
Total Commercial	**700**	**231**	**799**	**1,499**	**4,811**
Private individuals - Other	307	166	3	310	765
Total - Public - Activity in Israel	**1,007**	**397**	**802**	**1,809**	**5,576**
Borrowers activity outside Israel					
Public - Commercial					
Construction and real estate	362	100	-	362	379
Commercial - Other	137	41	222	359	392
Total Commercial	**499**	**141**	**222**	**721**	**771**
Private individuals	1	1	-	1	1
Total - Public - Activity outside Israel	**500**	**142**	**222**	**722**	**772**
Total - Public	**1,507**	**539**	**1,024**	**2,531**	**6,348**
Of which:					
Measured according to the present value of cash flows	**1,287**	**493**	**694**	**1,981**	
Debt restructuring of troubled debts	**662**	**181**	**357**	**1,019**	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired non-performing debts (cont.)

A. Impaired non-performing debts and specific provision (cont.)

	December 31 2018				
	Outstanding[(b)] impaired non-performing loans in respect of which there is a specific provision[(c)]	Balance of specific provision[(c)]	Outstanding balance[(b)] of impaired non-performing debts in respect of which there is no specific provision[(c)]	Total outstanding [(b)] impaired non-performing debts	Outstanding contractual principal for impaired non-performing debts
	In NIS millions				
Borrowers activity in Israel					
Public - Commercial					
Construction & real estate - Construction	69	14	164	233	426
Construction & real estate - Real estate activities	121	27	194	315	1,176
Financial services	3	1	5	8	422
Commercial - Other	873	311	369	1,242	3,234
Total Commercial	1,066	353	732	1,798	5,258
Private individuals - Other	355	152	27	382	801
Less balances classified as held-for-sale assets[(d)]	(19)	(4)	(26)	(45)	(45)
Total - Public - Activity in Israel	1,402	501	733	2,135	6,014[(f)]
Borrowers activity outside Israel					
Public - Commercial					
Construction and real estate	104	50	5	109	253
Commercial - Other	197	56	277	474	844
Total Commercial	301	106	282	583	1,097
Private individuals	14	6	19	33	85
Total - Public - Activity outside Israel	315	112	301	616	1,182
Total - Public	1,717	613	1,034	2,751	7,196
Of which:					
Measured according to the present value of cash flows	1,520	550	697	2,217	
Debt restructuring of troubled debts	914	165	731	1,645	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.
(e) Reclassified.
(f) Restated.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired non-performing debts (cont.)

B. Average balance and interest income

	For the year ended December 31					
	2019			2018		
	Average outstanding[b] impaired non-performing debts	Recorded interest income[c]	Of which: Recorded on a cash basis	Average outstanding[b] impaired non-performing debts	Recorded interest income[c]	Of which: Recorded on a cash basis
	In NIS millions					
Borrowers activity in Israel						
Public - Commercial						
Construction & real estate - Construction	140	1	-	265	1	1
Construction & real estate - Real estate activities	305	5	3	379	4	2
Financial services	7	-	-	6	-	-
Commercial - Other	1,152	10	5	1,347	10	4
Total Commercial	1,604	16	8	1,997	15	7
Private individuals - Other	317	2	-	373	2	-
Less balances classified as held-for-sale assets[e]	-	-	-	(38)	-	-
Total - Public - Activity in Israel	1,921	18	8	2,332	17	7
Borrowers activity outside Israel						
Public - Commercial						
Construction and real estate	153	3	-	133	6	6
Commercial - Other	380	5	5	520	6	4
Total Commercial	533	8	5	653	12	10
Private individuals	9	-	-	20	1	1
Total - Public - Activity outside Israel	542	8	5	673	13	11
Total - Public	2,463	26[d]	13	3,005	30[d]	18

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded average outstanding debt of impaired non-performing debts in the reporting period.
(c) Interest income recorded for the reporting period in respect of the average outstanding impaired non-performing debts during the period in which the debts were classified as impaired non-performing.
(d) Were the impaired non-performing debts to accrue interest according to the original terms and conditions, interest income in the amount of NIS 402 million (2018 - NIS 294 million).
(e) For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired non-performing debts (cont.)

B. Average balance and interest income (cont.)

	For the year ended December 31 2017		
	Average out-standing[b] impaired non-performing debts	Recorded interest income[c]	Of which: Recorded on a cash basis
	In NIS millions		
Borrowers activity in Israel			
Public – Commercial			
Construction & real estate - Construction	269	2	1
Construction & real estate - Real estate activities	596	15	12
Financial services	161	8	8
Commercial - Other	1,568	26	12
Total Commercial	2,594	51	33
Private individuals - Other	305	4	1
Total - Public - Activity in Israel	2,899	55	34
Borrowers activity outside Israel			
Public - Commercial			
Construction and real estate	253	5	5
Commercial - Other	411	5	5
Total Commercial	664	10	10
Private individuals	28	1	1
Total - Public - Activity outside Israel	692	11	11
Total - Public	3,591	66[d]	45

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded average outstanding debt of impaired non-performing debts in the reporting period.
(c) Interest income recorded for the reporting period in respect of the average outstanding impaired non-performing debts during the period in which the debts were classified as impaired non-performing.
(d) Were the impaired non-performing debts to accrue interest according to the original terms and conditions, interest income in the amount of NIS 324 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired non-performing debts (cont.)

C. Restructured troubled debt

	For the year ended December 31							
	2019				2018			
	Non-accruing	Accruing, in arrears of 30 days and up to 89 days[(b)]	Accruing[(b)], non-delinquent	Total [(c)]	Non-accruing	Accruing, in arrears of 30 days and up to 89 days[(b)]	Accruing,[(b)] non-delinquent	Total [(c)]
	In NIS millions							
Borrowers activity in Israel								
Public - Commercial								
Construction & real estate - Construction	**32**	**1**	**15**	**48**	196	-	5	201
Construction & real estate - Real estate activities	**63**	**-**	**139**	**202**	211	1	21	233
Financial services	**2**	**-**	**1**	**3**	1	-	-	1
Commercial - Other	**226**	**8**	**122**	**356**	563	2	47	612
Total Commercial	**323**	**9**	**277**	**609**	971	3	73	1,047
Private individuals - Other	**213**	**5**	**72**	**290**	297	2	36	335
Less balances classified as held-for-sale assets[(d)]	**-**	**-**	**-**	**-**	(18)	-	-	(18)
Total - Public - Activity in Israel	**536**	**14**	**349**	**899**	1,250	5	109	1,364
Borrowers activity outside Israel								
Public - Commercial								
Construction and real estate	**5**	**-**	**-**	**5**	46	-	-	46
Commercial - Other	**91**	**-**	**24**	**115**	67	-	158	225
Total Commercial	**96**	**-**	**24**	**120**	113	-	158	271
Private individuals	**-**	**-**	**-**	**-**	6	-	4	10
Total - Public - Activity outside Israel	**96**	**-**	**24**	**120**	119	-	162	281
Total - Public	**632**	**14**	**373**	**1,019**	1,369	5	271	1,645

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Accruing.
(c) Included in impaired non-performing debts.
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.

Comment: The obligation for granting additional loans to borrowers for whom troubled debt was restructured and in which the credit terms and conditions were amended amounted to NIS 0 million as at December 31 2019 (December 31 2018 - NIS 1 million).

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired non-performing debts (cont.)

C. Restructured troubled debt (cont.)

1. Restructurings carried out

	For the year ended December 31					
	2019			2018		
	No. of contracts	Recorded outstanding debt before restructuring	Recorded outstanding debt after restructuring	No. of contracts	Recorded outstanding debt before restructuring	Recorded outstanding debt after restructuring
		In NIS millions			In NIS millions	
Borrowers activity in Israel						
Public - Commercial						
Construction & real estate - Construction	344	41	40	400	47	47
Construction & real estate - Real estate activities	89	26	26	161	33	33
Financial services	22	2	2	24	2	1
Commercial - Other	1,690	234	230	1,762	253	248
Total Commercial	2,145	303	298	2,347	335	329
Private individuals - Other	5,317	171	168	8,649	217	216
Less balances classified as held-for-sale assets[b]	-	-	-	(2,956)	(37)	(37)
Total - Public - Activity in Israel	7,462	474	466	8,040[c]	515[c]	508[c]
Borrowers activity outside Israel						
Public - Commercial						
Construction and real estate	2	12	12	2	2	2
Commercial - Other	-	-	-	6	57	57
Total Commercial	2	12	12	8	59	59
Total - Public - Activity outside Israel	2	12	12	8	59	59
Total - Public	7,464	486	478	8,048	574	567

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) For more information, please see Note 36F to the financial statements as at December 31 2018.
(c) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired non-performing debts (cont.)

C. Restructured troubled debt (cont.)

1. Restructurings carried out (cont.)

	For the year ended December 31 2017		
	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
		In NIS millions	
Borrowers activity in Israel			
Public - Commercial			
Construction & real estate - Construction	463	47	45
Construction & real estate - Real estate activities	270	42	42
Financial services	11	7	-[b]
Commercial - Other	1,517	266	263
Total Commercial	2,261	362	350
Private individuals - Other	8,347	177	176
Total - Public - Activity in Israel	10,608	539	526
Borrowers activity outside Israel			
Public - Commercial			
Construction and real estate	5	57	57
Commercial - Other	18	182	182
Total Commercial	23	239	239
Private individuals	2	1	1
Total - Public - Activity outside Israel	25	240	240
Total - Public	10,633	779	766

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Balances of less than NIS 1 million.
(c) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired non-performing debts (cont.)

C. Restructured troubled debt (cont.)

2. Failed restructurings[b]

	December 31					
	2019		2018		2017	
	No. of contracts	Recorded outstand-ing debt[c]	No. of contracts	Recorded outstand-ing debt[c]	No. of contracts	Recorded outstand-ing debt[c]
		In NIS millions		In NIS millions		In NIS millions
Borrowers activity in Israel						
Public - Commercial						
Construction & real estate - Construction	**176**	**22**	120	15	206	16
Construction & real estate - Real estate activities	**40**	**15**	50	14	51	11
Financial services	**12**	**1**	5	-[e]	7	-[e]
Commercial - Other	**733**	**104**	540	78	693	45
Total Commercial	**961**	**142**	715	107	957	72
Private individuals - Other	**1,888**	**58**	2,503	49	2,968	37
Less balances classified as held-for-sale assets[d]	**-**	**-**	(1,248)	(9)	-	-
Total - Public - Activity in Israel	**2,849**	**200**	1,970[f]	147[f]	3,925[f]	109[f]
Borrowers activity outside Israel						
Public - Commercial						
Construction and real estate	**1**	**-[e]**	2	1	-	-
Commercial - Other	**1**	**-[e]**	9	60	1	1
Total Commercial	**2**	**-**	11	61	1	1
Private individuals	**-**	**-**	2	1	-	-
Total - Public - Foreign operations	**2**	**-**	13	62	1	1
Total - Public	**2,851**	**200**	1,983	209	3,926	110

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Debts which were in arrears of at least 30 days during the reporting year, which were restructured as part of the restructuring of troubled debt during the 12 months preceding the date on which they became delinquent.
(c) The outstanding debt recorded as at the end of the quarter in which the failure occurred.
(d) For more information, please see Note 36F to the financial statements as at December 31 2018.
(e) Balances of less than NIS 1 million.
(f) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

3. Additional information on housing loans

C. Restructured troubled debt (cont.)

Outstanding end of period loan-to-value (LTV)[(b)], type of repayment and interest

		December 31 2019			
		Outstanding housing loans			
		Total[1]	[1]Of which: Bullet and balloon loans	[1]Of which: Variable interest	Total off-balance-sheet credit risk
		In NIS millions			
First pledge: LTV ratio	Up to 60%	54,809	1,771	35,258	2,270
	Over 60%	29,601	659	19,730	303
Secondary pledge or unpledged		11	-	9	-
Total		84,421	2,430	54,997	2,573

					December 31 2018
				Outstanding housing loans	
		Total[1]	[1]Of which: Bullet and balloon loans	[1]Of which: Variable interest	Total off-balance-sheet credit risk
		In NIS millions			
First pledge: LTV ratio	Up to 60%	52,260	2,002	34,151	1,720
	Over 60%	28,595	748	19,594	203
Secondary pledge or unpledged		36	1	33	-
Total		80,891	2,751	53,778	1,923

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(b) The ratio between the approved credit line on the date granted and the value of the asset, as approved by the Bank when granting the credit line. The LTV ratio provides an additional indication of the Bank's risk assessment of a customer on granting a credit line. Each quarter, as required under the Bank of Israel’s directives, the minimum 0.35 percent collective provision is examined against the 0.75 percent provision required for loans with an LTV ratio of more than 60 percent. Note that the collective provision is higher than the one required for the LTV ratio.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Loans to the Public and off-Balance Sheet Credit Risk by Borrower's Loan Amount

		December 31 2019		
Maximum credit		Number of borrowers[c]	Credit[a]	Off balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS millions	
From	To			
0	10	**443,831**	**680**	**1,194**
10	20	**170,897**	**1,074**	**1,653**
20	40	**194,004**	**2,751**	**3,234**
40	80	**201,655**	**6,354**	**5,330**
80	150	**148,303**	**11,413**	**4,916**
150	300	**104,624**	**18,052**	**3,778**
300	600	**70,958**	**27,354**	**3,046**
600	1,200	**55,352**	**42,494**	**4,092**
1,200	2,000	**15,552**	**20,295**	**2,838**
2,000	4,000	**5,914**	**13,439**	**2,708**
4,000	8,000	**2,402**	**10,555**	**2,993**
8,000	20,000	**1,892**	**19,345**	**4,866**
20,000	40,000	**888**	**20,391**	**5,502**
40,000	200,000	**889**	**55,280**	**20,518**
200,000	400,000	**85**	**15,949**	**7,259**
400,000	800,000	**40**	**10,587**	**11,481**
800,000	1,200,000	**9**	**4,404**	**3,768**
1,200,000	1,600,000	**4**	**1,971**	**3,387**
1,600,000	2,000,000	**5**	**3,863**	**5,016**
2,000,000	2,400,000	**2**	**1,538**	**3,046**
2,400,000	2,800,000	**1**	**1,125**	**1,458**
2,800,000	3,200,000	**-**	**-**	**-**
3,200,000	3,942,755	**1**	**1,335**	**2,607**
Total		**1,417,308**	**290,249**	**104,690**

		December 31 2018		
Maximum credit		No. of borrowers[c][d]	Credit[a][d][e]	Off balance-sheet credit risk[a][b][d][e]
Loans to borrower in NIS thousands			In NIS millions	
From	To			
0	10	736,654	943	2,378
10	20	394,202	1,949	4,136
20	40	395,975	4,618	7,159
40	80	301,893	9,282	7,902
80	150	176,899	13,456	5,722
150	300	106,641	18,355	3,901
300	600	71,830	27,642	3,076
600	1,200	53,378	40,765	3,901
1,200	2,000	14,172	18,725	2,386
2,000	4,000	5,913	13,689	2,518
4,000	8,000	2,496	11,243	2,900
8,000	20,000	1,844	18,972	5,288
20,000	40,000	899	20,473	6,002
40,000	200,000	849	51,729	19,284
200,000	400,000	88	17,634	8,136
400,000	800,000	33	10,246	9,028
800,000	1,200,000	11	5,426	5,090
1,200,000	1,600,000	4	2,079	3,670
1,600,000	2,000,000	3	2,548	2,787
2,000,000	2,400,000	1	1,067	1,325
2,400,000	2,486,000	1	1,469	1,017
Total		2,263,786	292,310	107,606

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

(a) Before the effect of loan loss provision and the effect of collateral that are deductible for the purpose of a borrower' or borrower group's indebtedness. Balance sheet loans – with the addition of fair value of derivatives totaling NIS 4,443 million.
(b) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(c) Number of borrowers according to total off-balance sheet loans and credit risk.
(d) Including balance sheet loans of NIS 8,210 million and off-balance sheet credit risk of NIS 11,659 million in respect of assets classified as held-for-sale in respect of 867,547 borrowers.
(e) Reclassified.

Comments:
Starting with loans of up to NIS 8,000 thousand, loans are classified by the specific consolidation method; loans to other borrowers were classified by the category consolidation method.
The definition of "borrower" and the definition of "indebtedness", including off-balance sheet credit risk, are in accordance with the Banking Supervision Department's directives regarding the amendment of Proper Conduct of Banking Business Directive No. 313 – "Limitations on the indebtedness of a borrower and a group of borrowers".

D. Off Balance-Sheet Financial Instruments

	December 31			
	2019		2018	
	Outstanding loan contracts[(a)]	Outstanding loan loss provision	Outstanding loan contracts[(a)]	Outstanding loan loss provision
	In NIS millions			
A. Off-balance sheet financial instruments - Contractual balances or notional amounts as of year-end. Transactions in which the balance reflects credit risk:				
Documentary credit	**729**	**2**	1,362	3
Loan guarantees	**5,293**	**74**	5,231	88
Guarantees for apartment buyers	**21,248**	**18**	18,667	12
Guarantees and other commitments[(b)]	**16,257**	**158**	16,471	240
Unutilized credit card credit facilities	**14,837**	**13**	26,050[(c)]	29[(c)]
Unutilized current loan account facilities and other credit facilities in demand accounts	**12,456**	**25**	12,431	25
Irrevocable loan commitments approved but not yet granted[1]	**28,655**	**81**	24,291	63
Commitments to issue guarantees	**16,723**	**15**	16,372	17
Unutilized credit facilities for derivatives activity	**2,921**	**-**	2,748	-
Approval in principle to maintain interest rate	**4,778**	**-**	4,045	-

1. Of which: Credit exposures in respect of an unutilized obligation to provide liquidity to securitization entities under the auspices of others in the amount of NIS 207 million (December 31 2018 - NIS 225 million); the obligations constitute a relatively small portion of the securitization entities' obligations.

(a) The balance of the contracts or their par value as at the end of the year, before the effect of the loan loss provision.
(b) Including the Bank's liabilities for its share in the risk reserve of the TASE and the MAOF Clearing House in the amount of NIS 259 million (as at December 31 2018, NIS 192 million).
(c) Including a contract balance of NIS 11,659 million and a NIS 16 million loan loss provision balance in respect of held-for-sale assets.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

E. Sale and Purchase of Loans to the Public

Credit risk from sold loans to the public

	For the year ended December 31									
	2019					2018				
	Sold loans to the public	Sold off-balance sheet credit risk[(a)]	Of which: Troubled credit risk	Total gain (loss) for sold loans to the public	Total year-end outstanding loans sold, for which the bank provides services	Sold loans to the public	Sold off-balance sheet credit risk	Of which: Troubled credit risk	Total gain (loss) for sold loans to the public	Total year-end outstanding loans sold, for which the bank provides services
	In NIS millions									
Commercial - Total	**900**	**35**	**62**	**15**	**1,500**	503	190	149	-	1,089
Private individuals - Housing loans	**-**	**-**	**-**	**-**	**1,043**	-	-	-	-	1,208
Private individuals - Other	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total credit risk for the public	**900**	**35**	**62**	**15**	**2,543**	503	190	149	-	2,297

Purchased credit risk from loans to the public

	For the year ended December 31					
	2019			2018		
	Loans to the public purchased in the reporting period	Purchased off-balance sheet credit risk	Of which: Troubled credit risk	Loans to the public purchased in the reporting period	Purchased off-balance sheet credit risk	Of which: Troubled credit risk
	In NIS millions					
Commercial - Total	**9,419**	**-**	**-**	3,670	-	-
Private individuals - Housing loans	**-**	**-**	**-**	-	-	-
Private individuals - Other	**70**	**-**	**-**	305	-	-
Total credit risk arising from loans to the public	**9,489**	**-**	**-**	3,975	-	-

(a) Credit risk arising from off-balance sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivative instruments.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

F. Syndications and Participation in Loan Syndications

	December 31 2019					
	Syndication transactions organized by the Bank[(a)]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]
	In NIS millions					
Commercial - Total	3,764	2,692	7,996	3,878	2,611	1,602
Private individuals - Housing loans	2,927	190	2,940	190	-	-
Private individuals - Other	1	-	1	-	-	-
Total credit risk arising from loans to the public	6,692	2,882	10,937	4,068	2,611	1,602

	December 31 2018					
	Syndication transactions organized by the Bank[(a)]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]
	In NIS millions					
Commercial - Total	4,288	3,034	9,099	4,265	3,129	1,733
Private individuals - Housing loans	3,297	68	3,312	68	-	-
Private individuals - Other	1	-	1	-	-	-
Total credit risk arising from loans to the public	7,586	3,102	12,412	4,333	3,129	1,733

(a) Including where the banking corporation provides a material service in the syndication transaction.

(b) Credit risk arising from off-balance sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivative instruments.

Note 31 - Assets and Liabilities by Linkage Basis

	December 31 2019						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Unlinked	CPI-linked	In US dollars	In Euro	In other currencies		
	In NIS millions						
Assets							
Cash and deposits with banks	65,549	-	6,785	1,103	1,859	917	76,213
Securities	32,390	3,186	38,649	5,059	1,953	3,712	84,949
Securities borrowed or purchased under reverse repurchase agreements	161	-	1,220	59	30	-	1,470
Loans to the public, net[c]	197,939	43,731	31,513	3,775	5,096	424	282,478
Loans to the Israeli Government	11	-	713	20	-	-	744
Investments in associates	-	-	-	-	-	765	765
Buildings and equipment	-	-	-	-	-	3,043	3,043
Assets for derivatives	4,654	97	2,111	187	228	3,693	10,970
Goodwill	-	-	-	-	-	16	16
Other assets	7,443	4	757	3	20	259	8,486
Total assets	308,147	47,018	81,748	10,206	9,186	12,829	469,134
Liabilities							
Deposits by the public	244,406	13,878	99,241	9,531	5,220	1,368	373,644
Deposits by banks	2,280	-	3,385	444	67	-	6,176
Deposits by the Israeli Government	108	-	199	8	-	-	315
Securities loaned or sold under repurchase agreements	112	-	264	59	30	11	476
Bonds, promissory notes and subordinated bonds	5,621	14,337	-	-	-	-	19,958
Liabilities for derivatives	5,422	285	1,698	185	301	3,637	11,528
Other liabilities	7,090	13,093	496	19	115	350	21,163
Total liabilities	265,039	41,593	105,283	10,246	5,733	5,366	433,260
Difference[d]	43,108	5,425	(23,535)	(40)	3,453	7,463	35,874
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(15,496)	(3,009)	23,180	(1,159)	(4,150)	634	-
In the money options, net (according to underlying asset)	380	-	(1,351)	972	(1)	-	-
Out of the money options, net (according to underlying asset)	(13)	-	(128)	133	8	-	-
Grand total	27,979	2,416	(1,834)	(94)	(690)	8,097	35,874
In the money options, net (discounted nominal value)	33	-	(1,531)	1,496	2	-	-
Out of the money options, net (discounted nominal value)	(1,146)	-	(113)	1,188	71	-	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 3,328 million.
(d) Shareholders' equity including non-controlling interests.

Note 31 - Assets and Liabilities by Linkage Basis (cont.)

	December 31 2018						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Unlinked	CPI-linked	In US dollars	In Euro	In other currencies		
	In NIS millions						
Assets							
Cash and deposits with banks	67,759	-	7,871[f]	2,153[f]	2,265[f]	65	80,113
Securities	32,887	2,832	30,894	2,523	1,877	3,558	74,571
Securities borrowed or purchased under reverse repurchase agreements	999	-	189	47	22	-	1,257
Loans to the public, net[c]	186,829	42,113	32,824[f]	4,522	6,007	307	272,602
Loans to the Israeli Government	21	53	675	33	-	-	782
Investments in associates	-	-	-	-	-	623	623
Buildings and equipment	-	-	-	-	-	2,853	2,853
Assets for derivatives	2,524	95	5,390	262	229	4,250	12,750
Goodwill	-	-	-	-	-	17	17
Other assets	5,154	4	758	3	32	691	6,642
Held-for-sale assets[e]	8,149	(15)	89	2	1	344	8,570
Total assets	304,322	45,082	78,690	9,545	10,433	12,708	460,780
Liabilities							
Deposits by the public	229,043	16,696	101,874	10,811[f]	5,887[f]	403	364,714
Deposits by banks	1,820	-	2,334	452	604	-	5,210
Deposits by the Israeli Government	115	-	585	9	-	-	709
Securities loaned or sold under repurchase agreements	310	-	154	43	23	11	541
Bonds, promissory notes and subordinated bonds	4,040	13,758	-	-	-	-	17,798
Liabilities for derivatives	2,991	222	4,316	133	204	4,223	12,089
Other liabilities	3,339	9,970	551	19	144	757	14,780
Held-for-sale liabilities[e]	8,652	11	101	-	1	13	8,778
Total liabilities	250,310	40,657	109,915	11,467	6,863	5,407	424,619
Difference[d]	54,012	4,425	(31,225)	(1,922)	3,570	7,301	36,161
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(19,318)	(4,233)	26,209	820	(4,351)	873	-
In the money options, net (according to underlying asset)	(2,204)	-	1,809	388	7	-	-
Out of the money options, net (according to underlying asset)	(1,549)	-	1,196	307	42	4	-
Grand total	30,941	192	(2,011)	(407)	(732)	8,178	36,161
In the money options, net (discounted nominal value)	(3,410)	-	2,886	517	7	-	-
Out of the money options, net (discounted nominal value)	(7,018)	-	5,901	871	44	202	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the credit linkage, in the amount of NIS 3,352 million.
(d) Shareholders' equity including non-controlling interests.
(e) For more information, please see Note 36F to the financial statements as at December 31 2018.
(f) Reclassified.

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)]

	December 31 2019			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	One to two years
	In NIS millions			
NIS (including foreign currency-linked)				
Assets[1]	115,916	24,022	49,105	34,052
Liabilities[2]	208,260	18,070	36,117	12,157
Difference	(92,344)	5,952	12,988	21,895
[1]Of which: Loans to the public	46,832	18,821	33,209	28,311
[2]Of which: Deposits by the public	199,828	16,592	25,431	7,402
Derivatives (excluding options)	(6,936)	(4,184)	(8,136)	(647)
Options (by underlying asset)	165	60	(132)	90
Difference after effect of derivatives	(99,115)	1,828	4,720	21,338
Foreign currency[(c)]				
Assets[1]	22,456	9,007	20,564	18,434
Liabilities[2]	85,662	15,791	20,191	1,770
Difference	(65,206)	(6,784)	373	16,664
[1]Of which: Loans to the public	9,902	3,802	8,362	6,934
[2]Of which: Deposits by the public	80,449	13,750	17,811	1,292
Of which: Difference in dollars	(58,387)	(7,905)	(2,312)	16,698
Of which: Difference for foreign activity	(9,944)	(304)	2,786	4,254
Derivatives (excluding options)	6,936	4,184	8,136	647
Options (by underlying asset)	(165)	(60)	132	(90)
Difference after effect of derivatives	(56,435)	(2,660)	8,641	17,221
Total				
Assets[1]	138,372	33,029	69,669	52,486
Liabilities[2]	293,922	33,861	56,308	13,927
Difference[(g)]	(155,550)	(832)	13,361	38,559
[1]Of which: Loans to the public	56,734	22,623	41,571	35,245
[2]Of which: Deposits by the public	280,277	30,342	43,242	8,694

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each cash flow. Data are presented net of accounting write-offs and loan loss provisions.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 864 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this note for a monetary item to its book balance.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 8.3 billion. Loans in excess of the credit facility, totaling NIS 1.0 billion, were classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 5.7 billion.

							Book balance[d]		
More than two years and up to three years	More than three years and up to four years	More than four years and up to five years	More than five years and up to ten years	More than ten years and up to twenty years	Over twenty years	Total cash flows	Without term to ma-turity[b]	Total	Contrac-tual rate of return[e]
									in %
26,447	19,923	15,698	49,237	44,093	15,840	394,333	2,713	355,809	3.09
6,126	3,908	5,253	8,354	6,040	5,775	310,060	1,098	307,176	1.41
20,321	16,015	10,445	40,883	38,053	10,065	84,273	1,615	48,633	
23,474	17,862	14,348	43,087	41,148	12,362	279,454	1,133	241,668	3.33
4,678	1,133	1,214	2,088	675	-	259,041	-	258,321	1.02
936	632	(11)	932	62	-	(17,352)	-	(17,807)	
1	-	-	-	-	-	184	-	185	
21,258	16,647	10,434	41,815	38,115	10,065	67,105	1,615	31,011	
8,580	6,503	4,326	13,172	5,390	3,797	112,229	2,194	104,189	3.19
943	613	240	376	61	48	125,695	28	124,355	1.64
7,637	5,890	4,086	12,796	5,329	3,749	(13,466)	2,166	(20,166)	
3,599	2,950	1,958	2,592	357	330	40,786	2,193	40,386	3.83
575	330	5	-	-	-	114,212	-	113,955	1.68
6,968	4,705	3,683	11,504	4,911	3,407	(16,728)	2,159	(22,763)	
2,274	2,390	1,758	3,623	1,098	1,069	9,004	268	6,078	
(936)	(632)	11	(932)	(62)	-	17,352	-	17,807	
(1)	-	-	-	-	-	(184)	-	(1,167)	
6,700	5,258	4,097	11,864	5,267	3,749	3,702	2,166	(3,526)	
35,027	26,426	20,024	62,409	49,483	19,637	506,562	4,907	459,998	3.11
7,069	4,521	5,493	8,730	6,101	5,823	435,755	1,126	431,531	1.48
27,958	21,905	14,531	53,679	43,382	13,814	70,807	3,781	28,467	
27,073	20,812	16,306	45,679	41,505	12,692	320,240	3,326	282,054	3.40
5,253	1,463	1,219	2,088	675	-	373,253	-	372,276	1.22

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)](cont.)

	December 31 2018			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	One to two years
	In NIS millions			
NIS (including foreign currency-linked)				
Assets[1]	115,131	22,457	51,743	34,161
Liabilities[2]	199,202	14,033	32,661	16,841
Difference	(84,071)	8,424	19,082	17,320
[1]Of which: Loans to the public	44,429	17,703	34,658	31,424
[2]Of which: Deposits by the public	188,039	13,286	29,341	5,612
Derivatives (excluding options)	(18,540)	(709)	(5,800)	1,137
Options (by underlying asset)	-	(1,452)	(2,651)	675
Difference after effect of derivatives	(102,611)	6,263	10,631	19,132
Foreign currency[(c)]				
Assets[1]	23,728[(j)]	10,673	14,887	13,603
Liabilities[2]	90,070[(j)]	18,619	21,064	1,760
Difference	(66,342)	(7,946)	(6,177)	11,843
[1]Of which: Loans to the public	9,638[(j)]	4,952	8,653	6,663
[2]Of which: Deposits by the public	85,283[(j)]	13,836	17,559	1,291
Of which: Difference in dollars	(59,382)	(10,094)	(6,497)	10,161
Of which: Difference for foreign activity	(13,146)	341	1,505	5,260
Derivatives (excluding options)	18,540	709	5,800	(1,137)
Options (by underlying asset)	-	1,452	2,651	(675)
Difference after effect of derivatives	(47,802)	(5,785)	2,274	10,031
Total				
Assets[1]	138,859	33,130	66,630	47,764
Liabilities[2]	289,272	32,652	53,725	18,601
Difference[(g)]	(150,413)	478	12,905	29,163
[1]Of which: Loans to the public	54,067	22,655	43,311	38,087
[2]Of which: Deposits by the public	273,322	27,122	46,900	6,903

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each cash flow. Data are presented net of accounting write-offs and loan loss provisions.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 947 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this note for a monetary item to its book balance.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 7.7 billion. Loans in excess of the credit facility, totaling NIS 1.0 billion, were classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.
(h) Including future cash flows in respect of balances that were classified as held-for-sale assets totaling NIS 8,765 million, of which loans to the public totaling NIS 8,637 million.
(i) Including future cash flows in respect of balances that were classified as held-for-sale liabilities totaling NIS 8,765 million, of which deposits by the public total NIS 71 million.
(j) Reclassified.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 4.9 billion.

							Book balance[d]		
More than two years and up to three years	More than three years and up to four years	More than four years and up to five years	More than five years and up to ten years	More than ten years and up to twenty years	Over twenty years	Total cash flows	Without term to maturity[b]	Total	Contractual rate of return[e]
									in %
28,330	20,486	15,264	47,268	42,928	15,857	393,625	2,704	353,496	3.64
8,320	4,521	2,917	7,548	5,529	5,761	297,333	1,119	293,754	2.37
20,010	15,965	12,347	39,720	37,399	10,096	96,292	1,585	59,742	
23,604	18,993	14,229	41,848	41,172	12,720	280,780	1,316	236,962	4.07
3,673	3,340	909	2,061	463	-	246,724	-	245,892	1.17
(769)	269	171	627	(20)	-	(23,634)	-	(23,235)	
-	-	-	-	-	-	(3,428)	-	(3,424)	
19,241	16,234	12,518	40,347	37,379	10,096	69,230	1,585	33,083	
10,207	7,883	6,786	15,031	6,064	2,859	111,721	2,782	98,826[j]	3.57
830	404	535	284	18	8	133,592	28	129,681[j]	2.12
9,377	7,479	6,251	14,747	6,046	2,851	(21,871)	2,754	(30,855)	
4,888	2,587	2,818	2,485	683	740	44,107	2,772	43,375[j]	4.38
507	172	346	2	6	1	119,003	-	118,490[j]	2.50
8,864	6,470	5,029	13,478	5,744	2,251	(23,976)	2,734	(30,594)	
4,229	3,366	3,240	3,377	1,679	680	10,531	144	6,927	
769	(269)	(171)	(627)	20	-	23,634	-	23,235	
-	-	-	-	-	-	3,428	-	3,424	
10,146	7,210	6,080	14,120	6,066	2,851	5,191	2,754	(4,196)	
38,537	28,369	22,050	62,299	48,992	18,716	505,346[h]	5,486	452,322	3.63
9,150	4,925	3,452	7,832	5,547	5,769	430,925[i]	1,147	423,435	2.30
29,387	23,444	18,598	54,467	43,445	12,947	74,421	4,339	28,887	
28,492	21,580	17,047	44,333	41,855	13,460	324,887[h]	4,088	280,337	4.11
4,180	3,512	1,255	2,063	469	1	365,727[i]	-	364,382	1.60

Note 33A – Balances and Fair Value Estimates of Financial Instruments

A. Overview

This note includes information regarding the measurement of financial instruments' fair value according to Banking Supervision Department's directives. Most of the Bank's financial instruments do not have a quoted "market price" since they are not traded in an active market. Therefore, the fair value of such instruments is measured based on the present value of the future cash flows discounted by an interest rate reflecting the interest rate of a similar transaction entered into on reporting date. The estimated fair value is calculated by estimating the future cash flows and determining a subjective discount rate. Therefore, for most financial instruments, the reported fair value estimate is not necessarily indicative of the financial instrument's realizable value on reporting date. Fair value was estimated on the basis of interest rates in effect as of reporting date and does not take into account interest rate fluctuations. If different interest rates are used, the fair value calculated may be significantly different. This mainly applies to financial instruments bearing fixed interest or noninterest bearing financial instruments. Furthermore, fees and commissions receivable or payable as a result of the business activities were not taken into account in the calculation of fair values. Moreover, the difference between the book balance and the fair value balances may not be realized since in most cases the Bank may hold the financial instrument to maturity. In view of the above, it should be emphasized that the data included in this note does not reflect the Group's value as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can potentially be applied in the measurement of fair value, one must exercise caution when comparing the fair value of different banks.

B. Principal Methods and Assumptions Used in Estimating the Fair Value of Financial Instruments

Financial assets:

Loans to the public - the fair value of loans to the public is measured according to the present value of the future cash flows discounted at an adequate discount rate. The balance of loans was classified into several categories according to the operating segment and the borrowers' credit rating. Future cash flows (principal and interest) were calculated for each category according to the different linkage bases. These cash flows were discounted at interest rates that reflect the risk level and average spread inherent in that loan category and the term of the loan.

This interest rate is normally determined according to the interest rate used in similar transactions as of reporting date.

The fair value of debit current account balances was estimated according to their book balances.

The fair value of impaired non-performing loans was calculated using interest rates that reflect the high level of their inherent credit risk. In any case, these interest rates reflect the highest interest rates used by the Group in transactions carried out in that same segment as of reporting date.

The fair value of current account balances classified as impaired non-performing loans was calculated according to their estimated average duration based on maximum interest rates used by the Bank.

The future cash flows in respect of impaired non-performing loans were calculated after deducting the effect of accounting write-offs and loan loss provisions.

Deposits with banks and loans to governments - by discounting the future cash flows at interest rates used in similar transactions entered into on reporting date.

Securities – tradable securities were measured at market value. Non-tradable securities – shares were measured at cost and bonds were measured using a model that takes into account the present value of the future cash flows discounted at an adequate discount rate, which also takes into account the probability of default and the market value.

Note 33A – Balances and Fair Value Estimates of Financial Instruments (cont.)

Financial liabilities:

Deposits by the public - the balance of the deposits was classified into a number of categories according to operating segments, linkage basis and deposits' periods to maturity. The flows of future payments (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate reflecting the average interest rate the Group pays on similar deposits of the same category for the term to maturity. The book balance of current accounts and deposits without a fixed repayment date is considered to be an estimate of their fair value.

Deposits by banks and deposits by Governments - the fair value is estimated by discounting the future cash flows at the estimated interest rates at which the Group may raise similar deposits on reporting date.

Bonds, promissory notes and subordinated bond – at market value or by discounting the future cash flows at the interest rates at which the Group raises similar deposits, or can issued similar promissory notes on reporting date.

Note 33A – Balances and Fair Value Estimates of Financial Instruments (cont.)

Other financial assets and liabilities:

Derivative financial instruments:

Derivative financial instruments with an active market were estimated at market value determined in the principal market. If the instrument is traded in several market, fair value is estimated according to the most active market.

Fair value of derivative financial instruments not traded on an active market was measured using models used by the Bank in the ordinary course of business, and which take into account the risks inherent in the financial instrument (market risk, credit risk, etc.).

	December 31 2019				
	Book	Fair value			
	balance	Level 1[a]	Level 2[a]	Level 3[a]	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	76,213	66,837	8,104	1,251	76,192
Securities[b]	84,949	50,803	31,831	2,772	85,406
Securities borrowed or purchased under reverse repurchase agreements	1,470	1,470	-	-	1,470
Loans to the public, net	282,478	2,384	88,862	192,218	283,464
Loans to governments	744	-	11	759	770
Assets for derivatives	10,970	2,123	7,448	1,399	10,970
Other financial assets	2,009	47	-	1,961	2,008
Total financial assets	458,833[c]	123,664	136,256	200,360	460,280
Financial liabilities					
Deposits by the public	373,644	3,437	270,780	98,136	372,353
Deposits by banks	6,176	-	5,977	183	6,160
Deposits by governments	315	-	236	87	323
Securities loaned or sold under repurchase agreements	476	476	-	-	476
Bonds, promissory notes and subordinated bonds	19,958	20,041	-	828	20,869
Liabilities for derivatives	11,528	2,123	9,110	295	11,528
Other financial liabilities	5,052	100	4,348	607	5,055
Total financial liabilities	417,149[c]	26,177	290,451	100,136	416,764
Off-balance-sheet financial instruments					
Transactions in which the balance embodies credit risk	301	-	-	301	301
In addition, liabilities for employee benefits, gross - Pension and severance pay[d]	20,470	-	186	20,284	20,470

(a) Level 1 - Fair value measurements using quoted prices in an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

(b) For more information regarding the book balance and fair value of securities, please see Note 12.

(c) Of which: Assets and liabilities in the amount of NIS 129,657 million and NIS 216,697 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see 33B and 33D.

(d) The liability is presented on a gross basis and does not take into account plan assets managed against it.

Note 33A – Balances and Fair Value Estimates of Financial Instruments (cont.)

	December 31 2018				
	Book	Fair value			
	balance	Level 1[a]	Level 2[a]	Level 3[a]	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	80,113[e][f]	68,066[f]	10,186[e]	1,776	80,028
Securities[b]	74,571	40,720	29,934	3,900	74,554
Securities borrowed or purchased under reverse repurchase agreements	1,257	1,257	-	-	1,257
Loans to the public, net	272,602[e]	2,663	86,037[e]	182,432	271,132
Loans to governments	782	-	15	793	808
Assets for derivatives	12,750	3,142	7,390	2,218	12,750
Other financial assets, including balances classified as held-for-sale assets	9,355	478	35	8,835	9,348
Total financial assets	451,430[c]	116,326	133,597	199,954	449,877
Financial liabilities					
Deposits by the public	364,714[f]	2,731[f]	255,543	102,730	361,004
Deposits by banks	5,210	-	4,729	472	5,201
Deposits by governments	709	-	629	90	719
Securities loaned or sold under repurchase agreements	541	541	-	-	541
Bonds, promissory notes and subordinated notes	17,798	16,461	-	1,973	18,434
Liabilities for derivatives	12,089	3,146	8,706	237	12,089
Other financial liabilities, including balances classified as held-for-sale liabilities	10,445	3,561	5,666	1,213	10,440
Total financial liabilities	411,506[c]	26,440	275,273	106,715	408,428
Off-balance-sheet financial instruments					
Transactions in which the balance embodies credit risk	363	-	-	363	363
In addition, liabilities for employee benefits, gross - Pension and severance pay[d]	15,867	-	173	15,694	15,867

(a) Level 1 - Fair value measurements using quoted prices in an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.
(b) For more information regarding the book balance and fair value of securities, please see Note 12.
(c) Of which: Assets and liabilities in the amount of NIS 116,216 million and NIS 220,199 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see 33B and 33D.
(d) The liability is presented on a gross basis and does not take into account plan assets managed against it.
(e) Reclassified.
(f) Restated.

Note 33B - Items Measured at Fair Value

A. Items Measured at Fair Value on a Recurring Basis

	December 31 2019			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable in-puts (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	30,470	2,662	-	33,132
Foreign governments' bonds	12,258	5,863	-	18,121
Bonds of foreign financial institutions	41	9,556	-	9,597
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	6,293	1,455	7,748
Other Israeli bonds	108	32	-	140
Other foreign bonds	-	3,530	-	3,530
Total available-for-sale securities	42,877	27,936	1,455	72,268
Shares and mutual funds not held-for-trading:				
Shares and mutual funds not held-for-trading	2,395	-	-	2,395
Held-for-trading securities:				
Government of Israel bonds	2,715	-	-	2,715
Foreign governments' bonds	213	-	-	213
Bonds of Israeli financial institutions	101	-	-	101
Bonds of foreign financial institutions	-	201	-	201
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	154	-	154
Other Israeli bonds	53	-	-	53
Other foreign bonds	-	87	-	87
Total held-for-trading securities	3,082	442	-	3,524
Assets for derivatives:				
NIS-CPI contacts	-	127	82	209
Interest rate contracts	6	3,675	767	4,448
Foreign exchange rate contracts	-	1,741	538	2,279
Stock contracts	1,762	1,894	8	3,664
Commodity and other contracts	29	11	4	44
MAOF (Israeli financial instruments and futures) market activity	326	-	-	326
Total assets for derivatives	2,123	7,448	1,399	10,970
Other:				
Credit and deposits for loaned securities	3,564	-	-	3,564
Securities borrowed or purchased under reverse repurchase agreements	1,470	-	-	1,470
Other	47	-	-	47
Total - Other	5,081	-	-	5,081
Total assets	55,558	35,826	2,854	94,238

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	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)	Total fair value
	In NIS millions			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	265	38	303
Interest rate contracts	6	4,437	-	4,443
Foreign exchange rate contracts	-	2,511	257	2,768
Stock contracts	1,762	1,883	-	3,645
Commodity and other contracts	29	14	-	43
MAOF (Israeli financial instruments and futures) market activity	326	-	-	326
Total liabilities for derivatives	2,123	9,110	295	11,528
Other:				
Deposits by the public	3,437	44	6	3,487
Securities loaned or sold under repurchase agreements	476	-	-	476
Others	100	-	-	100
Total - Other	4,013	44	6	4,063
Total liabilities	6,136	9,154	301	15,591

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2018			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	27,952	2,621	-	30,573
Foreign governments' bonds	2,417	3,487	-	5,904
Bonds of foreign financial institutions	43	9,664	-	9,707
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	6,612	2,821	9,433
Other Israeli bonds	81	161	-	242
Other foreign bonds	-	3,517	-	3,517
Total available-for-sale securities	30,493	26,062	2,821	59,376
Available-for-sale equity securities and funds:				
Equity securities and funds	2,477	-	-	2,477
Held-for-trading securities:				
Government of Israel bonds	5,677	-	-	5,677
Foreign governments' bonds	52	-	-	52
Bonds of Israeli financial institutions	119	-	-	119
Bonds of foreign financial institutions	-	132	-	132
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	271	-	271
Other Israeli bonds	290	-	-	290
Other foreign bonds	-	220	-	220
Held-for-trading shares and mutual funds	2	-	-	2
Total held-for-trading securities	6,140	623	-	6,763
Assets for derivatives:				
NIS-CPI contacts	-	86	149	235
Interest rate contracts	509	2,833	142	3,484
Foreign exchange rate contracts	-	3,264	971	4,235
Stock contracts	2,132	1,195	937	4,264
Commodity and other contracts	50	12	19	81
MAOF (Israeli financial instruments and futures) market activity	451	-	-	451
Total assets for derivatives	3,142	7,390	2,218	12,750
Other:				
Credit and deposits for loaned securities	2,728	6	-	2,734
Securities borrowed or purchased under reverse repurchase agreements	1,257	-	-	1,257
Other	478	-	-	478
Total - Other	4,463	6	-	4,469
Total assets	46,715	34,081	5,039	85,835

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2018			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	236	109	345
Interest rate contracts	508	2,776	-	3,284
Foreign exchange rate contracts	-	3,499	128	3,627
Stock contracts	2,132	2,165	-	4,297
Commodity and other contracts	51	30	-	81
MAOF (Israeli financial instruments and futures) market activity	455	-	-	455
Total liabilities for derivatives	3,146	8,706	237	12,089
Other:				
Deposits by the public	2,608	13	3	2,624
Securities loaned or sold under repurchase agreements	541	-	-	541
Others	1,145	-	-	1,145
Total - Other	4,294	13	3	4,310
Total liabilities	7,440	8,719	240	16,399

Note 33B - Items Measured at Fair Value (cont.)

B. Items Measured at Fair Value on a Non-Recurring Basis

	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)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS millions				
Impaired non-performing credit whose collection is collateral-dependent	-	-	464	464	214
Total	-	-	464	464	214

	December 31 2018				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS millions				
Impaired non-performing credit whose collection is collateral-dependent	-	-	464	464	228
Total	-	-	464	464	228

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3

	For the year ended December 31 2019										
	Fair value as at the beginning of the year	Realized/ unrealized gains (losses), net, including:									
		In the income statement[(a)]	In other comprehensive income[(b)]	Purchases and issues	Sales	Discharges	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	Fair value as at December 31 2019	Unrealized gains (losses) for instruments held as at December 31 2019
	In NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	2,821	(144)	31	308	(315)	(234)	-	-	(1,012)	1,455	(4)
Assets for derivatives:											
NIS-CPI contacts	149	(80)	-	-	-	-	-	18	(5)	82	(25)
Interest rate contracts	142	731	-	-	-	(106)	-	-	-	767	618
Foreign exchange rate contracts	971	(963)	-	530	-	-	-	-	-	538	229
Stock contracts	937	(929)	-	-	-	-	-	-	-	8	2
Commodity and other contracts	19	(15)	-	-	-	-	-	-	-	4	(2)
Total assets for derivatives	2,218	(1,256)	-	530	-	(106)	-	18	(5)	1,399	822
Total assets	5,039	(1,400)	31	838	(315)	(340)	-	18	(1,017)	2,854	818
Liabilities											
Liabilities for derivatives:											
NIS-CPI contacts	109	(37)	-	-	-	-	-	35	(69)	38	12
Foreign exchange rate contracts	128	129	-	-	-	-	-	-	-	257	-
Total liabilities for derivatives	237	92	-	-	-	-	-	35	(69)	295	12
Total - Other	3	3	-	-	-	-	-	-	-	6	3
Total liabilities	240	95	-	-	-	-	-	35	(69)	301	15

(a) Realized gains (losses), net reported in the income statement under the noninterest finance income item.
(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss).
(c) Transfers from Level 2 to Level 3 – forward CPI contracts for a period of over one year were transferred when the term to maturity was less than one year.

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

	For the year ended December 31 2018										
	Fair value as at the beginning of year	Realized/unrealized gains (losses), net, which were included: In the income statement[(a)]	In other comprehensive income[(b)]	Purchases and issues	Sales	Discharges	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	Fair value as at December 31 2018	Unrealized gains (losses) for instruments held as at December 31 2018
	In NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	1,369	377	(27)	286	-	(458)	-	1,274	-	2,821	(27)
Assets for derivatives:											
NIS-CPI contacts	166	(44)	-	-	-	-	-	29	(2)	149	(22)
Interest rate contracts	266	34	-	-	-	(158)	-	-	-	142	(109)
Foreign exchange rate contracts	616	(78)	-	433	-	-	-	-	-	971	290
Stock contracts	63	874	-	-	-	-	-	-	-	937	935
Commodity and other contracts	3	16	-	-	-	-	-	-	-	19	19
Total assets for derivatives	1,114	802	-	433	-	(158)	-	29	(2)	2,218	1,113
Total assets	2,483	1,179	(27)	719	-	(616)	-	1,303	(2)	5,039	1,086
Liabilities											
Liabilities for derivatives:											
NIS-CPI contacts	255	(125)	-	-	-	-	-	57	(78)	109	41
Foreign exchange rate contracts	184	(56)	-	-	-	-	-	-	-	128	(16)
Total liabilities for derivatives	439	(181)	-	-	-	-	-	57	(78)	237	25
Total - Other	47	(44)	-	-	-	-	-	-	-	3	1
Total liabilities	486	(225)	-	-	-	-	-	57	(78)	240	26

(a) Realized gains (losses), net reported in the income statement under the "noninterest finance income" item.
(b) Unrealized losses included in the statement of changes in equity under accumulated other comprehensive income (loss).
(c) Transfers from Level 2 to Level 3 – forward CPI transactions for a period of over one year and less than 5 years were transferred when the term to maturity was less than one year.
Transfers from Level 3 to Level 2 – forwards CPI transactions for a period of over 5 years were transferred when the term to maturity was over one year and less than 5 years.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3

Quantitative Information on Fair Value Measurement in Level 3

	December 31 2019				
	Fair value	Valuation technique	Unobservable inputs	Range	Average[3]
a. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,455	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets for derivatives[2]					
NIS-CPI interest contracts	45	Discounted cash flows	Expected inflation	0.04%-0.81%	0.43%
	37	Discounted cash flows	Counterparty risk	0.12%-100%(*)	0.75%
Interest rate contracts	767	Discounted cash flows	Counterparty risk	0.12%-100%(*)	0.75%
Foreign exchange rate contracts	82	Discounted cash flows	Expected inflation	0.04%-0.81%	0.43%
	456	Discounted cash flows	Counterparty risk	0.12%-100%(*)	0.75%
Stock contracts	2	Discounted cash flows	Counterparty risk	0.12%-100%(*)	0.75%
Structured - Stocks	6	Discounted cash flows	Stock prices	(0.41)%-0.27%	(0.07)%
Commodity contracts	4	Discounted cash flows	Counterparty risk	0.12%-100%(*)	0.75%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	38	Discounted cash flows	Expected inflation	0.04%-0.81%	0.43%
Foreign exchange rate contracts	257	Discounted cash flows	Expected inflation	0.04%-0.81%	0.43%
Other	6	Discounted cash flows	Stock prices	(0.41)%-0.27%	(0.07)%
B. Items measured at fair value on a non-recurring basis					
Impaired non-performing credit whose collection is collateral-dependent	464	Collateral's fair value			

* For a defaulted counterparty.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3

Qualitative Information on Fair Value Measurement in Level 3 (cont.)

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.

2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect the contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the CPI-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.

3. The average figure for the unobservable input "Counterparty risk" reflects a weighted average.

Note 33D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	December 31 2018				
	Fair value	Valuation technique	Unobservable inputs	Range	Average[3]
a. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,821	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets for derivatives[2]					
NIS-CPI interest contracts	130	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
	19	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Interest rate contracts	142	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Foreign exchange rate contracts	57	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
	914	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Stock contracts	934	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Structured - Stocks	3[a]	Discounted cash flows	Stock prices	(0.41)%-0.27%	(0.07)%
Commodity contracts	19	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	109	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
Foreign exchange rate contracts	128	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
Other	3[a]	Discounted cash flows	Stock prices	(0.41)%-0.27%	(0.07)%
B. Items measured at fair value on a non-recurring basis					
Impaired non-performing credit whose collection is collateral-dependent	464	Collateral's fair value			

(a) Restated.

* In respect of a defaulted counterparty.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3 (cont.)

Qualitative Information on Fair Value Measurement in Level 3 (cont.)

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.

2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect the contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the CPI-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.

3. The average figure for the unobservable input "Counterparty risk" reflects a weighted average.

Note 34 - Interested and Related Parties of the Bank and Its Consolidated Subsidiaries

Control of the Bank

Bank without a controlling core

As of March 24 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

A. Balances

	December 31 2019			
	Interested parties[f][h]			
	Other shareholders[j]		Officers[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS millions			
Assets:				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	89	91	7	8
Loan loss provision	-	-	-	-
Loans to the public, net	89	91	7	8
Investments in associates[e]	-	-	-	-
Other assets	-	-	1	1
Liabilities:				
Deposits by the public	50	59	31	40
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	-	1	-	-
Credit risk in off-balance sheet items[g]	2	32	3	3

(a) Including their immediate family members, as defined in Section 80.D.(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Based on end-of-month balances.
(e) For details, please see Note 12 and Note 15.
(f) As at December 31 2019, interested parties' holdings in the Bank's share capital amounted to NIS 169,413,874 par value of Bank's shares (of which officers: NIS 800,001 par value).
(g) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(j) Including any person/entity holding 5 percent or more of the Bank's means of control according to Section 80.D(2) of the Reporting to the Public Directives (as of December 19 2017, Altshuler Shaham Ltd. constitutes an interested party in the Bank and to the best of the Bank's knowledge, as at December 31 2019, it holds through entities under its ownership, 5.59 percent of the Bank's issued share capital and voting rights). As of August 28 2019, Phoenix Holdings Ltd. and Excellence Investments Ltd. constitute interested parties in the Bank in view of their joint holdings and to the best of the Bank's knowledge, as at December 31 2019, their joint holding, including through entities under their ownership, is 6.61 percent of the Banks share capital).

				Related parties[h]					
				Held by the Bank				Other[c]	
Other[b]		Interested parties as of the transaction date		Unconsolidated subsidiaries		Associates[h]			
Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	462	462
64	131	-	-	-	-	747	834	101	110
-	-	-	-	-	-	-	-	-	-
64	131	-	-	-	-	747	834	101	110
-	-	-	-	-	-	765	765	-	-
3	3	-	-	-	-	-	1	1	1
56	107	-	2	5	5	223	223	12	59
-	-	-	-	-	-	13	19	-	-
1	1	-	-	-	-	-	-	-	-
1	1	-	-	-	-	3	4	-	-
11	11	-	-	-	-	85	91	25	70

Note 34 - Interested and Related Parties of the Bank and Its Consolidated Subsidiaries (cont.)

A. Balances (cont.)

	December 31 2018			
	Interested parties[f][h]			
	Other shareholders[j]		Officers[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS millions			
Assets:				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	64	102	9	10
Loan loss provision	-	-	-	-
Loans to the public, net	64	102	9	10
Investments in associates[e]	-	-	-	-
Other assets	-	-	1	1
Liabilities:				
Deposits by the public	25	54	33	33
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	1	1	-	-
Credit risk in off-balance sheet items[g]	32	32	7	9

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Based on end-of-month balances.
(e) For details, please see Note 12 and Note 15.
(f) As at December 31 2018, interested parties' holdings in the Bank's share capital amounted to NIS 80,347,017 par value of Bank's shares (of which officers: NIS 1,673,644 par value).
(g) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(j) Including any person/entity holding 5% or more of the Bank's means of control according to Section 80.D(2) of the Reporting to the Public Directives (on December 19 2017, Altshuler Shaham Ltd. became an interested party in the Bank and to the best of the Bank's knowledge, as of December 31 2018 it holds through entities under its ownership 5.16% of the Bank's issued share capital and voting rights).

				Related parties[h]					
				Held by the Bank				Other[c]	
Other[b]		Interested parties as of the transaction date		Unconsolidated subsidiaries		Associates[h]			
Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	364	405
33	53	-	2	-	-	815	999	290	290
-	-	-	-	-	-	-	-	-	-
33	53	-	2	-	-	815	999	290	290
-	-	-	-	-	-	623	869	-	-
-	-	-	-	-	-	1	1	-	-
11	72	-	5	3	3	34	192	66	684
-	-	-	-	-	-	11	11	-	-
-	-	-	-	-	-	-	-	-	-
-	1	-	-	-	-	14	14	2	2
-	1	-	1	-	-	34	163	130	186

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties

	For the year ended December 31 2019					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other shareholders[h]	Officers[a]	Other[b]	Unconsolidated subsidiaries	Associates or jointly held investees[g]	
	In NIS millions					
Interest income, net[d]	3	-	1	-	21	1
Noninterest income (expense)	-	-	(1)	-	3	2
Of which: Management and service fees	-	-	1	-	2	1
Operating and other expenses[e]	(4)	(79)	(11)	-	(14)	(52)
Total	(1)	(79)	(11)	-	10	(49)

	For the year ended December 31 2018					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other shareholders[h]	Officers[a]	Other[b]	Unconsolidated subsidiaries	Associates or jointly held investees[g]	
	In NIS millions					
Interest income, net[d]	3	-	1	-	20	9
Noninterest income (expense)	-	-	(1)	-	3	2
Of which: Management and service fees	-	-	1	-	3	1
Operating and other expenses[e]	-	(57)	(3)	-	(45)	(48)
Total	3	(57)	(3)	-	(22)	(37)

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) More information in Section D below.
(e) More information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives.

Note 34 - Interested and Related Parties of the Bank and Its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties (cont.)

	For the year ended December 31 2017					
	Interested parties(f)			Related parties(f)		
				Held by the Bank		Other(c)
	Other share-holders(g)	Officers(a)	Other(b)	Unconsol-idated subsidiar-ies	Associ-ates or jointly held in-vestees(g)	
	In NIS millions					
Interest income, net(d)	-	-	-	-	20	7
Noninterest income	-	-	-	-	3	1
Of which: Management and service fees	-	-	-	-	3	1
Operating and other expenses(e)	-	(66)	(1)	-	(43)	(44)
Total	-	(66)	(1)	-	(20)	(36)

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) More information in Section D below.
(e) More information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

C. Compensation and Any Other Benefits to Interested Parties

	For the year ended December 31					
	2019		2018		2017	
	Officers					
	Benefits - Total	No. of benefit recipients	Benefits - Total	No. of benefit recipients	Benefits - Total	No. of benefit recipients
	In NIS millions		In NIS millions		In NIS millions	
Interested party employed in the corporation or on its behalf[(a)(b)(c)]	**65**	**20**	44	20	52	23
Director not employed in the corporation or on its behalf[(a)]	**8**	**12**	8	13	8	17

(a) Excluding payroll tax expenses.
(b) Of which: Short-term employee benefits NIS 48 million and post-employment benefit NIS 15 million.
(2018 – short term employee benefits NIS 44 million, 2017 - short term employee benefits NIS 45 million, post-employment benefits NIS 7 million).
(c) In 2019, expenses for stock-based compensation total NIS 1.7 million (in 2018, expenses in respect of stock-based compensation were less than NIS 1 million, 2017 - no expenses were recognized in respect of stock-based compensation)

Bank's directors and officers are covered by a directors' and officers' liability insurance policy (D&O) taken out by the Bank. The overall insurance premium totaled NIS 5,099 million (2018 – NIS 4,657 thousand, 2017 – NIS 5,157 thousand).

D. Net Interest Income from Transactions of the Bank and its Consolidated Companies with Interested and Related Parties

	For the year ended December 31					
	2019		2018		2017	
	Consoli-dated	Of which: Associ-ates	Consoli-dated	Of which: Associ-ates	Consoli-dated	Of which: Associ-ates
	In NIS millions					
(a) For assets						
From loans to the public	**27**	**21**	34	20	28	20
(b) For liabilities						
For deposits by the public	**(1)**	**-**	(1)	-	(1)	-
Total interest income, net	**26**	**21**	33	20	27	20

E. Information Related the Terms and Conditions of Transactions and Balances with Related Parties and Interested Parties

All transactions and balances with interested parties and related parties were carried out in the ordinary course of business and under terms and conditions similar to those of transactions with entities not related to the Bank and its subsidiaries.
Interest receivable and payable in respect of transactions with interested parties and related parties is calculated at the normal interest rates applied to transactions in the ordinary course of business with non-related parties of the Bank.

Note 35 - The Bank's Condensed Financial Statements

A. Condensed Income Statement

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Interest income	**10,069**	9,626	8,695
Interest expense	**2,328**	2,199	1,892
Interest income, net	**7,741**	7,427	6,803
Loan loss expenses	**519**	310	44
Interest income, net after loan loss expenses	**7,222**	7,117	6,759
Noninterest income			
Noninterest finance income	**1,577**[(a)]	399	817
Fees and commissions	**2,889**	2,950	2,861
Other income	**147**	46	341
Total noninterest income	**4,613**	3,395	4,019
Operating and other expenses			
Salaries and related expenses	**3,748**	3,612	3,677
Buildings and equipment - Maintenance and depreciation	**1,338**	1,309	1,330
Other expenses	**1,848**	1,673	1,673
Total operating and other expenses	**6,934**	6,594	6,680
Profit before taxes	**4,901**	3,918	4,098
Provision for profit tax	**1,712**[(a)]	1,371	1,454
Profit after taxes	**3,189**	2,547	2,644
Bank's share in investees' net profits, after tax	**333**[(a)]	710	528
Net income	**3,522**	3,257	3,172

(a) For the purpose of presentation only, the Bank's gain on the sale of Leumi Card was sorted out from the Bank's share in net profits of investees after tax for noninterest finance income and provision for profit tax. For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 35 - The Bank's Condensed Financial Statements (cont.)

B. The Bank's Balance Sheet

	December 31	
	2019	2018
	In NIS millions	
Assets		
Cash and deposits with banks	**77,603**	81,092[a]
Securities	**78,810**	67,265
Securities borrowed or purchased under reverse repurchase agreements	**1,470**	1,257
Loans to the public	**261,607**	253,263[a]
Loan loss provision	**(3,053)**	(3,006)
Loans to the public, net	**258,554**	250,257
Loans to governments	**744**	782
Investments in investees	**11,968**	10,238
Buildings and equipment	**2,805**	2,558
Assets for derivatives	**10,897**	12,667
Other assets	**6,495**	5,837
Held-for-sale assets[b]	**-**	1,470
Total assets	**449,346**	433,423
Liabilities and equity		
Deposits by the public	**355,203**	342,614[a]
Deposits by banks	**6,115**	5,389
Deposits by governments	**184**	207
Securities loaned or sold under repurchase agreements	**476**	541
Bonds, promissory notes and subordinated bonds	**19,958**	17,798
Liabilities for derivatives	**11,431**	12,009
Other liabilities	**20,573**	19,560
Total liabilities	**413,940**	398,118
Shareholders' equity	**35,406**	35,305
Total liabilities and equity	**449,346**	433,423

(a) Reclassified.
(b) For more information, please see Note 36F to the financial statements as at December 31 2018.

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows

	For the year ended December 31		
	2019	2018	2017
	In NIS millions		
Cash flows from operating activities			
Net income for the year	**3,522**	3,257	3,172
Adjustments:			
Bank's share in undistributed net profits of investees net of dividend received	**(123)**	(581)	(526)
Other, net (including loan loss provisions and impairment of securities)	**2,842**	(1,351)[(a)]	3,382
Net cash provided by operating activities	**6,241**	1,325	6,028
Cash flows from investing activities			
Purchase of investees' shares	**(28)**	(19)[(a)]	(39)
Central severance pay fund	**157**	250	383
Other	**(18,874)**	(8,716)[(a)]	(11,046)
Net cash for investing activities	**(18,745)**	(8,485)	(10,702)
Cash flow from financing activities			
Proceeds from issue of bonds and subordinated bonds	**3,152**	2,114	-
Redemption of bonds, promissory notes and subordinated bonds	**(958)**	(32)	(6,597)
Dividend paid to shareholders	**(1,387)**	(1,369)	(627)
Proceeds of disposal of investments in consolidated companies without loss of control	**-**	512	-
Share buyback	**(700)**	(700)	-
Other	**13,405**	2,083[(a)]	18,738
Net cash from financing activities	**13,512**	2,608	11,514
Increase (decrease) in cash and cash equivalents	**1,008**	(4,552)	6,840
Cash balance as at the beginning of the year	**72,539**	76,691	70,454
Effect of exchange rate fluctuations on cash and cash equivalent balances	**(682)**	400	(603)
Balance of cash and cash equivalents at the end of the year	**72,865**	72,539	76,691

Interest and taxes paid and/or received and dividends received

	For the year ended		
	2019	2018	2017
	In NIS millions		
Interest received	**9,852**	9,005	8,753
Interest paid	**(3,106)**	(2,438)	(2,284)
Dividends received	**221**	134	5
Income tax paid	**(2,181)**	(845)	(1,651)

(a) Reclassified.

Note 36 - Events after the Reporting Period and Miscellaneous Topics

A. Leumi Card Ltd.

On February 25 2019, the sale of Leumi Card Ltd. to Warburg Pincus Financial Holdings Israel Ltd. was completed. The Bank recorded a NIS 314 million gain (before tax) on the said sale of the shares.

For more information, please see Note 36F to the financial statements as at December 31 2018.

B. Bank Leumi Romania (BLROM)

On July 10 2019, the transaction for the sale of the Bank's interests in Leumi Romania to First Bank S.A - a Romania-based bank controlled by Investment Fund JC Flowers - was completed. The completion of the transaction does not have a material effect on the Bank's financial results.

C. The Bank sells ABS shares

Pursuant to the provisions of the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Industry (Legislative Amendments), 2017 (hereinafter: The "**Law**"), the Bank is required to reduce its holdings in Automated Banking Services Ltd. (hereinafter: "**ABS**" or the "**Company**"), such that by January 30 2021, the Bank's holdings in ABS will not exceed 10 percent of the Company's issued share capital.

The Bank acted to implement the provisions of the Law, and in 2018 sold 10 percent of its equity in the Company to a corporation from the Visa Group. Following the said sale, the Bank's remaining stake in the company is approximately 30 percent.

Subsequently, on May 29 2019, the Bank, Bank Hapoalim Ltd. and Discount Bank Ltd. (hereinafter: The "Offerors") issued a tender for advance purchase commitments by certain investors (hereinafter: The "Institutional Tender") for the sale of the Offerors' shares in Automated Banking Services Ltd. (ABS) for a certain portion of the Offerors' stakes in ABS, as prescribed by the said tender. Pursuant to the Institutional Tender, bidders submitted bids for the purchase of 38,333,500 ABS shares, out of which the Offerors decided to accept advance purchase commitments for 17,440,000 shares of ABS, at NIS 7.4 per share.

On June 5 2019, a public tender for the offer to sell the Offerors' shares in ABS was held, according to the size of the Offerors' stakes in ABS prescribed by the said tender. The results of the public tender were as follows: The Offerors sold 17,440,000 of ABS's shares, which constitute 43.6 percent of ABS's issued and paid up share capital, at NIS 7.4 per share. The Bank's share of the total shares sold by the Offerors was 8,360,000 of ABS shares, which constitute approximately 20 percent of ABS's issued and paid up share capital.

Following the results of the Institutional Tender, on May 30 2019, the Governor of the Bank of Israel revoked ABS's license as a "joint service provider".

On September 4 2019, the Bank transferred to Mizrahi Tefahot Ltd. ("Bank Mizrahi") 520,000 shares of the Company (which originated in shares transferred to the Bank by Bank Mizrahi in 1979) in consideration of NIS 1,233,860.

Following the above, the Bank's stake in ABS, as of this date, is 10 percent of the Company's issued share capital.

On October 29 2019, ABS published an immediate report regarding an inquiry by the Anti-Trust Authority in respect of the common interests of ABS and Bank Clearing Center (MASAV). According to said report, in its inquiry, the Anti-Trust Authority claimed that despite the restructuring executed by the Company in accordance with the provisions of the law, the Company and MASAV continue to have significant common interests which allegedly constitute a cartel. In the immediate report, ABS's position is that the cooperation between the companies does not constitute a cartel nor does its constitute a violation of any kind and that it is reviewing the inquiry and its significance and will respond accordingly.

D. Dividend distribution in BLUSA

On January 30 2020, Bank Leumi decided to distribute a USD 73 million dividend. The distribution is scheduled to take place at the beginning of March 2020. Bank Leumi's pro-rata share in BLC is USD 61.8 million.

Note 36 - Events after the Reporting Period and Miscellaneous Topics

E. Appointments and Retirements

Banking Division:

On February 26 2020, as part of the implementation of the Bank's strategy, in light of the substantial changes in the banking industry and the intensification of competition, and due to the entry of new players to the field - including fintechs and BigTech - the Board of Directors approved the appointment of CPA Uri Yonissi as member of management, reporting to the Head of the Banking Division. CPA Uri Yonissi currently serves as Head of the Retail Division at Mizrahi Tefahot Bank. The entry into force of the appointment is yet to be determined.

Legal Counsel Division:

Adv. Irit Roth, Chief Legal Counsel and Head of the Legal Counsel Division, has announced her wish to retire from the Bank. The date of her retirement has yet to be agreed on and shall be agreed on after another legal counsel is appointed in lieu of Ms. Roth.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES

Corporate Governance, Additional Information and Appendices

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Members of the Bank's Board of Directors(*)(**)

Dr. Samer Haj Yehia, Chairman of the Board[(a)]

Mr. Yitzhak Edelman[(b)(c)]

Dr. Shmuel (Muli) Ben Zvi[(d)]

Mr. Yoram Gabbay[(b)]

Ms. Tamar Gottlieb[(b)]

Ms. Esther Dominissini[(e)]

Mr. Ohad Marani[(d)]

Ms. Zipora Samet[(b)(d)(f)]

Ms. Irit Shlomi[(f)]

(a) At a board meeting held on June 30 2019, Dr. Samer Haj Yehia was appointed Chairman of the Bank's Board of Directors. Dr. Samer Haj Yehia's appointment took effect on July 22 2019, the date on which the Banking Supervision Department approved his appointment and following the end of the tenure of the departing Chairman of the Board, Mr. David Brodet.

(b) ED pursuant to the Companies Law, 1999 (hereinafter - "ED").

(c) Mr. Yitzhak Edelman was re-elected ED at an extraordinary general meeting of the Bank held on December 23 2019, commencing a second term of office on February 2 2020 (the date on which his first term ended) after having received the Supervisor of Banks' notice of non-objection to said appointment.

(d) External director pursuant to the provisions of Proper Conduct of Banking Business Directive No. 301 (hereinafter - "External Director").

(e) Ms. Esther Dominissini was re-elected director with the status of "Other Director" (a director who is not an external director as prescribed in Section 11(a)(2) to the Banking Ordinance 1941 (hereinafter: "Director with the Status of Other Director") in an extraordinary general meeting of the Bank held on December 23 2019, commencing a second term of office on January 17 2020 (the date on which her first term ended) after having received the Supervisor of Banks' notice of non-objection to said appointment.

(f) Ms. Z. Samet, who served as an ED at the Bank until August 17 2017, was re-elected External Director who and also meets the terms of qualifications for ED, by the general meeting held on October 3 2017 under an individual arrangement (for more information, please see Section 1.4.2 to the Report on Convening a general meeting published by the Bank on September 28 2017 (Ref. No. 2017-01-086014) and commenced her third term with the Bank on November 22 2017. Ms. Samet is expected to end her third and last term of office with the Bank on November 21 2020.

(g) Mr. Irit Shlomi was elected director with the status of "Other Director" by the Bank's annual and extraordinary general meeting held on July 18 2019, commencing a first term of office on September 19 2019 after having received the Supervisor of Banks' notice of non-objection to said appointment.

* On July 21 2019, Mr. David Brodet (the former Chairman of the Board) and Yoav Nardi (director with the status of "Other Director") ended their third and last term with the Bank.

On September 6 2019, Ms. Esther Levanon has ended her first term as director with the status of "Other Director" with the Bank.

On November 7 2019, Mr. Yitzhak Sharir ended his term of office as director in the Bank with the status of "Other Director".

** For more information regarding members of the Bank's Board of Directors, please see "Changes in the Board of Directors" and Directive 26 in the Bank's 2019 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

As of the date of this report and its publication date, the Board of Directors has 9 members.

Pursuant to Proper Conduct of Banking Business Directive (“Directive 301”), at least one third of the directors should meet the qualification requirements for an external director as defined by Directive 301 ("External Directors"). Accordingly, as of the report date and its publication date, the Bank’s Board of Directors includes 6 directors who are classified as external directors, including 4 External Directors in accordance with the Companies Law, 1999 (hereinafter - the “Companies Law”).

In addition, due to the "independent director" definition in the Companies Law, the Audit Committee of the Board of Directors confirmed that the External Directors constitute independent directors.

Pursuant to the directives of the Banking Supervision Department and the provisions of the Companies Law and the regulations thereunder, the Bank’s Board of Directors decided that at least three directors with "accounting and financial expertise" serving on the Board of Directors at any given time shall participate in the Board plenum’s discussions of the draft financial statements and their approval, so as to enable the Board of Directors to meet its obligations in accordance with the law and the Bank's articles of association, and especially its responsibility for examining the Bank’s financial position and preparing the financial statements.

In determining the said minimum number, the Board of Directors took into account the Bank’s size, the complexity of its activity and the diverse risks involved, as well as its existing systems and procedures, such as: control, risk management, compliance, internal auditing and audit by the independent auditors. In addition, all Board members comply with the legal qualification requirements for serving as directors.

As of the report publication date - and as approved by the Board of Directors based on their education, experience, abilities and knowledge - all members of the board meet the definition of directors with accounting and financial expertise and professional qualifications in accordance with the Companies (Conditions and Tests for a Director with Accounting and Financial Expertise and Director with Professional Qualifications) Regulations, 2005; For more information regarding the education and experience of the members of the Bank’s Board of Directors, please see Directive 26 in the periodic report.

As of January 1 2013 and pursuant to Directive 301, discussions regarding the financial statements take place in the Board of directors’ Audit Committee. Pursuant to Directive 301, at least 2 members of the Audit Committee should have accounting and financial expertise. The Bank’s Board of Directors determined that, at any given time, at least 3 directors with accounting and financial expertise will serve on the Board of Directors’ Audit Committee. In effect, all directors serving on the Audit Committee have accounting and financial expertise. The legal quorum for discussion and decision-making by the Audit Committee is a majority of its members, provided that the majority of those present are independent External Directors and at least one is an ED. As of the report date and its publication date, the Bank has 6 board members who are classified as external directors, of which 4 are EDs.

Under Directive 301 - prior to its amendment published in July 2017 - at least one fifth of the Board members were to have experience in banking. Thus, as of the reporting date and publication date, the Bank’s Board of Directors includes 3 directors classified as having experience in banking, who are Tamar Gottlieb, Zipora Samet and Irit Shlomi.

Pursuant to the revised Directive 301, published on July 5 2017, the following changes were made to the qualification requirements of the Board members, to become effective on July 1 2020: 1) The mandatory portion of directors with experience in banking shall increase from one fifth to one third; 2) At least half of the directors are required to have professional qualifications as defined in the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 2005; 3) At least one director shall have proven knowledge and experience in information technology.

As of the reporting date and publication date, the Bank’s Board of Directors includes one director classified by the Board as having proven knowledge and experience in information technology, who is Dr. Samer Haj Yehia.

On December 31 2017, the Board of Directors decided to merge the Audit Committee and Compensation Committee so that the Audit Committee will also serve as the Compensation Committee.

Changes in the Board of Directors

During 2019, there were changes in the composition of the Board of Directors - inter alia due to regulatory provisions - as specified below.

Under the amendment to Directive 301, published on July 5 2017, the maximum number of members on the Board of Directors of banking corporations is to be reduced to 10 by July 1 2020.

On November 6 2018, the Bank received guidance from the Banking Supervision Department, whereby - in order to comply with the provisions of Directive 301, as well as with directives issued in previous years to reduce the number of directors - in 2019, the number of board members shall be reduced to 10 when directors ending their third and last term will have retired. Mr. David Brodet (the former Chairman of the Board) and Yoav Nardi (member of the Board with the status of "Other Director") ended their third and last term at the Bank on July 21 2019. As of July 22 2019, the number of Board members was reduced to ten.

At a board meeting held on June 30 2019, Dr. Samer Haj Yehia was appointed Chairman of the Bank's Board of Directors. Dr. Samer Haj Yehia's appointment took effect on July 22 2019, the date on which the Banking Supervision Department approved his appointment. For more information, please see the immediate reports on the subject dated June 30 2019 and July 22 2019 (Ref. Nos. 2019-01-066019 and 2019-01-075631, respectively).

On April 8 2019, the Bank published a preliminary notice regarding a plan to convene an extraordinary annual general meeting of the Bank's shareholders to discuss several topics, including the appointment of one director with the status of "Other Director" - a member of the Board who is not an external director pursuant to Section 11D(2) to the Banking Ordinance, 1941 (the "Banking Ordinance") - to the Bank's Board of Directors.

On May 6 2019, pursuant to the preliminary notice and its revision dated April 18 2019, which the Bank issued as aforesaid and in accordance with subsections 11D(a)(1), (2) and (3) to the Banking Ordinance, the Bank received a notice from the Committee for Appointment of Directors in Banking Corporations, which was appointed in accordance with Section 36A of the Banking (Licensing) Law, 1981 (hereinafter: the "Committee for Appointment of Directors"). The notice includes a list of candidates to serve as the Bank's directors for election in the Bank's 2019 annual general meetings (for more information, please see the immediate report issued by the Bank on May 6 2019 (Ref. No. 2019-01-043441) (hereinafter: the "**Notice Issued by the Committee for the Appointment of Directors**").

In the extraordinary annual general meeting of the Bank, which took place on July 18 2019, Ms. Irit Shlomi was elected director with the status of "Other Director" for a period of 3 years, subject to approval by the Banking Supervision Department.

For more information regarding the results of the extraordinary annual general meeting, please see the immediate report dated July 18 2019 (Ref. No. 2019-01-074368).

On September 19 2019, Ms. Irit Shlomi began serving as director in the Bank after receiving the Supervisor of Banks' notice regarding her non-objection to said appointment (for more information, please see the immediate reports dated September 8 2019 (Ref. No. 2019-01-093505) and September 19 2019 (Ref. No. 2019-01-097246).

On September 6 2019, Ms. Esther Levanon ended her first term as director with the Bank (please see the immediate report dated September 8 2019 (Ref. No. 2019-01-093502).

Following the announcement of the Committee for the Appointment of Directors as aforesaid, among the candidates to serve as directors for election in the Bank's 2019 general meetings was Dr. Yitzhak Sharir, a director with the status of "Other director" until November 7 2019[1]. Following the decision of the Bank's Audit Committee - according to which the appointment of Dr. Yitzhak Sharir as Chairman of the Board of Directors of Kafrit Industries Ltd. ("Kafrit") creates a prohibited interest according to the provisions of the Banking Ordinance, in the case of Dr. Sharir's appointment as Chairman of the Board of Directors of Kafrit, Dr. Sharir will be unable to continue serving as director with the Bank - on November 6 2019, Dr. Sharir announced his resignation from the Bank's Board of Directors as of November 7 2019, the date on which he began serving as Chairman of the Board of Directors in Kafrit. Due to the above, Dr. Sharir may not be nominated for election as a director in the Bank. Due to the above, on November 7 2019, Dr. Sharir's tenure of office in

[1] Dr. Sharir was due to end his first tenure in office as director with the status of "Other Director" on February 1 2020.

the Bank ended. Subsequently, the Bank's Board of Directors decided on November 5 2019 to nominate only a single director with the status on "Other Director" (in lieu of 2 directors with this status as published in the preliminary notice issued on September 26 2019 (Ref. No. 2019-01-084369) (above and below: the "**Preliminary Notice**").

Following Dr. Sharir's end of service as director in the Bank's Board of Directors, the number of directors serving on the Bank's Board of Directors was reduced to 9.

On December 23 2019, an extraordinary general meeting of the Bank was held, in which the following directors were appointed: 1) Mr. Yitzhak Edelman was re-elected ED for a period of 3 years, as of and subject to obtaining the approval of the Supervisor of Banks, or non-objection thereof, and not before February 2 2020 (after having resumed his first term of office). On January 30 2020, the Bank received the Banking Supervision Department's notice regarding its non-objection to the appointment of Mr. Yitzhak Edelman as director at the Bank and following the aforesaid, Mr. Edelman began his second tenure with the Bank on February 2 2020. 2) Ms. Esther Dominissini was re-elected to serve as "Other Director" for a period of 3 years, as of and subject to obtaining the approval of the Supervisor of Banks, or non-objection thereof, and not before January 17 2020 (after having resumed her first term of office). On January 15 2020, the Bank received the Banking Supervision Department's notice regarding its non-objection to the appointment of Ms. Esther Dominissini as director at the Bank and following the aforesaid, on January 17 2020, Ms. Dominissini began her second tenure at the Bank with the status of "Other Director".

For more information, please see the section entitled "General Meetings and Appointment of Directors", as well as the Bank's immediate report dated November 10 2019 regarding the convening of the extraordinary annual general meeting (Ref. No.: 2019-01-096531) and the Bank's immediate report dated December 23 2019 regarding the results of the general meeting (Ref. No.: 2019-01-112809).

For more information, please see the chapter entitled "General Meetings and Appointment of Directors"

For more information about updates to Directive 301 regarding the Board of Directors, please see under "Members of the Board of Directors".

Members of the Bank's Management and their Roles(1)

Mr. Hanan Friedman, Adv.[1]
President and Chief Executive Officer

Mr. Ronen Agassi, CPA
First Executive Vice President, Head of Capital Markets Division

Mr. Shmulik Arbel
First Executive Vice President, Head of Corporate Division

Mr. Ilan Buganim[1]
First Executive Vice President, Head of Data Division

Mr. Eyal Ben Haim[1]
First Executive Vice President, Head of Operations Division

Ms. Bosmat Ben-Zvi, CPA
First Executive Vice President, Chief Risk Officer, Head of the Risk Management Division

Mr. Shai Basson
First Executive Vice President, Head of Leumi Technologies Division

Mr. Shlomo Goldfarb, CPA
First Executive Vice President, Chief Accounting Officer and Head of Accounting Division

Me. Eilon Dachbash [1]
First Executive Vice President, Head of Banking Division

Mr. Omer Ziv, CPA
First Executive Vice President, Head of Financial Division

Ms. Hilla Eran-Zick
First Executive Vice President, Head of Human Resources Division

Ms. Irit Roth, Adv.
First Executive Vice President, Chief Legal Counsel, Head of Legal Counsel Division and Head of Legal Risk

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Ms. Sharon Gur
First Executive Vice President, Chief Internal Auditor and Head of the Internal Audit Division

Ms. Livnat Ein-Shay Wilder, Adv.
Secretary of the Bank and the Group

Somekh Chaikin
Kost Forer Gabbay & Kasierer
The Bank's Joint Independent Auditors[2]

(1) For information regarding changes in the Bank's management and senior officers during 2019, please see the section entitled "Appointments and Retirements". For more information regarding members of the Bank's management, please see the Bank's 2019 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

(2) It was also decided to appoint auditing firms Somekh Chaikin and Brightman Almagor Zohar & Co. as joint independent auditors of the Bank for a period that will commence on the date of the approval of the Bank's 2019 annual financial statements until the date of the next annual general meeting of the Bank.

The Internal Auditor

On May 1 2017, Ms. Sharon Gur was appointed Chief Internal Auditor of the Group in accordance with the recommendation of the Bank's Audit Committee and the decision of the Board of Directors on December 27 2016. Ms. Gur's appointment was approved by the Bank of Israel on February 22 2017.

The Chief Internal Auditor meets the criteria of Section 146(b) to the Companies Law, 1999 and the provisions of Section 8 to the Internal Audit Law, 1992 (hereinafter: the “Internal Audit Law") and the employees of the Internal Audit Division meet the provisions of Sections 11 and 12 to Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function.

The Chief Internal Auditor is a full-time employee of the Bank, is a member of management and this is her sole occupation. The Internal Auditor reports to the Bank’s Chairman of the Board.

The Internal Audit Division has an annual work plan and a multi-year work plan for a period of up to three years. The annual work plan and the multi-year work plan are derived from a mapping of audit topics - which are based, inter alia, on the documents outlined in Directive No. 307. The work plans are derived from a systematic methodology for assessing risks and controls, according to which the frequency and scope of the audit for each topic are determined. Thus, audits of higher risk topics are carried out annually, while lower risk topics are audited every two to three years. Drafts of annual work plans and multi-year work plans are submitted by the Internal Audit Division and approved by the Chairman of the Board of Directors, Audit Committee and the Board of Directors’ plenum.

The Internal Audit Division’s annual work plan and the multi-year work plan allow the Chief Internal Auditor to exercise discretion in deciding to deviate from the plan, as necessary.

In addition, several audit days are allocated each year to unplanned audits and review of special incidents, enabling the Internal Auditor to examine ad hoc topics, either at the request of the Bank's management or Audit Committee, or as a result of new activities or topics undertaken by the Group.

As part of the audit work, a sample of material transactions carried out by the Bank – including their approval procedures – is examined. In this context, material transactions include a material acquisition or sale of an operation, "transactions" - in accordance with Section 270 to the Companies Law - and "extraordinary transaction" – as defined by the Companies Law.

The Internal Audit Division’s annual work plan and multi-year work plan each include all audit topics for the Bank, the material consolidated subsidiaries in Israel as well as the material foreign subsidiaries (as set forth in Note 15C).

Employees of the Internal Audit Division serve as internal auditors of the Bank’s consolidated subsidiaries in Israel.

In the material foreign subsidiaries, local internal auditors (sometimes representatives of the parent company) are appointed.

The internal auditors of each of the material subsidiaries in Israel and abroad report to their respective boards of directors or audit committees.

Leumi's Internal Audit Division supervises the audit activity in the foreign offices in accordance with the Bank of Israel’s directives and subject to the local laws.

The Chief Internal Auditor and team of auditors in the Leumi Group in Israel comprise, on annual average, 84.6 positions for 2019, as outlined below

	Average number of auditor positions in the Leumi Group in Israel:
The Bank	77.9
Subsidiaries in Israel	2.9
Supervision and control over foreign subsidiaries	3.8
Total	84.6*

* Of which 2.3 positions, on average, are on maternity leave or unpaid leave.

In addition, 6.4 positions are outsourced.
Furthermore, foreign subsidiaries employ local auditors in 12 positions (including outsourcing)
The number of positions was approved by the Audit Committee in Israel, based on the annual and multi-year work plans.
The Chief Internal Auditor may, within the framework of the budget, use outsourcers to carry out work that requires special knowledge or in the event of insufficient staff.

Set forth below is a breakdown of the benefits and amounts which were paid or provided for in 2019 to the Chief Internal Auditor in NIS thousands

2019					
% of the Bank's capital	Compensation for services			Other compensation	
	Salaries	Bonuses	Social benefit	Benefit value	Total*
	(in NIS thousands)				
0.002	1,229	478	605	107	2,419

* Excluding salary tax.
** Please see Note 23F. Financial Statements

The amounts and components of payments to the Chief Internal Auditor are submitted to and approved by the Audit Committee.

The Board of Directors believes that the fact that the Chief Internal Auditor holds securities and her compensation do not affect the exercise of her professional judgement.

The Chief Internal Auditor operates in accordance with the professional standards of the Institute of Internal Auditors in Israel and the Institute of Internal Auditors (IIA).

Furthermore, the Chief Internal Auditor operates in accordance with the directives and instructions of the Banking Supervision Department, including Proper Conduct of Banking Business Directive No. 307 regarding the Internal Audit function.

The Audit Committee and Board of Directors have noted the Chief Internal Auditor's written statement, according to which she complies with all of the requirements set forth in the abovementioned generally accepted professional standards, and also operates in accordance with the directives of the Banking Supervision Department. Based on this statement and on her performance, as reflected in meetings of the Board of Directors' Audit Committee, the Audit Committee and the Board of Directors are satisfied that the Chief Internal Auditor meets the aforesaid requirements.

Audit reports and records are submitted to the audited entities in writing, after the findings are discussed with them. Furthermore, towards the date of issuance of the reports and records, material findings are discussed with the heads of divisions and with the President & CEO.

Audit reports and records are discussed by the Audit Committee several times a month. In addition to the Chief Internal Auditor, members of the Audit Committee also include representatives of the Internal Audit Division and the heads of the audited divisions and their representatives.

Ahead of Audit Committee meetings, the Chairman of the Audit Committee determines, after consulting the Chief Internal Auditor, which audit reports and records will be presented in their entirety for discussion by the Audit Committee. Furthermore, summaries of all audit reports and records issued by the Internal Audit Division throughout the relevant period are submitted on an ongoing basis for review by all Audit Committee members. Audit Committee members may review any audit report and record they deem fit and request that the Chairman present these reports and records in their entirety for discussion by the Audit Committee.

At the end of the first and second halves of the year, the Internal Auditor submits reports summarizing the audit activities to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors; the reports include a summary of the material findings, the auditor's recommendations and the audited entity's responses.

In addition, the Chief Internal Auditor submits to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors an annual report summarizing the audit activities during the course of the entire year; the report also monitors the implementation of the annual work plan and assesses the effectiveness of the Group's internal control framework.

The Internal Audit Division's work plan for 2019 was submitted to the Audit Committee on January 7 2019 and approved by the Committee on January 10 2019; the plan was submitted to the Board of Directors on January 24 2019 and was approved by the Board on January 29 2019.

The Internal Auditor's report for the first half of 2019 was submitted to the Audit Committee on August 14 2019 and was discussed by the Committee on August 18 2019; the report was submitted to the Board of Directors on September 5 2019.

The Internal Audit Division's report for the second half of 2019 was submitted to the Audit Committee on February 19 2020 and will be discussed by the Committee on February 26 2020; the report shall be submitted to the Board of Directors in March 2020.

The Internal Auditor's annual report for 2019 will be submitted to the Audit Committee on March 29 2020 and on April 1 2020 will be discussed by the Audit Committee. The Board of Directors will discuss it in April 2020.

The Internal Audit Division's work plan for 2020 was submitted to the Audit Committee on February 6 2020 and approved by the Committee on February 10 2020; the plan will be submitted to the Board of Directors on February 16 2020 and approved by the Board on February 19 2020.

The Chief Internal Auditor received documents and information as specified in Section 9 to the Internal Audit Law and was given access to information as specified in that section, including continuous and indirect access to the Bank's information systems and to financial data.

Internal auditors auditing Leumi's Israeli and foreign subsidiaries were provided with documents and information as specified in Section 9 of the Internal Audit Law and given access to information as specified in that Section. These auditors have continuous and direct access to the information systems of the Israeli and foreign subsidiaries, including financial data.

The Board of Directors and Audit Committee believe that the scope, nature and continuity of the Chief Internal Auditor's activities and the work plan are reasonable under the circumstances, and are sufficient to implement the Internal Audit objectives of the Group.

The Independent Auditors' Fees [a][b][c]

	Consolidated		The Bank	
	2019	2018[h]	**2019**	2018
	In NIS thousands			
For audit work:[d]				
Joint independent auditors	**19,596**	21,405	**10,219**	10,372
Other independent auditors	**196**	192	**-**	-
Total	**19,792**	21,597	**10,219**	10,372
Audit-related fees[f]				
Joint independent auditors	**2,665**	3,635	**2,378**	3,098
For tax services:[e]				
Joint independent auditors	**2,345**	2,190	**463**	441
Other independent auditors	**55**	315	**-**	-
For other services:				
Joint independent auditors	**5,985**	7,363	**5,120**	6,471
Other independent auditors	**409**	1,001	**-**	-
Total	**11,459**	14,504	**7,961**	10,010
Independent auditors' fees - Total	**31,251**	36,101	**18,180**	20,382

(a) The Board of Directors' Report to the Annual general meeting on the Independent Auditors' Fees in respect of Audit and Audit-Related Services, under Sections 165 and 167 to the Companies Law, 1999.

(b) The Independent Auditors' fees include payments to partnerships and corporations under their control and payments required pursuant to the VAT Law.

(c) Including fees paid and accumulated fees.

(d) Auditing of annual financial statements and review of interim financial statements.

(e) Includes the auditing of adjusted reports for income tax purposes, assessment discussions and tax advisory services.

(f) Audit-related fees mainly include: prospectuses, special certificates, comfort letters, and forms or reports to authorities which require the Independent Auditor's signature.

(g) CPA firms Somekh Chaikin and Kost Forer Gabbay & Kasierer serve as joint independent auditors of the Bank. CPA firm Somekh Chaikin has served as the Bank's CPA since 1950. CPA firm Kost Forer Gabbay & Kasierer, including former firms merged into it, has served as the Bank's independent auditor since 1955, as far as is known. Kost Forer Gabbay & Kasierer bears its current name since 2003, following an acquisition.

(h) Restated.

Officer Compensation Policy

The Bank's Officer Compensation Policy for 2020-2022

On December 23 2019, the Bank's general meeting approved the updated compensation policy for the Bank's officers (hereinafter - the "Compensation Policy"). The Compensation Policy will go into effect from the beginning of 2020 to the end of 2022. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank's officers' service and employment terms and conditions, on Proper Conduct of Banking Business Directive 301A regarding compensation policy in a banking corporation and on the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law").

The Compensation Policy sets out a framework for the compensation of Bank's officers and includes, among other things, fixed compensation components, which is the principal compensation paid to officers, which includes a fixed salary, social benefits, related benefits and retirement and post-employment benefits, as well as variable compensation components which include any compensation which is not fixed in nature, such as: a measurable annual performance bonus comprised of a bonus component based on the Bank's weighted return on equity compared to the return on the TA-Banks Index; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officer's areas of responsibility; and a retention bonus for special events. It should be noted that directors, including the Chairman of the Board, are not entitled to variable annual bonuses. The Bank's President and CEO is not entitled to a variable annual bonus, unless the competent of the Bank decide otherwise.

The total amount payable in variable bonuses to an officer is limited to 8 monthly salaries per year; under special circumstances, the Compensation Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officer)

The Board of Directors may also reduce the amount of the measurable annual bonus, after obtaining the approval of the Audit Committee. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment to officers of variable annual bonus, whose payment is subject to the Bank's meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately before each vesting date.

The Compensation Policy includes various mechanisms and arrangements designed to allow the Audit Committee and the Board of Directors to revise the Compensation Policy or service and employment terms and conditions of officers to whom the Compensation Policy applies, without being required to obtain the approval of the Bank's general meeting for every such revision. Such revisions will be made if - in the opinion of the Compensation Committee and the Board of Directors - justified under the circumstances on revision date.

Thus, for example, according to the Compensation Policy, the Audit Committee and the Board of Directors will be entitled to link the lowest compensation paid by the Bank for the purposes of Section 2(B) of the Compensation Limitation Law to the maximum compensation of the Bank's officers such that the total compensation amount to officers (excluding compensation the payment of which is not expected under generally accepted accounting principles) and the lowest compensation paid by the Bank at that time will increase by the same rate. In addition, according to the Compensation Policy, the compensation of any of the officers at the Bank reporting to the President and CEO (in addition to the Chairman of the Board and to the President and CEO) may increase according to a decision by the Audit Committee and Board of Directors beyond the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance.

For more information regarding the Compensation Policy and the employment terms of the Chairman of the Board and the President and CEO, please see the Report on Summons of the Extraordinary general meeting of the Bank published on November 10 2019 (Ref. No.: 2019-01-096531) as well as Note 23C.2 and 23C.3.

Compensation of Senior Officers

For the Year Ended December 31 2019

Set forth below is a breakdown of the benefits and amounts paid or provided for in 2019 and 2018 to the Chairman of the Board of Directors and to the highest paid senior officers of the Group. The benefits described below do not include benefits in respect of banking services that are provided to the Bank's employees, such as preferred interest rates on financial deposits with the Bank, preferred interest rates on mortgages, discounts or exemptions from fees payable on banking services provided by the Bank, etc. The amounts of the benefits awarded to each of the employees in respect of such banking services are immaterial. Certain private customers of the Bank, including customers who are included in arrangements between the Bank and employee groups, are occasionally awarded benefits that are similar to those granted to Bank employees and in some cases, even exceed them.

2019							
Details of recipient of compensation(1)		Compensation for services				Other compensation	
Name	Job title	% of the Bank's equity	Salaries	Bonuses(5)	Social benefit contributions(3)	Benefit value(4)	Total(2)
		%	(in NIS thousands)				
Mr. D. Brodet(6)	Departing Chairman of the Board	0.017	2,800	-	427	87	3,314
Dr. Samer Haj Yehia(7)	Chairman of the Board	-	1,260	-	208	10	1,478
Ms. Rakefet Russak Aminoach(8)	Departing President & CEO	0.001	2,784	-	486	52	3,322
Mr. Hanan Friedman(9)	President and CEO, former First Executive Vice President, Head of Strategy and Regulation Division	0.005	1,869	678	597	74	3,218
Avner Mendelson(10)	CEO of Bank Leumi USA	-	1,728	2,827	644	1,926	7,125
Mr. Shmulik Arbel12	First Executive Vice President, Head of Corporate Division	0.007	1,316	535	688	118	2,657
Ms. Sharon Gur(13)	First Executive Vice President, Chief Internal Auditor and Head of the Internal Audit Division	0.002	1,229	478	605	107	2,419
Mr. Eyal Ban Haim(14)	First Executive Vice President, Head of Operations Division	-	1,103	352	497	76	2,028

1. The compensation recipients work full time.

2. Excluding payroll tax. Also excluding provisions for compensation and severance pay according to law for Mr. David Brodet in the amount of NIS 403 thousand; for Mr. Samer Haj Yehia - NIS 187 thousand; for Ms. Rakefet Russak Aminoach - NIS 411 thousand; for Mr. Hanan Friedman - NIS 527 thousand; for Mr. Shmulik Arbel - NIS 199 thousand; for Ms. Sharon Gur - NIS 186 thousand and for Mr. Eyal Ben Haim - NIS 136 thousand.

3. Social benefit contributions include contributions for severance pay, bonuses, pension (including the "unfunded pension" arrangement applicable to veteran employees and officers - for more information, please see Note 23.B.1), study fund, and social security, as well as supplementary provision in respect of the above due to salary changes during the reporting period. The Bank's senior employees have special personal employment contracts with the Bank. For more information regarding the retirement benefits of senior employees and their eligibility for advance notice on retirement, please see Note 23.C.1.

It is clarified that as of January 1 2018, the employment cost of the officers no longer includes the current interest cost charged each year to the income statement of the Bank following the discounting of the Bank's liabilities towards the employee as well as the interest for shortening the liability period (the interest component which was transferred, according to the accounting standards, from salary costs to operational costs).

4. The value of the benefit includes, inter alia, car and telephone expenses.

5. For more information regarding senior employees' eligibility for bonuses in accordance with the new Officer Compensation policy, please see Note 23.F.

6. On July 21 2019, Mr. Brodet ended his tenure as the Bank's Chairman of the Board. On November 2016, the Bank's general meeting approved the service and employment terms and conditions of the Bank's departing Chairman of the Board under the former compensation policy. The departing Chairman of the Board's service and employment terms and conditions are in accordance with the Compensation Limitation Law and included a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   Under his service terms and conditions, the departing Chairman of the Board is entitled to fixed compensation only and to social benefit.

   During the reporting period, the departing Chairman of the Board purchased shares of the Bank from the State of Israel as part of the outline agreement with employees published by the Bank on November 20 2018 (Ref. No. 2018-01-111390). For more information, please see section entitled "Control of the Bank".

   In addition, during the reporting period, a cost not included in the above table was recorded in respect of benefits to which the departing Chairman of the Board was entitled, in respect of vesting of PSUs previously allocated to him under the Bank's compensation policy.

   For more information regarding the departing Chairman of the Board's employment terms, please see Note 23.C.3. and the Bank's immediate report regarding convening of a general shareholders' meeting, dated October 21 2016 (Ref. No.: 2016-01-066408).

7. Dr. Samer Haj Yehia has served as Chairman of the Board of Directors since July 22 2019, prior to which he served as director beginning on September 30 2014. On December 23 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's Chairman of the Board under the Bank's compensation policy. The Chairman of the Board's service and employment terms and conditions are in accordance with the Compensation Limitation Law and include a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   Under his service terms and conditions, the Chairman of the Board is entitled to fixed compensation only and to social benefits and related expenses. The salary outlined in the table does not include his compensation as director until the commencement of his tenure as the Bank's Chairman of the Board.

   For more information regarding the Chairman of the Board's employment terms and conditions, please see Note 23.C.3. and the Bank's immediate report regarding convening of a general meeting, dated November 10 2019 (Ref. No.: 2019-01-096531).

8. Ms. Rakefet Russak-Aminoach served as the President and CEO of the Bank from May 1 2012 to October 31 2019.

   In November 2016, the Bank's general meeting approved the service and employment terms and conditions of the Bank's departing President and CEO under the former compensation policy. The departing President and CEO's service and employment terms and conditions are in accordance with the Compensation Limitation Law and included a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   Under the departing President and CEO's service and employment terms and conditions, she is not eligible for a variable annual bonus.

During the reporting period, a cost not included in the above table was recorded in respect of benefits to which the departing President and CEO was entitled, in respect of vesting of PSUs previously allocated to her under the Bank's former compensation policy.

For more information regarding the departing President and CEO employment terms, please see Note 23.C.2. and the Bank's immediate report regarding convening of a general shareholders' meeting, dated October 21 2016 (Ref. No.: 2016-01-066408).

9. Mr. Hanan Friedman serves as the Bank's President and CEO as of November 1 2019 (the "Commencement Date"). Prior to that, Mr. Friedman served as an officer of the Bank since September 2014, serving as Head of the Strategy, Innovation and Transformation Division until October 31 2019. On December 23 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO under the Bank's compensation policy. The President and CEO's service and employment terms and conditions are in accordance with the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "**Compensation Limitation Law**") and include a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   According to the President and CEO's service and employment terms and conditions, he is not entitled to a variable annual bonus as of the Commencement Date, but it should be clarified that he will be entitled to a variable annual bonus for the portion of 2019 until the commencement of his tenure as President and CEO of the Bank, if such a bonus is paid.

   During the reporting period, a cost not included in the above table was recorded in respect of benefits to which Mr. Friedman was entitled (in respect of vesting of PSUs previously allocated to him under the Bank's compensation policy).

   For more information regarding the President and CEO's employment terms and conditions, please see Note 23.C.2. and the Bank's immediate report regarding convening of a general meeting, dated November 10 2019 (Ref. No.: 2019-01-096531).

10. Mr. Avner Mendelson serves as CEO of Bank Leumi USA (BLUSA) a wholly-owned subsidiary of the Bank as of September 1 2013. The current salary and bonuses awarded to Mr. Mendelson, as outlined in the above table, were determined according to Leumi USA's compensation policy and according to the accepted norms regarding salaries of CEOs of similar size banks in the Us. Mr. Mendelson's salary includes additional related expenses such as rent and are grossed up.

11. During the reporting period, an unexpected expense was recorded, which is not included in the above table, due to updated actuarial calculations and/or changes in the discount rate, in respect of the Bank's liabilities for benefits acquired prior to the effective date of the Compensation Limitation Law, by employees who were subject to Generation A and Generation B terms. These employees acquired - during their work at the Bank, until October 2016 and in accordance with their prior employment terms with the Bank - benefits for "unfunded pension" (old age pension and interim pension in case of early retirement under certain conditions) and/or other benefits.

12. Mr. Shmulik Arbel is a member of management, and as of April 1 2017, serves as the Head of the Corporate Division. Mr. Arbel's service and employment terms and conditions are in line with the Bank's compensation policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 2,607 thousand in respect of its liabilities as outlined in Footnote 11 above.

13. Ms. Sharon Gur serves, as of May 1 2017, as the Chief Internal Auditor and Head of the Internal Audit Division at the Bank and is a member of management. Ms. Gur's service and employment terms and conditions are in line with the Bank's Compensation Policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 2,587 thousand in respect of its liabilities as outlined in Footnote 11 above.

14. Mr. Eyal Ben Haim is a member of management, and as of April 1 2019, serves as the Head of the Operations Division. Mr. Ben Haim’s service and employment terms and conditions are in line with the Bank’s Compensation Policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 3,587 thousand in respect of its liabilities as outlined in Footnote 11 above.

15. Loans under beneficial terms granted, if granted, pursuant to the accepted terms and conditions for all of the Bank’s employees and their amounts were set according to uniform criteria. The said loans were marginal in terms of amount (a few thousands of shekels) and were therefore omitted from the table.

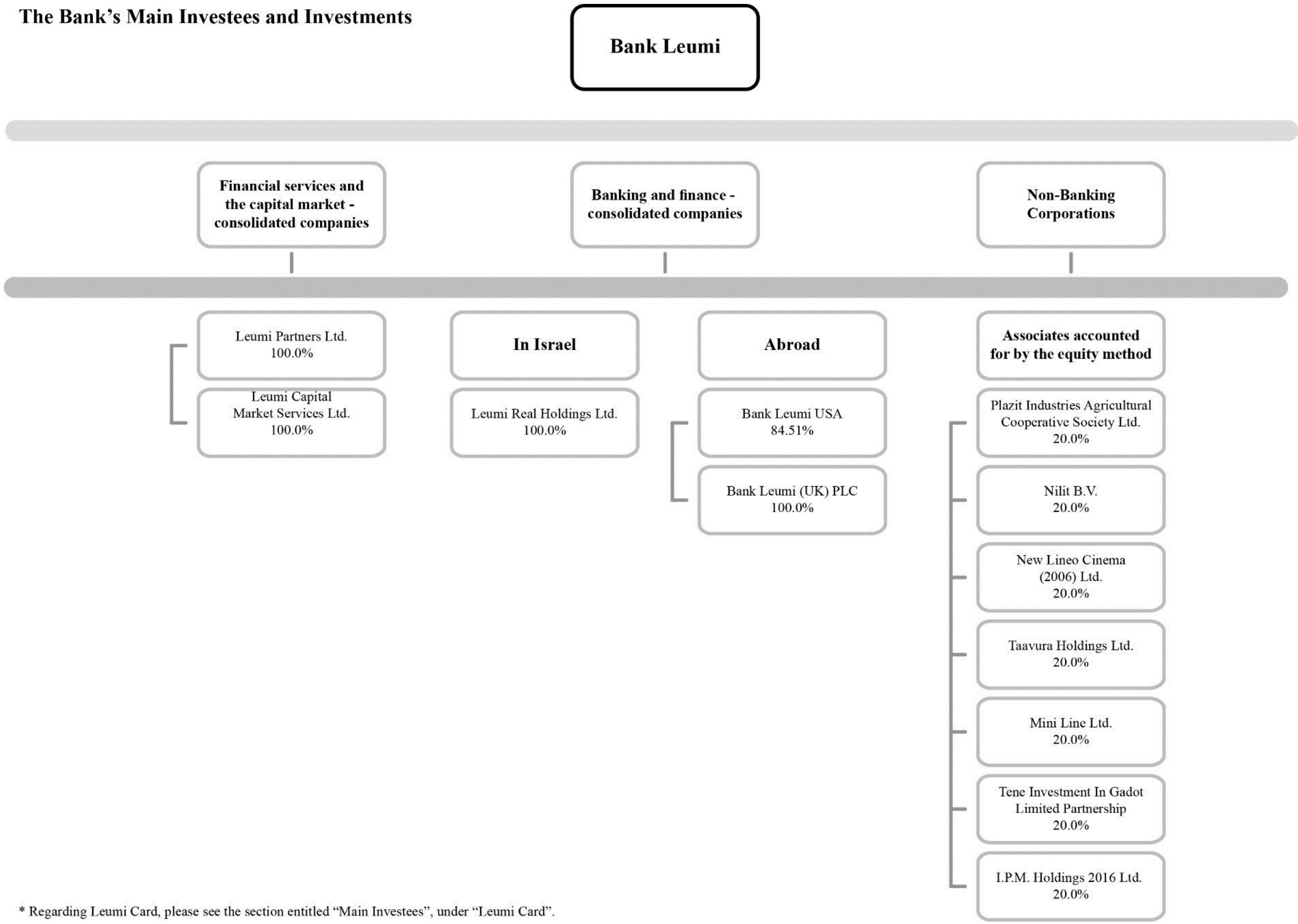
16. Directors and other officers are covered by directors and officers liability insurance policy (D&O) taken out by the Bank and its investees. The relative insurance premium is marginal and therefore not included in the above tables. The premium totaled NIS 6,237 thousand for all of the Group’s insured officers.

17. The Board of Directors believes - after conducting discussions, receiving explanations and proper, relevant background material and reviewing the compensation while taking into account the Bank and Group’s activity and performance in 2018 and taking into account the Group’s compensation policy and its subsidiaries’ compensation policy, as well as the work and performance of each senior officer of the Bank or Group - that the compensation paid to the aforementioned senior officers, as set out in the table and explanations above, in no way exceeds fair and reasonable compensation under the circumstances, taking into consideration each of the aforesaid officers’ contribution to the Bank's operating results and thus believes that the compensation, as aforesaid, is for the benefit of the Bank.

2018								
Details of recipient of compensation		Compensation for services				Other compensation		
Name	Job title	% of the Bank's equity	Salaries	Bonuses	Social benefit contributions	Benefit value	Total	
		%	(in NIS thousands)					
Mr. David Brodet	Chairman of the Board	0.014	2,625	-	400	87	3,112	
Ms. Rakefet Russak Aminoach	President & CEO	0.030	2,627	-	462	34	3,123	
Mr. Avner Mendelson	CEO of Bank Leumi USA	-	1,874	3,388	638	2,303	8,203	
Mr. Shawn McGowen	Head of Commercial Banking at Bank Leumi USA	-	1,687	2,435	244	758	5,124	
Mr. Dakkuri Raja	CFO and VP Operations at Bank Leumi USA	-	1,687	2,341	261	-	4,289	
Mr. Yaron Bloch	(Former) CEO of Leumi Partners and Leumi Card's Chairman of the Board	0.012	1,552	2,233	631	132	4,548	
Mr. Ronen Agassi	First Executive Vice President, Head of the Capital Markets Division and Chairman of the Board of Leumi Partners	0.001	1,539	986	293	144	2,962	
Mr. Shai Basson	First Executive Vice President, Head of Leumi Technologies Division	0.001	1,533	1,018	286	118	2,955	
Mr. Hanan Friedman	First Executive Vice President, Head of Strategy and Regulation Division	0.004	1,599	797	300	93	2,789	
Mr. Omer Ziv	First Executive Vice President, Head of Financial Division	0.001	1,508	691	392	153	2,744	

For information and explanations regarding salaries and tenure terms of the officers outlined in the above table in respect of 2018, please see the section entitled "Officer Salaries" in the Bank's 2018 Annual Report.

The Bank's Main Investees and Investments



* Regarding Leumi Card, please see the section entitled "Main Investees", under "Leumi Card".

Control of the Bank

As of March 24 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

For information regarding the sale of equity shares of the Bank held by the State of Israel to the Bank's employees, including an offering of 12,364 shares to the Chairman of the Board, please see section entitled "Control of the Bank" in the Bank's 2018 Annual Financial Statements and the immediate report regarding the convening of an extraordinary annual general meeting dated June 5 2019 (Ref. No. 2019-01-056155) and the immediate report regarding the results of the general meeting dated July 18 2019 (Ref. No. 2019-01-074368).

For up-to-date information on interested parties' holdings in the Bank as of December 31 2019, please see the immediate report dated January 7 2020 (Ref. No. 2020-01-003189), Status of Holdings of Interested Persons and Senior Officers. In addition, please see also the immediate report entitled "Status of Holdings of Interested Persons and Senior Officers" as at March 31 2019, dated April 7 2019 (Ref. No. 2019-01-033928) and the immediate report dated July 25 2019 regarding a shareholder which began constituting a controlling shareholder in the Bank (Ref. No. 2019-01-076924).

General meetings and appointment of Directors

The Bank's annual special general meeting was held on July 18 2019, pursuant to the decision of the Board of Directors made on June 5 2019 and the report regarding the convening of an extraordinary annual meeting by the Bank published on June 5 2019, in which:

1. The Financial Statements and Report of the Board of Directors and Management as at December 31 2018 were presented;
2. It was decided to reappoint auditing firms Somekh Chaikin and Kost Forrer Gabbay & Kasierer as joint independent auditors of the Bank for a period that will commence on the date of approval by the current annual general meeting until the approval date of the Bank's annual financial statements for 2019 (hereinafter: the "End Date") and to authorize the Bank's Board of Directors to set the fees paid thereto;
3. It was also decided to appoint auditing firms Somekh Chaikin and Brightman Almagor Zohar & Co. as joint independent auditors of the Bank for a period that will commence on the End Date, as defined above, until the date of the next annual general meeting of the Bank and to authorize the Bank's Board of Directors to set the fees paid thereto;
4. Ms. Irit Shlomi was elected director with the status of "Other Director" for a period of 3 years. Ms. Shlomi's term of office began on September 19 2019, after the Bank received the approval of the Supervisor of Banks' non-objection to Ms. Shlomi's appointment;
5. It was decided to approve an offering of 12,364 ordinary shares of NIS 1 par value each of the Bank to Mr. David Brodet, Chairman of the Board, as part of the Shares Offering Outline as defined above and in accordance with its terms and conditions.

For more information regarding the general meeting and the approved resolutions, please see the Bank's immediate report dated June 5 2019 regarding the convening of an extraordinary annual general meeting (Ref. No.: 2019-01-056155) and the Bank's immediate report dated July 18 2019 regarding the results of the general meeting (Ref. No.: 2019-01-074368).

For more information regarding the Preliminary Notice to the meeting and its update, please see the immediate reports dated April 8 2019 (Ref. No. 2019-01-034438) and April 18 2019 (Ref. No. 2019-01-036060).

For more information regarding the appointment of Ms. Irit Shlomi to the Bank's Board of Directors, please see section entitled "Changes in the Board of Directors" above.

On November 10 2019, the Bank published a summons to an extraordinary general meeting which was held on December 23 2019, with the following agenda: (1) Appointment of one director with the status of "Other Director" (in lieu of two with this status, as outlined above) to the Bank's Board of Directors; (2) Appointment of one external director in accordance with the Companies Law, 1999 to the Bank's Board of Directors; (3) Approval of a new compensation policy for the Bank's officers; (4) Amendment of Indemnification Undertaking to the Bank's directors; (5) Approval of the service and employment terms and conditions of the Chairman of the Board; and (6) Approval of the service and employment terms and conditions of the President and CEO.

On December 23 2019, the Bank's extraordinary meeting was held, and following the Board of Directors' decision dated November 10 2019 and the extraordinary meeting summons report published by the Bank on November 10 2019, the following decisions were made:

1. Mr. Yitzhak Edelman was re-elected ED for a period of 3 years. Mr. Yitzhak Edelman's second tenure began on February 2 2020 (the date on which his first term ended) after having received the Supervisor of Banks' notice of non-objection to said appointment.
2. Ms. Esther Dominissini was re-elected director with the status of "Other Director" for a period of 3 years. Ms. Esther Dominissini's second term began on January 17 2019 (the date on which her first term ended) after having received the Supervisor of Banks' notice of non-objection to said appointment.
3. It was decided to approve the updated Compensation Policy as outlined in Appendix A to the summons, effective from the beginning of 2020 to the end of 2022, in accordance with Sections 267A and 267B of the Companies Law, 1999 (hereinafter: the "Companies Law") and the directives of the Banking Supervision Department regarding compensation policy in a banking corporation and the Compensation Limitation Law (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 ("Compensation Limitation Law"). It was also decided to approve, in accordance with Section 2 of the Compensation Limitation Law, that the compensation paid to officers of the Bank may increase according to a decision by the Audit Committee and Board of Directors beyond the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance.
4. It was decided to approve, according to Section 273 of the Companies Law and Section 2 of the Compensation Limitation Law, the service and employment terms and conditions of the Bank's Chairman of the Board, according to the Compensation Policy attached as Appendix A to the summons, and as outlined in Appendix B to the summons, which shall become effective on the date in which the Chairman of the Board took office (retroactively from July 22 2019) and will be in effect as long as he serves as Chairman of the Board of the Bank, in line with the directives of the Banking Supervision Department regarding this matter until the end of 2020 or any another date set by the Banking Supervision Department.
5. It was decided to approve, in accordance with Section 272(c1) of the Companies Law and Section 2 of the Compensation Limitation Law, the service and employment terms and conditions of the incoming President and CEO (including the amended Indemnification Undertaking attached as Appendix D to the summons) in accordance with the revised Compensation Policy attached as Appendix A to the summons and as outlined in Appendix C to the summons. The service and employment terms and conditions of the President and CEO will become effective as of the beginning of his tenure (retroactively from November 1 2019).
6. It was decided to approve, in accordance with Section 273 to the Companies Law, an amendment to the Indemnification Undertaking to directors serving at the Bank, including those who shall serve at the Bank from time to time, in which the list of events which the Board of Directors deems expected in light of the company's actual activity while granting the Indemnification Undertaking according to the version of the Indemnification Undertaking attached as Appendix D to the summons report.

For more information regarding the general meeting and the approved resolutions, please see the Bank's immediate report dated November 10 2019 regarding the convening of an extraordinary annual general meeting (Ref. No.: 2019-01-096531) (above: the "**Summons**") and the Bank's immediate report dated December 23 2019 regarding the results of the general meeting (Ref. No.: 2019-01-112809).

For more information regarding the Preliminary Notice, please see the immediate report dated September 26 2019 (Ref. No. 2019-01-084369).

For more information, please see the section entitled "Changes in the Board of Directors".

Property, Plant and Equipment

Buildings and equipment - the amortized cost of buildings and equipment as at December 31 2019 amounted to NIS 3 billion, similar to last year.

Investments in buildings and equipment as at December 31 2019 are as follows

	Cost	Accumulated depreciation	Carrying value	
	December 31			
	2019			2018
	In NIS millions			
Buildings and land	**3,045**	**1,696**	**1,349**	1,268
Equipment, furniture and vehicles	**3,657**	**2,843**	**814**	846
Software costs	**3,997**	**3,117**	**880**	739
Total	**10,699**	**7,656**	**3,043**	2,853

The above buildings and equipment are used primarily for the Group's activities. Buildings that are not used by the Group and are leased to non-Group parties and included in the consolidated balance sheet as of December 31 2019, amounted to NIS 20 million.

Real estate

The majority of the buildings in which the Group conducts its business in Israel are owned by the Bank or by its subsidiaries. Most of the properties in which the Group conducts its business abroad are leased.

Set forth below are data regarding the breakdown of the areas of the Bank, Binyanei Bank Ltd. and Lin City Center Ltd.

	As at December 31	
	2019	2018
	In m^2	
Owned	**249**	223
Leased	**97**	99
Total	**346**	322

IT systems

Bank Leumi has two principal computing centers: a primary center, in Lod and a secondary center in Tel Aviv. In addition, a third copy of the data is stored at the Banking Center facility in Har Hotzvim, Jerusalem.

The Bank's computing center in Lod is an underground facility protected at an accepted level against rocket attacks, biological and chemical warfare and earthquakes. The facility was constructed using advanced technologies to enable the Bank to operate at a high level and function independently in times of emergency. To the Bank's understanding, the survivability and redundancy levels of the computer center's infrastructures are equivalent to Tier-3 levels and the infrastructures comply with various international standards.

Bank Leumi has two mainframe computers, for use by the production, development, and emergency recovery systems. The Mortgage Department's main computer center is located in Lod and its backup site is in Tel Aviv.

Leumi's information and cyber security practices are based on the banking secrecy principle and various laws and directives, such as the provisions of the Protection of Privacy Law and regulations promulgated thereunder, the provisions of the Computers Law, Bank of Israel's directives, and generally accepted international standards relating to information security and cybersecurity.

Under these provisions and in light of Leumi's strategy and policy regarding cyber risk management, the Bank is highly active in this field. The main focus in this area is the implementation of controls and forward-looking information security mechanisms.

In a time of increasing threats posed both from within the organization and by external parties, Leumi takes measures to protect itself from cyberattacks and works to hedge the risks arising from various types of cyber attacks. In addition, the Bank works in coordination with the Banking Supervision Department of the Bank of Israel, the banking sector and the National CERT to enhance its ability to tackle cyber threats.

The operations and computer-related activities of the Israeli and foreign subsidiaries are based on separate systems and the managements and boards of directors of those subsidiaries bear the managerial and professional responsibility for those activities which are coordinated with Leumi's IT strategy.

For information regarding the agreement for the provision of computer services to Union Bank, please see the section entitled "Material Agreements".

In 2019, the Group invested in equipment (including software) approximately NIS 661 million, compared with approximately NIS 678 million in 2018. The budget was adjusted to support the strategic targets set by the Bank's management.

In 2019, the following products and services were added:

- Leumi launches **customer marketing campaigns** using a multi-channel sales and marketing system, which allows personal messages to be sent to customers through several communication channels.
- The Bank launched the **Goodies** app, which manages a new customer loyalty program for Leumi customers, which enables them to collect Goodies for purchases made by Leumi-issued credit cards as well as for conducting banking transactions through the digital channels. The program allows customers to apply their Goodies to a wide variety of benefits in various domains.
- **Bank-customer communications:**
  - A correspondence service with the Bank based on the Leumi app to receive general information on various topics and a link to a chat with a banker regarding matters related to the personal account.
  - "Request a meeting" service - allows customers to request a meeting at any branch through digital channels, on a date of their choice.
- The service enables customers to communicate with their personal bankers or through the banking center, from the app, without the need to identify themselves.
- **Leumi Trade** launched a **new website and a new app.** The new website and app have state-of-the-art updated user experience.
- A new service of **opening a digital securities portfolio** was launched, enabling customers to open a portfolio on their own, without the need to reach their branch.
- **Invest** - an investment app by Pepper which allows independent trading in over 100 stocks of sizable US companies. The app enables customers to invest up to NIS 50,000, to purchase single shares or fractional shares. Customers can read information on any stock, news, updates, analyst recommendations and a graph of the stock's past performance.
- **PAY** - following the launch of PAY in 2017, the app is now available for payment in businesses connected to the service during 2019.
- ATMs and information kiosks - the services offered by ATMs were extended to include things such as changing passwords for non-bank card holders - in line with the Bank of Israel's campaign to change passwords; accessible fonts; text-to-speech (TTS) in all languages: Hebrew, Russian, Arabic in ATMs and information kiosks.
- **Digitized guarantee form** - after posting a standard guarantee or Sales Law guarantee, the guarantee form is digitally signed and archived. The form is available to customers in PDF form (online and on the mobile app). This allows customers to keep the file on their computers, transfer it to another recipient via email or print it.

For more information, please see Note 16.

Intangible Assets

1. The Bank is the sole proprietor in Israel of the "Leumi" trademark and its accompanying logo, in the field of banking and finance services.
2. Furthermore, as part of its activities, the Group uses the names of the companies and their logos as well as products and services’ names, some of which are registered as trademarks or service marks.
3. The Group has registered databases in which it stores, among other things, information pertaining to Leumi’s customers, suppliers and employees. The Group implements advanced technological means designed to secure customers’ activity and the Bank's business activity, while mitigating the risks arising from using information systems.
4. The Group has various intellectual property rights and licenses to use various computer software and information systems for the purpose of managing its business, including the provision of services to its customers.
5. The Group has goodwill arising from the acquisition of companies. For more information, please see Note 17.

Human Resources

Number of Positions

In 2019, the number of positions in the Group decreased by 501, a 5.1 percent decrease compared with 2018, net of the effect of Leumi Card. The annual average number of positions in the Group fell by 345, a 3.4 percent decrease compared with 2018, net of the effect of Leumi Card.

	Positions[a] as at the end of the year		Annual average no. of positions [a]	
	2019	2018	**2019**	2018
The Bank in Israel	**8,372**	8,637	**8,743**	8,948
Consolidated Companies in Israel (excluding Leumi Card)	**235**	275	**237**	269
Group in Israel - Total	**8,607**	8,912	**8,980**	9,217
Foreign Consolidated Companies	**632**	828	**739**	847
Group in Israel and abroad - Total	**9,239**	9,740	**9,719**	10,064
Leumi Card		1,170		1,144

(a) Position - a full-time position including specific overtime, working hours of service bureaus and employment of contract workers.
(b) Including foreign offices.

Positions by operating segments - management approach:

	Average number of jobs	
	2019	2018
Banking:		
Retail, premium and private banking	**4,075**	4,123
Mortgages	**457**	454
Small businesses	**1,758**	1,786
Banking - Total	**6,290**	6,363
Commercial	**1,172**	1,192
Corporate	**437**	423
Real estate	**222**	230
Capital markets	**540**	539
Other and adjustments	**82**	201
Bank total	**8,743**	8,948
Subsidiaries in Israel	**237**	1,413
Less average no. of positions attributed to the held-for-sale companies	**-**	(1,144)
Foreign subsidiaries	**739**	847
Total	**9,719**	10,064

The number of positions by operating segments is calculated based on the management of the workforce according to the Bank's main lines of business, with various adjustments, and based on estimates. When calculating the number of positions by operating segments, the Banks also included HQ employees, who serve all or some of the Bank's operating segments.

Education

The percentage of Bank employees who hold academic degrees is on the rise, mainly due to the retirement of Bank employees who do not hold academic degrees as part of the early retirement plans implemented in recent years.

As of the end of 2019, the percentage of Bank employees who hold an academic degree was 77.7 percent of all employees, compared with 77.1 percent in 2018 and 76.5 percent in 2017. In 2019, the percentage of staff employees with academic degrees reached 97.2 percent, compared with 97.1 percent in 2018 and 96.7 percent in 2017.

Age and seniority

As of the end of 2019, the average age of Bank's employees was 42.9, compared with 43.6 in 2018 and 43.3 in 2017. As of the end of 2019, the average seniority of Bank's employees was 15.0 years, compared with 16.0 in 2018 and 15.8 in 2017.

Compensation mechanism and salary structure

The salary structure and compensation level of the Bank’s employees is mainly affected by existing collective labor agreements. As a rule, the annual compensation is differential and is based, among other things, on the complexity of the employee's role, his/her contribution to the Bank, his/her manager's assessment, rank and pay grade.

Employee benefits

Labor relations between the Bank and its Israeli employees, except for those who have personal employment contracts, are primarily based on a basic collective labor agreement known as the "Labor Code" and on collective and supplementary agreements. The employment terms of members of the Bank’s management, senior employees and certain other employees are regulated by personal employment contracts. For more information, please see Note 23.

Labor and salary costs (in the Bank)*

	2019	2018	2017
	In NIS thousands		
Cost per employee position - (excl. bonus)	**364.9**	357.0	351.7
Cost per employee position - (incl. bonus)	**415.9**	393.8	392.6
Salary per employee position - (excl. bonus)	**244.2**	242.2	240.9
Salary per employee position - (incl. bonus)	**285.1**	272.1	273.9

* Cost per employee does not include pension expenses, costs of voluntary retirement, retroactive severance pay, shares to employees, collective labor agreement, 2016 compliance bonus, jubilee bonus, sick leave and grossing-up of salaries of employees working abroad.

Learning and training

In an age of frequent organizational changes and efficiency processes, where employees need to transition to new positions and acquire new knowledge or skills, learning and development, knowledge management and retention as well as preparation for the labor world of the future are key to the organization. The Bank's Management has set itself the goal of supporting the business units in meeting their targets in a changing environment and to further invest in the professional development of the Bank’s employees. To this end, in 2019, Leumi employees participated in 25,411 learning days.

In 2019, learning activities focused on enhancing the professional knowhow of employees and managers with an emphasis on core banking areas and designated learning activities that support organizational changes and customer service. These activities are carried out according to the Bank's business targets. Furthermore, the retirement processes were supported by learning activities pertaining to knowledge retention. In addition, in 2019, we continued to develop and implement data-based learning activities such as target learning in banking centers.

Learning and the future - Re-skilling

As part of the preparations made by Leumi for changing trends in the world of finance, we are also preparing for the changing trends in the labor world. For this purpose, we built a team responsible for re-skilling, i.e. - training employees for the needs of the future labor world. As part of the re-skilling activities, we established Shift - a school for future professions. During 2019, Shift held 4 courses which allow the Bank’s employees to develop their careers and learn a new and needed profession, in line with the organization’s future needs. Out of all the graduates of the program, more than 60 percent already work in their newly-acquired professions (data analysts, product management, QA, systems analysis). The initiative offers a new value proposition to employees and is a significant means to narrow gaps in the future preparedness of the Bank's human resources. In addition to this initiative, the Bank offers additional programs which allow employees to be retrained by the Bank and acquire professions needed by the banking and finance domain, such as international trade. Additional initiatives include boosting skills needed in changing roles, such as data-based management, boosting customer management skills, strengthening English language skills, etc.

Decentralized learning

In 2019, Leumi continued to enhance decentralized learning (learning taking place in the work environment) as part of the organization's learning culture. In total, Leumi held 108,430 hours of decentralized learning, which constitute approx. 47 percent of the total learning hours for the year.

The decentralized learning includes tutorials in a variety of topics totaling 49,500 hours of learning, as well as a variety of activities taking place in the units such as dialogue meetings, round tables, management development and managerial forums.

Knowledge management

During the year, emphasis was made on performance-supportive knowledge management (providing the knowledge necessary for employees on the job), optimizing search options, support of new projects and regulations for inter-organizational, cross-silo communications.

Corporate social responsibility, donations and employees' involvement in the community

As a financial group with major impact on Israel's business and public culture, we regard our commitment to the community as a social and ethical anchor we will continue to cultivate (from Leumi's Vision).

In 2019, the Board of Directors decided to extend Leumi's social policy from focusing on tomorrow's generation - children and youth, to focusing on the third age, and is now called From Generation to Generation.

In an age where life expectancy is continually growing, out of our business-social commitment to help and support of third-age customers, our employees personally guided thousands of customers digital banking skills, reaching special and elderly populations across Israel through our 2 mobile branches, as part of the Israel IL project. We also focus our contributions on the elderly in Israel, to promote digital literacy, adapt the service to elderly customers and improve the welfare of needy elderly, whether by renovating apartments or providing assistance in cooperation with the "From Generation to Generation" NGO.

In 2019, Leumi continued to invest in its long-term strategic partnership with Follow Me! - an NGO which aims to boost the social integration of youth at risk by engaging in educational activities, and by developing their leadership skills and providing them with empowerment tools. The NGO operates approx. 400 programs across Israel, in which approx. 8,000 youth take part, from all population segments in Israeli society.

The Bank also provides strategic support to other non-profit organizations such as Atidim, Etgarim, LaTet, Pa'amonim, Shi'ur Aher, and Cochavei Hamidbar - which develops leadership skills among Bedouin youth, the Adopt a Soldier program under which Leumi has adopted five IDF units, the Friends for Health NGO, and others.

During the year, we held extensive social activity around our main social activity focal points - with the help of 300 social leaders in the various divisions, more than 4,400 Leumi employees from various units of the Bank volunteered in a wide range of programs serving all walks of Israeli society and totaling 40,000 hours of activity. Community investment totaled over NIS 48 million.

One of the most prominent social initiatives in 2019 was Switch - which combined human resource innovation and social contribution - a social mission in which 7 managers were "lent" for an entire year to contribute their experience and skills to various NGOs, with their time being fully paid for by Leumi.

For more information on corporate social topics, please see Leumi's annual Corporate Social Responsibility Report on Leumi's website.

Appointments and Departures

Appointments

Mr. **Hanan Friedman**, Head of the Strategy, Innovation and Transformation Division and member of the Bank's management, was appointed President and CEO as of November 1 2019.

Mr. **Ilan Buganim**, CTO/CDO and Head of the Infrastructure Department and member of the Bank's management, was appointed Head of the Data Division as of April 1 2019.

Mr. **Eyal Ben Haim** was appointed Head of the Operations Division and member of the Bank's management in the rank of First Executive Vice President as of April 1 2019.

Mr. **Eilon Dachbash** was appointed Head of the Banking Division and member of the Bank's management in the rank of First Executive Vice President as of April 11 2019.

Departures

Ms. **Rakefet Russak-Aminoach**, President and CEO, resigned on October 31 2019 after 15 years of working at Leumi, 7 years of which - in the position of President and CEO.

Ms. **Tamar Yassur**, Head of the Digital Banking Division and member of the Bank's management, resigned on March 31 2019, after 12 years of working at Leumi.

Mr. **Danny Cohen**, Head of the Retail Banking Division and member of the Bank's management, resigned on March 31 2019, after 28 years of working at Leumi.

Corporate Structure

The Leumi Group's organizational structure is divided into business lines and headquarters divisions

Set forth below is a description of Leumi's four lines of business, which focus on the different market segments:
The **Banking Division** manages the activity of private and small commercial customers, who receive the full range of services through the branches array and through a variety of technological/direct distribution channels. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their banking and service needs. The Division is divided into business lines:

- **Small Business Department -** The Department is in charge of all activities of small business customers (mid-size and large businesses are handled by the Corporate Division - see below).
- The **Private Banking Department** is responsible for private banking activity in Israel. The Private Banking Department provides service customized to high net worth customers.
- The **Premium Department** is responsible for the activity of high net-worth customers.
- The **Retail Department** is responsible for activity and services for households and private individuals at their financial growth stage.
- The Banking Division also includes Leumi's Mortgage Department, which is responsible for mortgage products for all of the Bank's customers, as well as for customers of other banks whose mortgages are extended by Leumi.

The **Corporate Division** is responsible for all business customers (except small businesses, which are managed by the Retail Banking Division - see above) and provides them with a range of services, which include, inter alia, financing of working capital and inventory, project and investment plan funding, factoring, international trade and financing, investment activity, hedges, etc. The Division's customers are divided into four business lines:

- The **Corporate Department** - which manages the activities for large Israeli corporations on the basis of sector expertise and synergies.
- The **Commercial Banking Department** manages the activity for middle-market companies, through business centers across Israel.
- The **Construction and Real Estate Department** manages the banking activities of large construction companies, real estate entrepreneurs and contractors in Israel. The Department's employees have specific skills and expertise in all areas of the Israeli real estate market.
- **Leumitech** serves high-tech and venture capital funds for the Group. The Department specializes in all segments of the technology industry.

The Capital Markets Division is in charge of managing the Group's financial assets in Israeli currency and foreign currencies, managing the nostro account, managing the activities of the Bank's trading room, developing innovative financial and investment products, managing the Bank's assets and liabilities, managing liquidity, setting the Bank's price policy and financial margins, and coordinating the Bank's operational capital market services.

Following are the purviews of the headquarters divisions, which provide services to the business lines:
The **Finance Division** is responsible for coordinating and preparing the Bank's work plan, managing P&L centers and financial and managerial measurement, planning and managing the Group's capital, preparing the Bank's expenditure budget and monitoring its implementation.

The **Accounting Division** manages, develops and sets the Bank's accounting procedures; it manages the Bank's books of account and prepares the financial statements of the Bank and the Group; it maintains the Bank's relations with the Bank of Israel regarding all accounting matters and related reports.

The **Human Resources Division** is responsible for developing and implementing the human resources strategy, labor relations, salary and compensation structure, corporate consulting and development, including executive learning and training, banking training, employee welfare, organization and methods and corporate social responsibility.

The **Leumi Technologies Division** is responsible for the IT systems of the Bank and Group and coordinates the strategy, policy and activities related to technological development, IT, communications, cyber and information security.

The **Operations Division** is responsible for the execution of most operational issues at the Bank, serves as an infrastructure for professional knowledge and customer service improvement.

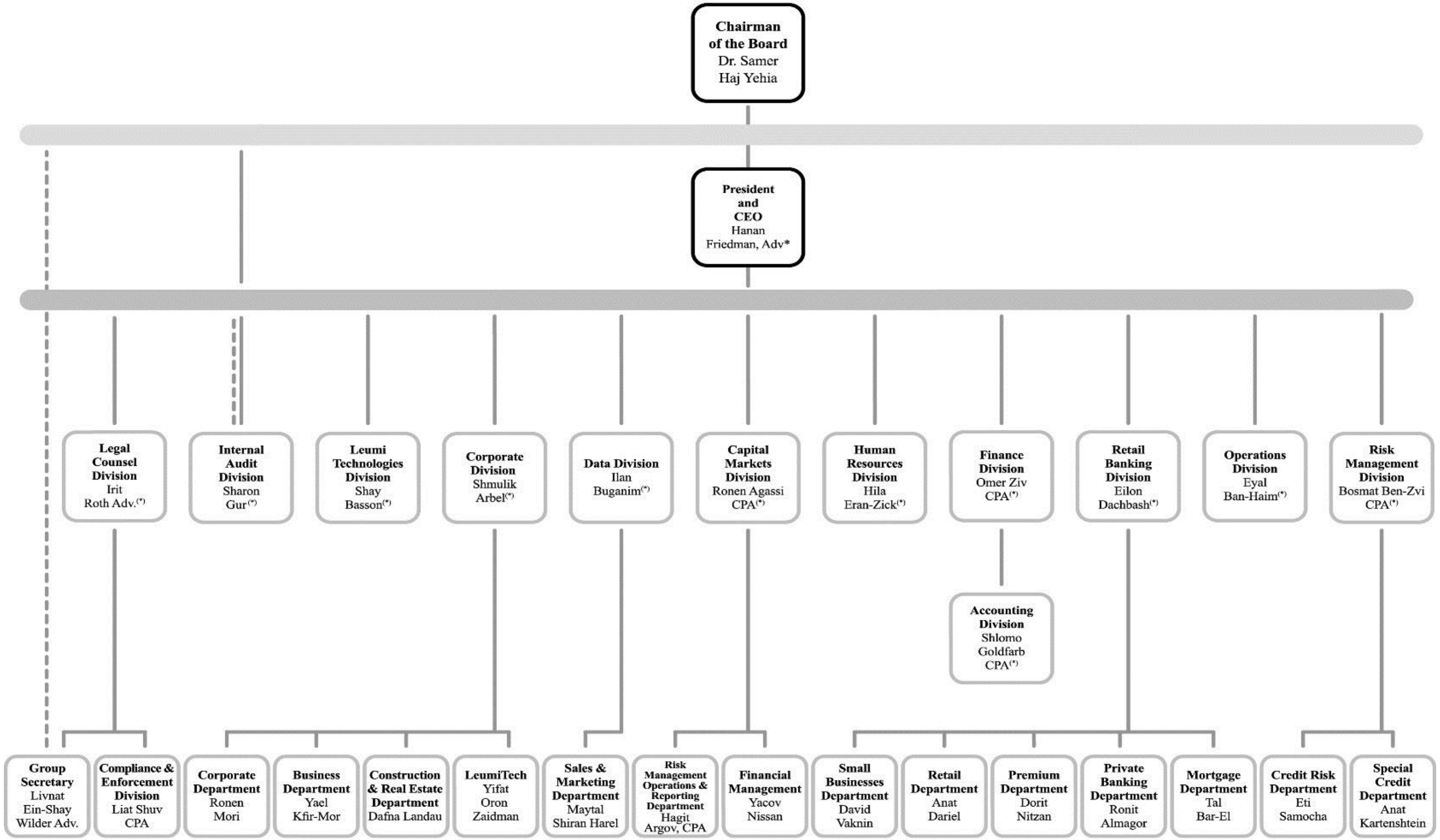
The **Legal Counsel Division** advises the Bank and its Israeli subsidiaries on all legal matters and manages the Bank and the Group's legal risks. The Division is also responsible for the Bank's ombudsman's bureau, for the Bank's compliance and enforcement function and for the Bank's Secretariat.

The **Internal Audit Division** is independently responsible for Leumi Group's internal auditing.

The **Risk Management Division** is in charge of risk management in the Group and Bank, and of the Credit Risk Department and Special Credit Department.

The **Data Division** is responsible for leveraging the organization's data for the purpose of achieving its business objectives across all divisions by means of analytics, personalization and smart modeling. The Division is also responsible for marketing and sales, digital, cooperation with FinTechs and the digital bank, in an effort to create synergy and leverage data to upgrade these areas.

Bank Leumi Le-Israel B.M
Corporate Structure



* Member of management

Legal Proceedings

1. The Bank is party to legal proceedings, including motions to approve derivative claims and motions to approve class actions, brought against the Bank by customers, former customers and various third parties, who allege to have been damaged or harmed as a result of the Bank's activity in the ordinary course of its business.
   In the opinion of the Bank's management, based on legal opinions, appropriate provisions have been made in the financial statements to cover potential damages in respect of all the claims.

   The claims lodged against the Bank have numerous and varied grounds, including: claims as to non-execution or late execution of orders; motions to approve attachments imposed by third parties on debtors' assets which are allegedly held by the Bank; claims that the interest rate charged does not meet the terms and conditions agreed between the Bank and customers; interest rates higher than the maximum permitted by law; claims regarding fees and commissions charged; claims related to securities, labor relations, drawing of checks with insufficient funds, as well as failure to cash checks.

   For more information regarding claims filed against the Bank in material amounts, please see Note 26.

2. As part of measures taken to recover debts in the ordinary course of its business, the Bank takes, among other things, legal action against debtors and guarantors, and also pursues collateral realization proceedings. The Bank has included in the financial statements provisions for loan losses based on an assessment of all the risks associated the extension of loans to the various sectors of the economy and taking into account the extent of information available on the relevant debtor or guarantor with regard to their financial stability and the collaterals provided to the Bank to secure the repayment of the debt.

Material Agreements

1. The agreement between Union Bank of Israel Ltd. and the Bank for the provision of IT services to Union bank - Following negotiations held with Union Bank and the acquisition of Union Bank by Mizrahi Tefahot Bank Ltd., on March 29 2018, the parties agreed to extend their engagement until June 30 2021.
2. On May 15 2018, Maalot Insurance Agency Ltd. – which is wholly-owned by the Bank (hereinafter - the "Agency") – signed an agreement with Harel Insurance Company Ltd. (hereinafter - "Harel") and with Standard Insurance Ltd. of the Harel Group (hereinafter - "Standard"), according to which - as of September 2 2018 - the Agency shall receive outsourcing services from Standard and will continue to engage in insurance brokering with Harel as a sole insurer of new policies marketed during the agreement period, all in accordance with the manner and terms and conditions prescribed by the signed agreement.
   On February 5 2020, Standard and Harel submitted a merger application to the Registrar of Companies, according to which Standard would be merged into Harel. The parties are developing an outline for further activity in accordance with the said agreement dated May 15 2018.
3. On July 29 2019, the Bank signed a special collective agreement with the Workers' Union for 2019-2022 and a special collective agreement regarding employees specializing in technological professions.
   For more information, please see Note 23 and an immediate report dated June 25 2019.
4. During 2019, the Bank entered into an agreement with institutional entities to transfer the severance pay and pension funds which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a social security arrangement to a paying fund. The Bank also entered into an agreement to purchase an insurance policy for the retirees, payable by the Bank.
   For more information on the topic, please see Note 23E and an immediate report dated August 14 2019.
5. The Bank granted officers and others letters of indemnification. For more information, please see Note 26G.
6. For information regarding agreements relating to the Bank's subsidiaries, please see the section entitled "Principal Investee Companies".
7. For information regarding issuance and operation agreements with credit card companies, please see Note 26H.
8. For information regarding agreements with the Tax Authority, please see Note 8.

Laws and Regulations Governing the Banking System

Some of the information in this section constitutes "forward-looking information". For the meaning of the term, please see the section entitled "Forward-Looking Information".

During the reporting period, several proposals for regulatory amendments and amendments to various legal provisions were published, which could have an impact on the characteristics, scope and profitability of some of the Group's activities and on the credit, operating and legal risks to which it is exposed. Most of the proposals are at various stages of discussion and, consequently, it is impossible to assess whether or not they will be issued as binding provisions and, if issued, what the ultimate provisions will be. As a result, at this stage, it is impossible to assess the effect of these provisions on the Group's overall activity, if any. The following section provides detailed information on newly enacted legislation, which came into effect during the reporting period and provisions expected to come into force which are expected to have a significant effect on the Bank.

Legislation

Insolvency and Economic Rehabilitation Law, 2018

The law was published in the Official Gazette on March 15 2018, followed by various implementation regulations. The law introduces a reform in insolvency proceedings of private individuals and corporations. The law includes provisions for all types of debtors, as well as provisions addressing unique aspects of various types of debtors - private individuals and corporations. According to the law, inter alia, a creditor secured by a floating charge will be entitled to repay his secured debt out of the floating charge only up to an amount equal to 75 percent of the value of the pledged assets. The remaining pledged assets will be used to pay the general debts. This provision will impair the Bank's floating charges.

The law became effective on September 15 2019 and applies to relevant proceedings commencing as of the effective date.

Law for Reducing the Use of Cash, 2018

The law was published in the Official Gazette on March 18 2018. The law prescribes restrictions on the use of cash and marketable checks in order to reduce black money and help fight criminal activity, including serious crimes, tax evasion, money laundering and financing of terrorism. The law reflects the recommendations of the inter-ministerial Committee to Examine Reducing the Use of Cash (the Locker Committee).

The law also limits the use of cash to specific amounts, distinguishing between payers and payees who are "dealers" and payers and payees who are "non-dealers", and various types of transactions (such as salaries, donations, gifts and loans).

In addition, the law restricts the use and reassignment of checks, including restrictions that apply to banks cashing the checks.

The law became effective on January 1 2019; the provisions applicable to the banks will become effective on July 1 2019.

The Bank is preparing for all aspects of the law's implementation.

Payment Services Law

On January 9 2019, the Payment Services Law, 2019 was published.

The law replaces the Debit Cards Law, 1986, with an up-to-date law that reflects technological developments in the field. It is also based on the principles of the European Payment Service Directive (PSD). Among other things, the law discusses the contractual relations and consumer protections which shall apply to payment provision services regarding two types of contracts: (1) One type - between a payment service provider (issuer of means of payment or a payment account manager) and the payer; (2) A second system - between the payment service provider (clearing entity or payment account manager) and the beneficiary (payee).

The law will apply to various payment service providers, including banks, credit card companies, clearing entities, payment applications, etc., as well as to various advanced means of payment.

The law is scheduled to take effect on January 9 2020, but on January 17 2020 the Knesset's Finance Committee approved the delay the law's effective date until October 14 2020.

The Nonbank Loans Arrangement Law (Amendment No. 5), 2017 - The Fair Credit Law

The law was published on August 9 2017. The law deals with various topics, such as the disclosure requirements towards the borrower, restrictions on maximum cost of credit and rules regarding early repayment of a loan.

On February 25 2019, the Nonbank Loans Arrangement (Exclusion of Types of Credit Transactions from the Law and Exclusion of Expenses from the "Addendum") Regulations, 2019 were published.

The Law and Regulations thereof became effective on August 25 2019.

The Bank of Israel's directive regarding simplifying of agreements - which sets forth rules for including the above in the law - also came into force on the same date.

The Bank is preparing for all aspects of the law's implementation.

Directives Issued by the Banking Supervision Department

Draft Proper Conduct of Banking Business Directive 359A regarding Outsourcing

On October 8 2018, the Directive on outsourcing was published. The purpose of the directive is to enable banking corporations to use outsourcing in order to allow them to implement strategic objectives, increase accessibility and availability for customers, continue to pursue operational streamlining and boost competition in the banking and payments domains, while prescribing the principles banking corporations are to follow in order to reduce their exposure to potential risks embodied in outsourcing.

The directive determines, inter alia, what constitutes outsourcing, lists activities that may not be outsourced, requires due diligence to be performed on service providers and prescribes the manner in which it should be performed, as well as requires banks to report to the Banking Supervision Department regarding outsourcing certain activities. In addition, the directive allows banking corporations to employ outsourcers for the purpose of targeting households as loan customers, allowing outsourcers (for example, car agencies) to offer customers to contact a certain bank when buying a product, subject to the terms prescribed by the directive.

The directive will come into force on March 31 2020. Contracts concluded prior to the directive's publication will be given an additional term of three and a half years from the said effective date to be adjusted to the directive, as needed.

The Bank is preparing to implement the directive.

Amendment to Proper Banking Management Directive No. 332, "Buybacks by Banking Corporations"

For more information, please see the section entitled "Equity and Capital Adequacy".

Banking Ordinance (Customer Service) (Supervision over Service of Depositing a Post-Dated Check) (Temporary Order), 2019

On March 31 2019, the Bank of Israel's Governor signed the said ordinance, which defined the Service of Depositing a Post-Dated Check as a regulatable service, with a maximum fee for a check reassigned and deposited through a clerk or digitally being two shekels per check. Transfer of a check to a bank for depositing shall not be considered reassignment of a check.

The said ordinance follows the enactment of the Law for Reducing the Use of Cash, 2018, whose provisions regarding checks became effective on July 1 2019, and the objective of which is to encourage retail customers to deposit reassigned post-dated checks even before the law enters into force, in order to prevent a situation where the checks are not honored due to the provisions of the new law.

The ordinance will be in force from April 15 2019 to June 30 2019 and apply only to private individuals and small businesses.

Amendment to Banking Rules (Customer Service) (Fees and Commissions), 2019

On May 1 2019, Amendment to Banking Rules (Customer Service) (Fees and Commissions), 2019 was published.

Following are the main points of the amendment:

- Small businesses and authorized dealers shall be proactively added to the service tracks if they have been charged fees and commissions exceeding the amounts they would have paid had they joined the said service tracks. The expediency of the above shall be examined according to the rules prescribed by the directive; the procedure was first implemented on August 1 2019 and, as of 2020, will be implemented annually on March 1 of each year.
- New fees and commissions shall be charged for the following services: Pension consulting, cash withdrawal from an ATM using prepaid cards which are not linked to a current account and cash withdrawal from an ATM using a foreign card.

The amendments to the ordinance are expected to affect the Bank's revenues from the said fees and commissions.

Amendments to Proper Conduct of Banking Business Directive provisions regarding e-banking and innovation

On May 20 2019, the Banking Supervision Department issued an amendment to Directive No. 367, "E-banking". The amendment includes, inter alia, various easements in the following areas: Simplification of the identification and validation of customers wishing to make e-banking transactions; easements when opening an online account for minors; and revoking restrictions and controls previously set regarding check depositing forms for online accounts.

On May 20 2019, the Banking Supervision Department issued an amendment to Directive No. 353, Control over Issuing of Guarantees by a Banking Corporation. The amendment will allow the Bank to issue bank guarantees digitally.

On June 24 2019, the Banking Supervision Department published a letter entitled "Encouraging Innovation in Banks and Acquirers". The letter seeks to encourage implementation of innovative banking technologies, as well as to clarify and outline the regulatory principles in this area, outlining the expectations from the banking corporations both in terms of adoption and assessment of new technologies and in terms of the risk management aspects affected by the changing environment.

On July 9 2019, the Banking Supervision Department published a position paper regarding banking payment applications' activity with merchants. The outline limits the scope of the banks' payments activity with merchants in the next three years (up to NIS 2 billion in 2019; NIS 2.5 billion in 2020; and NIS 3 billion in 2021). As of 2021, the limit will not apply to businesses using smart payment methods based on the global EMV standard. In addition, the banks' payment applications for merchants will not enable immediate transactions if the Bank Clearing Center (MASAV) launches such a service, unless non-bank entities will also have access to said service. According to the position paper, the maximum amount for the banks' payment applications was set as an infant protection mechanism for credit card companies and other non-bank players which are also active in the payments domain.

The implementation of the said provisions will allow the Bank to adopt innovative banking products and services as well as to expand the use of advanced technologies, in order to adapt the Bank to the changing business and technological environment, while further boosting customer experience, optimizing the management of operational risks, streamlining its activity, and reducing costs.

Providing professional human response by telephone

On July 25 2018, an amendment to the Banking Ordinance (Customer Service), 1981 was published, requiring Banking corporations providing telephone services which include automatic call routing systems to offer customers professional human response for several types of services (handling technical problems, making billing inquiries and termination of contract) within six minutes of the beginning of the call. The law will come into effect one year after its publication.

On June 12 2019, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 426 regulating the implementation of the said amendment and adding guidance regarding providing telephone response.

The provision requires the following, inter alia: That banking corporations provide professional human response through call centers, including for the types of services outlined in the amendment to the law, at least during core hours (as defined by the directive); setting exceptions to the waiting time requirement provided by the amendment; prioritizing people older than 75 in terms of waiting time, etc.

In accordance with the requirements of the Banking Supervision Department regarding the correction of flaws brought to the Bank's attention, the Bank is preparing to update various internal processes to ensure full compliance with the above provisions

Revision of Proper Conduct of Banking Business Directive No. 315 - "Limit on Industry Indebtedness"

On January 12 2020 the Banking Supervision Department published a revision to Proper Conduct of Banking Business Directive No. 315 - "Limit on Industry Indebtedness" The revision allows banking corporations to select a track in which to extend credit to the construction and real estate industry at a rate of up to 24 percent of the public's total indebtedness to the banking corporation, provided that the addition beyond the 20 percent of the indebtedness shall be used to finance national infrastructure projects through public private partnerships (PPP).
The revision allows the Bank to extend more credit to the industry.

Increasing operational efficiency of the banking system in Israel - extension of the validity of the Banking Supervision Department's letters

In recent years, the Banking Supervision Department published two letters regarding the operational efficiency of the banking system. The objective of the letters is to promote efficiency measures in the banking system, offering easements to banking corporations implementing efficiency programs.

The letters' effective date was extended several times. On December 16 2019, the Banking Supervision Department announced the extension of the validity of the aforesaid letters until December 31 2021.

Draft Proper Conduct of Banking Business Directive regarding management of consumer credit

On February 19 2020, the Banking Supervision Department and the Capital Markets, Insurance and Savings Authority jointly published draft directives for public comment regulating the credit granting activity to private individuals from consumer aspects.

The directives set minimum expectations of the regulators from the credit granting activities of the banks, credit card companies and credit providers supervised by the Capital Markets, Insurance and Savings Authority to households, in an effort to set uniform standards of fairness by credit providers when granting credit.

As part the draft directive published by the Banking Supervision Department, the Bank was required to set minimal standards for granting credit to households, maintain strict conduct towards customers, and avoid inadequate credit marketing practices, including: (a) Set guidelines for consumer credit granting and fair pricing of credit, inter alia in line with the borrower's level of risk and characteristics; (b) Examine a borrower's repayment capacity based on several indicators; (c) Avoid aggressive marketing activity and pressuring customers; (d) Provide full and relevant disclosure to customers; (e) Ensure than the compensation mechanisms for employees involved in credit marketing do not encourage unfair conduct.

The Bank is studying the draft.

Additional Topics

Various legislative initiatives for increasing competition in the retail credit market

Recently, special emphasis has been placed on legislation to encourage competition, mainly in the retail credit market. This trend is reflected in various legislative provisions and initiatives, including provisions and initiatives which aim to ease the entry of new players into the market, inter alia, by increasing the resources available to them, providing tiered regulatory easements, and granting easements for connecting to the payment and clearing systems.

Following are several examples of provisions and initiatives aimed at encouraging such competition:

- Following rules published by the Ministry of Finance on providing a government grant for establishing a banking computerized services bureau following the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (Legislative Amendments), 2017, the Ministry of Finance selected TCS, a subsidiary of Indian conglomerate Tata, to establish the bureau. The bureau will serve as infrastructure for new players in the banking industry.

- Following the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (Legislative Amendments), 2017, on February 3 2019, the Banking Supervision Department published Banking (Service to Customers) (Transfer of Information from an Issuer to a Banking Corporation) Regulations, 2019. The regulations outline the details an issuer of a debit card is required to provide to a banking corporation so as to allow the banking corporation to comply with its obligation under Section 7G of the Banking (Service to Customers) Law, regarding presentation of information regarding transactions executed by nonbank debit cards.
- On August 7 2019, the Israel Competition Authority and the Israel Securities Authority published a final report regarding competition in the brokerage industry. The report includes recommendations regarding increasing competition in the retail brokerage market, while increasing the power of non-bank TASE members in this area. The report discusses, inter alia, various easements in the process of transferring a securities portfolio from banks to non-bank TASE members, including by way of granting the receiving entity the ability to handle all aspects of transferring the securities portfolio so that the customer will need not contact the bank. Pursuant to the recommendations of the said brokerage report, on February 4 2020, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Business Directive No. 432, "Transfer of Activity and Closing of an Account of a Customer", which proposes to require banks to enable customers to file an application to transfer their securities portfolio managed by the bank to any other financial entity, at least through a website, and without requiring the customer to physically arrive at the branch.
- On November 18 2019, the Banking Supervision Department published for public comment drafts of new directives regarding adjustments to directives of the Banking Supervision Department which will be applicable to new banks and banks under establishment.

  In this context, a draft directive regarding adjustments to Proper Conduct of Banking Business directives applicable to new banks and banks under establishment was published, as was a draft Reporting to the Public directive applicable to new banking corporations.

  The said directives set tiered regulation for new banks and create a defined known regulatory tier for entities establishing new banks in respect of the regulatory requirements applicable to such corporations. The directives also define the requirements applicable to banks under establishment.

  The main adjustments to the directives apply to the following issues: The required equity capital, the leverage ratio, the liquidity ratio, the composition of the Board of Directors and its committees, use of cloud computing services, corporate governance and publication of financial statements to the public.
- On February 25 2020, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 368 regarding application of the Open Banking Standard in Israel. Open banking requires the banks and credit card companies to share a customer's banking information at his/her request, with authorized third-party providers and to allow making payments to his/her account through third parties (authorized for this purpose). The objective is that based on the said banking information, third-party suppliers will be able to offer customers new products, customized to their needs. According to the directive to the explanatory notes, the adoption of the open banking will encourage new players in the payments, information, marketing and intermediation domains to enter the market, offering customers better pricing and innovative products.

  At this time, the directive only applies to banks and credit card companies. The open banking infrastructure will open to additional third parties once the laws regarding open banking are legislated and adequately regulated.
- On December 15 2019, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 448 regulating customers' online transition between banks. The directive prescribes provisions for the application of Section 5B1 to the Banking Law (Customer Service), 1981, according to which banks are required to allow customers wishing to transition to another bank, to do so online, easily, securely and free of charge. The directive includes, inter alia, guidance regarding the following topics: Proper disclosure to customers along the entire transition process and approvals customers are required to provide to complete the process; the various stages which the original bank and new bank should perform as part of the transition process; banking services and financial products to be transitioned and routed as part of moving the customer's financial activity between banks; and the rules for maintaining the continuity of the customer's financial activity while transitioning between banks.

The effective date of the directive is March 2021, except regarding routing checks drawn on the original account, regarding which the directive will become effective subject to the completion of the required legislation.

- On January 12 2020, the Israel Securities Authority published a document entitled Portfolio Management 2.0, which was aimed, among other things, at promoting competition among portfolio managers and enabling customers to compare the performance of different portfolio managing companies.
- On January 12 2020, the Banking Supervision Department published amendments to Proper Conduct of Banking Business Directive No. 470, “Debit Cards”, and to Proper Conduct of Banking Business Directive No. 472 “Merchant Acquirers and Acquiring Payment Card Transactions”, in which the Banking Supervision Department required merchant acquirers to gradually cease providing clearing services using the old method (magnetic stripe) until the full application of the EMV Standard across the economy. The amendment is added to a previous amendment to said directive, which required issuers to implement an operational solution allowing customers to set their own PIN codes when making transactions in cards issued under the said EMV standard. The application of the EMV standard in Israel is expected to allow the entry of advanced payments technologies and additional players - local and global - to the payments market and to accelerate the implementation of electronic wallets and advanced payments apps.
- On February 5 2020, the Bank of Israel published a draft revision for Directive No. 201, “Measurement and Capital Adequacy”. The proposed amendment to the directive includes a change in the calculation of minimum capital, aimed at providing easements to medium-sized banks (the consolidated total assets of which equal or exceed 24 percent). The purpose of the proposed amendment is to enable a structural change in the banking system with the aim of reducing the dominance of the two large banking groups.
- On February 10 2020, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Business Directive No. 411, “Management of Anti-Money Laundering and Countering Financing of Terrorism Risks”. The proposed amendment grants easements in respect of the obligation of banks to register beneficiaries and holders of accounts managed for credit providers and P2P platforms (provided that these entities are regulated by the Capital Markets, Insurance and Savings Authority, and have been given a license to grant credit or a license to operate a credit intermediation system). The purpose of the amendment is to remove a significant barrier that hinders these entities from operating in the Israeli financial system and competing with the banking system.

These amendments - along with initiatives led by the Bank of Israel, such as building a central credit register, which was launched in April 2019 and will enable various entities to obtain credit statements and reports for their current and potential customers - will encourage the banking system to improve efficiency and support the transition to e-banking; they are expected to affect the Israeli banking market in the coming years.

The Parliamentary Committee of Inquiry into the Financial System's Handling of Credit Arrangements with Large Business Borrowers

On July 5 2017, the Knesset approved the Knesset Committee’s proposal regarding the establishment of a parliamentary committee headed by the Chairman of the Economic Affairs Committee, MK Eitan Cabel, to discuss the conduct of the institutional entities and regulators regarding granting credit to large business borrowers since 2003.

On October 28 2018, the Chairman of the Bank’s Board of Directors, the President and CEO and the Head of Strategy and Regulatory Affairs Division appeared before the Committee and answered its members’ questions.

On April 16 2019, the Committee published its recommendations. The recommendations focus mainly on a series of changes which should be made, according to the Committee, to the financial regulators’ conduct. If advanced, these changes may be relevant to the banking system and to additional institutional entities in the Israeli economy, directly and indirectly.

The Bank sells ABS shares

Pursuant to the provisions of the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Industry (Legislative Amendments), 2017 (hereinafter: the “**Law**"), the Bank is required to reduce its holdings in Automated Banking Services Ltd. (hereinafter: "**ABS**" or the “**Company**"), such that by January 30 2021, the Bank's holdings in ABS will not exceed 10 percent of the Company’s issued capital.

The Bank acted to implement the provisions of the law, and in 2018, sold 10 percent of its holdings in the company to a corporation from the global Visa Group. Following the said sale, the Bank’s remaining stake in the company is approximately 30 percent.

Later on, On May 29 2019, the Bank, Bank Hapoalim Ltd. and Discount Bank Ltd. (hereinafter: the “Offerors”) issued a tender for advance purchase commitments by certain investors (hereinafter: the “Institutional Tender”) for the sale of the Offerors’ shares in Automated Banking Services Ltd. (ABS) for a certain portion of the Offerors’ stakes in ABS, as prescribed by the said tender. Pursuant to the Institutional Tender, bidders submitted bids for the purchase of 38,333,500 ABS shares, out of which the Offerors decided to accept advance purchase commitments for 17,440,000 shares of ABS, at NIS 7.4 per share.

On June 5 2019, a public tender for the offer to sell the Offerors’ shares in ABS was held, according to the size of the Offerors’ stakes in ABS prescribed by the said tender. The results of the public tender were as follows: The Offerors sold 17,440,000 of ABS’s shares, which constitute 43.6 percent of ABS’s issued and paid up share capital, at NIS 7.4 per share. The Bank’s share of the total shares sold by the Offerors was 8,360,000 of ABS shares, which constitute approximately 20 percent of ABS’s issued and paid up share capital.

Following the results of the Institutional Tender, on May 30 2019, the Governor of the Bank of Israel revoked ABS’s license as a joint service provider.

On September 4 2019, the Bank transferred to Mizrahi Tefahot Ltd. (“Bank Mizrahi”) 520,000 shares of the Company (which originated in shares transferred to the Bank by Bank Mizrahi in 1979) in consideration of NIS 1,233,860.

Following the above, the Bank’s stake in ABS, as of this date, is 10 percent of the Company’s issued capital.

On October 29 2019, ABS published an immediate report regarding an inquiry by the Anti-Trust Authority in respect of the common interests of ABS and Bank Clearing Center (MASAV). According to said report, in its inquiry, the Anti-Trust Authority claimed that despite the restructuring executed by the Company in accordance with the provisions of the law, the Company and MASAV continue to have significant common interests which allegedly constitute a cartel. ABS’s position in the said report is that the cooperation between the companies does not constitute a cartel and or any violation and that it is reviewing the details of the appeal and its meaning and will respond accordingly.

International Regulation

FATCA and the Standard for Automatic Exchange of Financial Account Information

Standards for Automatic Exchange of Financial Account Information - OECD

On July 14 2016, the Income Tax Ordinance Amendment Law (No. 227), was published. The law regulates the implementation of the FATCA agreement between the State of Israel and the United States and agreements for information exchange between Israel and other countries, pursuant to the Standard for Automatic Exchange of Financial Account Information (FATCA), granting the Minister of Finance the power to prescribe the implementation of the said agreements through regulations.

The Income Tax (Implementation of the FATCA Agreement) Regulations, 2016 were published on August 4 2016. Under the regulations, the Bank is required, inter alia, to implement customers’ identification procedures and forward information on accounts held by American customers to the Israel Tax Authority, which will forward the information to the US's Internal Revenue Service.

The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations, 2019 were published on February 6 2019. Pursuant to the regulations, the Bank is required, inter alia, to identify customers who are residents of foreign countries, and to report customers identified as residents of countries with which Israel has information exchange agreements to the Israel Tax Authority, which will forward the information to the competent authorities in the customers’ countries of residence.

The Bank implements the identification procedures and reports to the Israel Tax Authority according to the provisions of the said law.

FX Global Code

The Code was published in May 2017 by a global work group which included central banks and foreign exchange players from 16 jurisdictions across the world.

The Code prescribes principles and rules for proper ethical behavior of dealers in dealing rooms towards customers and other entities.

Although voluntary, the Code has become an accepted global standard in this field.

On January 13 2020, the Banking Supervision Department notified it is requiring the banking system to study the rules of the Code and to conduct detailed surveys regarding gaps between these rules and the de facto status. According to the results of the said survey the Banking Supervision Department demanded that banking corporations study the principles of the global code and take action to close any identified gaps.

The Bank is preparing accordingly.

Discontinuation of LIBOR

In July 2017, Britain's Financial Conduct Authority (FCA) announced it would cease, as of the end of 2021, to require LIBOR panel banks to quote interest rates. As a result, it is assumed that LIBOR rates would no longer be published.

Following the announcement, various regulatory entities in England, Europe, Japan, and the United States have created teams dedicated to identifying and adopting an alternative benchmark to replace the LIBOR for each of the five currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc).

As far as the Bank is aware, it is currently unclear which underlying interest rates (new benchmarks) these are, how they will be calculated and by whom, whether the underlying interest rates will include a wide variety of finance periods (such as in the case of the LIBOR), how they will be published, on which dates and by which means the interest rates will be converted in relation to the current LIBOR-based transactions, which span periods that are scheduled to end after the date on which the LIBOR may cease to be published.

On February 13 2020, the Banking Supervision Department published a directive entitled "Disclosure on Preparations for LIBOR Discontinuation". According to the directive, banking corporations with material exposure to the discontinuation of LIBOR are required to provide disclosure in their financial statements as to their preparations to identify the exposure and to mitigate the risk embodied therein and the expected effect on the banking corporation.
The disclosure will be made in accordance with the banking corporation's progress in the preparation process, commencing from the Statements to the Public as at December 31 2019 onwards.

For more information on this subject, please see the section regarding LIBOR under "Market Risks".

Taxation

Corporate tax: On December 29 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing, among other things, a gradual, two-stage reduction in the corporate tax rate from 25 percent to 23 percent. In the first stage, which began on January 1 2017, the tax rate was reduced to 24 percent; in the second stage, which began on January 1 2018, the tax rate was reduced to 23 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented in the table below.

The taxes applicable to banking corporations' profit include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law.

Set forth below is a table of the statutory tax rates applicable to banking corporations

Year	Payroll and income tax rate	Corporate tax rate	Total tax rate	Comments
2017	17.00%	24.00%	35.04%	As a result of a decrease in the corporate tax rate as of January 1 2017
From 2018	17.00%	23.00%	34.19%	As a result of a decrease in the corporate tax rate as of January 1 2018

Credit Ratings

Following are the credit ratings and outlook for Israel and the Bank as at February 25 2020:

	Rating agency	Long term	Outlook	Short term
State of Israel	Moody's	A1	Positive	P-1
	S&P	AA-	Stable	A-1+
	Fitch	A+	Stable	F1+
Bank Leumi: Foreign exchange	Moody's	A2	Stable	P-1
	S&P	A	Stable	A-2
	Fitch	A	Stable	F1+
Local rating (in Israel)	S&P Maalot	AAA	Stable	
	Midroog	Aaa	Stable	P-1

Following is the development of the Bank's credit rating and credit outlook from January 1 2019 to February 25 2020:

On January 9 2019, credit rating agency Fitch reiterated the Bank's rating and rating forecast.

On May 1 2019, credit rating agency Fitch reiterated the Bank's rating and rating forecast.

On May 7 2019, credit rating agency Fitch issued an update whereby the Bank's short-term rating was included in a positive observation list, as part of the updating of short term rating scales. The final rating will be determined within 6 months from the update's publication date. Until then, the Bank's short-term rating will be "Under Observation Criteria" (UOC). The Bank's long-term rating or forecast have not been changed.

On July 10 2019, credit rating agency S&P upgraded the Bank's long-term rating and updated the short term rating forecast.

On July 11 2019, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On July 17 2019, credit rating agency Fitch issued an update whereby the Bank's short-term rating for the short term was elevated to F1+. The Bank's long-term rating or forecast have not been changed.

On August 13 2019, credit rating agency Midroog reiterated the Bank's rating and rating outlook, and increased the Bank's baseline credit assessment (BCA) from aa1.il to aa2.il, and accordingly - the trajectory of Bank's financial strength rating outlook from positive to stable.

On November 5 2019, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On November 7 2019, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On December 17 2019, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On December 17 2019, credit rating agency Moody's reiterated the Bank's rating and rating outlook.

On February 18 2020, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

Main Operating Segments According to Management Approach - Additional Information

A. Management Approach - the Retail Segment

Overview

The retail segment is characterized by offering value propositions and financial services to households and private individuals, small and medium businesses and wealthy customers in Israel and worldwide (Private Banking). These propositions and services are provided to customers according to their changing needs and preferences and in accordance with other relevant characteristics.

Structure and characteristics of the segment

Branches:

Households and small businesses – extensive deployment of 172 branches nationwide. At the branches, services to customers are rendered by teams of Bank's representatives grouped according to customer segments. These teams handle all dealings related to customers and specialize in dealing with specific customer characteristics and needs.

Private Banking customers - In Israel, this segment is run through five unique Private Banking centers deployed nationwide – in Tel Aviv, Jerusalem, Haifa and Herzliya Pituach. The centers serve Israeli and foreign wealthy private customers. Bank representatives in these centers are familiar with the customers' needs, preferences and areas of interest. Furthermore, the department has four designated branches for customers who hold investment portfolios ranging from NIS 3.5 million and NIS 8 million; these branches are located in Haifa, Rehovot, Tel Aviv and Herzliya.

Direct and Digital Channels:

Banking services are also provided through Leumi's website, the Leumi Digital mobile app, Leumi's call centers, consulting centers, Leumi's banking terminals and other advanced internet and mobile solutions.

Among other things, the segment works towards increasing the number of customers who use the services of Leumi's call centers and the digital channels (thousands of transactions are carried out every day through the Bank's website and mobile app).

Leumi also has a **mobile-only** payments app - PAY. The apps allow users to enjoy a personalized, high-quality and advanced payment experience, which is based on friendly, fair and customized solutions to their needs - anytime, anywhere.

Banking app Pepper, which is, in fact, a **mobile-only** bank account, provides customers with everything they need to better manage their money - using advanced technology and customized user experience.

For more information regarding the Pay payments app and the PEPPER banking application, please see the section entitled Business Goals and Strategy.

Developments in the segment's markets and customer characteristics

The segment is affected by demographic and economic changes which have taken place in Israel, as well as by changes in private consumption and customers' savings habits.

The competition in the segment is intensifying. In recent years, there have been new entrants (financial and other entities) trying to muscle their way into the retail banking market; these new entrants mainly include credit card companies (operating in the field of consumer loans), insurance companies, retail chains and technology-based financial ventures. Some of the new entrants are entities which are not regulated by the Bank of Israel or by any other authority and which do not operate under the restrictions applicable to banks.

Services and products

The Bank has defined small and medium businesses as a focal point for the development of its business. Accordingly, the Bank has launched the Leumi's business platform, comprising exclusive and innovative tools and services.

Private loans: The Bank offers its customers various loan products which suit their needs at various stages of their lives. The leverage level of Israeli households is low compared with other developed countries. However, the scope of loans is on the rise and so is the risk.

The Bank's policy is to take steps to mitigate the credit risk by setting exposure ceilings in the loans portfolio. The loans portfolio is managed according to risk considerations and return versus risk considerations.

The Bank offers housing loans to private customers, both from the Bank's own funds and as part of government support programs; the loans are offered by the Bank's mortgage experts, who are deployed in Leumi branches nationwide and who are affiliated to the Bank's mortgage function. The mortgage function has 64 representative offices operating in Leumi branches and one independent representative office. Lately, the Bank launched the Digital Mortgage feature. As a result, as of July 2018, customers can submit an online application for a mortgage, anytime, anywhere. The application is answered via email and text message within a short time. The entire process takes place digitally, including uploading documents and personal advice provided by telephone and email. Only at the end of the process is the customer required to arrive at a branch in order to sign the loan documents.

State-guaranteed fund

On January 17 2016, the Ministry of Finance announced that the bids submitted by the Leumi-Menorah Partnership won the State tender to finance small and medium businesses.

The fund commenced operations in April 2016. As part of the partnership's joint activities, loans are extended to small and medium businesses; the loans are guaranteed by the government.

The loans are financed jointly by Leumi – 60 percent, and Menorah – 40 percent.

In 2019 the fund extended loans totaling NIS 518 million to small businesses.

Customers

The Bank's services are adapted to meet the needs of various population groups comprising the segment.

B. Management Approach – Commercial Banking Segment

Overview

Commercial banking - specializes in the provision of the entire spectrum of financial services to middle-market business entities across all sectors of the economy. This segment sometimes includes interested parties of businesses in the sector, such as shareholders and senior officers.

Service and marketing to these companies are carried out on an individual basis, including financing transactions by means of credit instruments tailored to the customers' unique requirements, adapting investment products and financial instruments in order to hedge risks, financing international trade transactions and providing funding to start-up companies.

The commercial banking segment also includes activities outside Israel through the Bank's foreign offices. Companies that are served by the Commercial Banking Department can also opt to work with these branches as they expand their operations abroad.

Segment's structure and characteristics

The Israeli activities of the segment are managed by the Commercial Banking Department and Leumitech, which are part of the Corporate Division. The service is rendered by customer relations managers, who coordinate the Group's services vis a vis customers using technological services as direct channels, a cash management system, etc. The Commercial Banking Department transitioned from a model of 20 business branches to 12 business centers deployed across Israel, with the aim of improving service to commercial customers and shorten response times. Leumitech operates through the Leumitech business center located in Herzliya.

Development in the segment's markets and its customers' characteristics

The segment's customers operate mainly in different sectors of the Israeli economy, such as industry, infrastructure, high-tech, trade and services, real estate, etc., as well as in foreign markets.

It is generally expected that in 2020, the global and Israeli economies will continue to grow at a moderate pace; such growth is expected to have an impact on customers of the middle market segment. Accordingly, the segment's credit risks are managed with due care while assessing the creditworthiness of customers on an ongoing basis, with special emphasis on the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The Commercial Banking Department and Leumitech has an extensive product offering designed for its different customers, including, among other things, financing of long-term investments, financing of foreign trade, financing of rental properties and construction loans, invoice discounting and factoring, financing of mergers and acquisitions, etc.

Customers

The customers of the Commercial Banking segment are medium-sized businesses from various sectors of the Israeli economy: commerce, industry, real estate, high-tech, etc. Furthermore, the segment also includes interested parties in these companies.

Generally, customers with approved credit facilities of more than NIS 10 million and up to NIS 120 million (inclusive) or with a turnover of more than NIS 20 million and up to NIS 400 million will be assigned to the Commercial Banking segment. In addition, the segment includes start-up companies regardless of the extent of their credit facilities or business turnover.

C. Management Approach – Corporate Banking Segment

Overview

The Corporate banking segment specializes in providing banking and financial services to large corporations, some of which are multinationals. The services are based on providing an overall solution for the customer's needs, bearing in mind the whole spectrum of its businesses.

Structure and characteristics of the segment

The Corporate banking segment is managed in Israel by the Corporate Department of the Corporate Division. The Corporate Department includes 3 business sectors: tourism, energy, defense and authorities, chemicals, consumption, finance, industry, transportation and infrastructure. Services are rendered by customer relations managers, who coordinate the Group's services vis a vis customers and specialize in the business sector in which the customer operates. The segment provides a comprehensive offering of banking services to all types of companies in the various sectors. Customers' accounts are managed mainly by the Operations Division and if relevant - by the Bank's foreign offices. Special/complex transactions, such as the acquisition of means of control, assessment of investment plans and project financing, international trade activity, financing of foreign or domestic debtors, syndicated loans, etc., are dealt with by designated units specializing in dealing with such transactions, due to the complexity and risk level involved.

Developments in the segment's markets and customer characteristics

The Corporate Banking Department manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The services rendered include, among other things, ongoing financing according to the customers' needs, financing of investments to maintain and expand operations, provision of financing and international trade solutions (including financing credit insurance or private insurance companies of projects abroad), financing of mergers and acquisitions, granting loans for extensive transactions carried out through syndicates in collaboration with the institutional entities and foreign and Israeli banks, financial instruments hedging foreign exchange risks, interest risks and fluctuations in commodities prices. The service also includes promotion of banking services to the companies, managers and companies' employees.

Customers

This segment’s customers are mostly market leaders in their fields. Some of these companies are public, operating in different sectors of the Israeli economy and have complex and multi-tiered organizational structures comprising several management and control tiers.

Generally, customers with approved credit facilities of more than NIS 120 million or with a turnover of more than NIS 400 million are assigned to the Corporate Banking segment. Furthermore, customers with approved credit facilities of more than NIS 80 million will also be handled by this segment if their overall indebtedness in the banking system exceeds NIS 250 million.

D. Management Approach – Real Estate Segment

Overview

The Real Estate Department specializes in providing banking and financial services to customers operating mainly in the fields of construction and real estate. Construction loans are granted using unique, industry-specific instruments and analysis tools and implementing a well-balanced policy. The projects are funded through construction loans and are closely monitored and supervised with an emphasis on meticulous review of each project.

Structure and characteristics of the segment

The Real Estate segment in Israel is mostly managed by the Construction and Real Estate Department of the Corporate Division. The department provides a comprehensive offering of banking services to construction companies and large real estate developers and contractors in Israel. The department’s areas of expertise cover all aspects of real estate activities. Customers' accounts are managed mainly by the Operations Division and if relevant - by the Bank's foreign offices. Services are rendered by customer relations managers, who coordinate the Group’s services vis a vis customers and specialize in the business sector in which the customer operates.

Developments in the segment’s markets and customer characteristics

The Israel real estate market is a part of the overall business activity in the Israeli economy. It is generally expected that in 2020, the Israeli economy will continue to grow.

The Real Estate Department manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

In 2019, the real estate housing market rallied, with the number of transactions on the rise and sales of new apartments accelerating - both ones in affordable housing projects with building permits and other projects.

The commercial real estate market is significantly affected by developments and preferences in households’ consumption. The change in consumer preferences and the continued increase in the volume of online sales may impact parameters such as rent levels and occupancy rates, which remained relatively stable over the past few years. This stability is also evident in the office real estate market, which is highly correlated with the business GDP growth that includes a significant services-based growth component leading to increased demand for office space.

In 2020, as in previous years, real estate activity is expected to be affected by the following factors: the macroeconomic environment; regulatory changes - particularly those relating to the residential housing market; continued implementation of government programs, especially the Affordable Housing program; completion of construction projects; as well as the scope of Government investments in national infrastructures.

Services and products

Construction and real estate projects are funded through industry-specific and unique monitoring and analysis tools, which support the decision-making process and the monitoring of loans extended to the various projects and properties. Funding is extended with the aim of diversifying the loans portfolio and distinguishing between the various segments – housing, rental properties - especially commercial and office space, and construction for industry and commerce. Generally, loans granted in the construction phase are extended by way of construction loans, which allow the Bank to closely monitor and supervise the relevant project.

Furthermore, as part of its activities in the Construction and Real Estate Segment, the Bank funds real estate transactions which are carried out abroad through its foreign subsidiaries and supports the development of real estate and hospitality projects.

In 2019, the segment continued to implement a well-balanced credit policy which is in line with regulatory requirements, distinguishes between different risk levels, and determines the credit spreads and terms accordingly.

The financing of the business activity in the Bank’s major service centers abroad contributes to the risk diversification through exposure to different macroeconomic environments and different customer characteristics. Therefore, the Bank’s real estate financing mix is also comprised of transactions by foreign offices.

Customers

The segment’s customers include large and mid-sized real estate development companies, executive and infrastructure contractors and selected business companies engaged in real estate development and contracting in the field of rental properties.

E. Management Approach – Capital Markets Segment

Overview

The financial management function of the Bank and the Group manages the trading room and provides various services to banks and institutional investors, including serving as an account manager on their behalf. Set forth below are the segment’s main areas of activity:

- Management of the nostro account by investing the Bank’s own funds in tradable and non-tradable investment instruments and by management of direct investments in shares of tradable and non-tradable companies; non-financial investments are managed by Leumi Partners.
- Management of the trading room, which provides trading services to the Bank’s customers, including market-making, primarily in currencies, securities and derivative instruments.
- Management of resources and liquidity sources and applications.
- Management of market risk exposures – including management of underlying exposures, interest and liquidity exposures.
- Price management – by setting transfer prices and pricing of special financial transactions.
- Management of banking activity of institutional customers and other corporations with extensive capital market activities.
- Development of financial instruments.

Segment’s structure

Financial management is carried out by the Capital Markets Division, which coordinates the function at the Group level. The division manages the banking portfolio and the trading portfolio and provides services to customers with capital markets and financial markets activities, including institutional customers. The banking portfolio activity is managed by the Financial Management Department and includes the management of liquidity sources and applications, as well as of exposures to market and liquidity risks and the nostro portfolios. The trading activity is carried out by the trading room and nostro units in NIS and in foreign currency.

The main tools for managing the banking portfolio are transfer prices, taking actions in the available-for-sale nostro portfolio, the held-to-maturity portfolio and use of derivative instruments.

The ALM Department’s main areas of responsibility include managing the Bank's financial capital and market risk exposures, managing corporate and statutory liquidity and liquidity risk, as well as allocating liquidity sources to the various applications by implementing the transfer prices policy. This policy is determined according to the Bank's needs, planning and management of the mix of liquidity sources and applications as well as developments in the business environment and forecasts. As part of this activity, the Bank also sets the methodology for netting P&L centers and prices complex and special transactions.

The liquidity is managed on a regular basis in accordance with the Bank’s policy and pursuant to the binding directives. Liquidity is also managed by a special-purpose unit, whose main function is optimal planning and management of liquidity balances, subject to the risk appetite, while ensuring a liquidity level that enables the Bank to carry out its business activity while meeting all of its financial obligations in a normal business environment as well as under stress scenarios. The measurement, analysis, planning and reporting activities are carried out through the OneSumX risk management system, which provides extensive information on all of the Bank’s financial activities and on the market and liquidity risks associated therewith. The system enables to assess and monitor the effect of various scenarios (price and quantity) on the Bank's financial profitability and capital.

For a description of the principal points of the securities investment (nostro) policy, please see the section entitled “Structure and Development of Assets and Liabilities, Equity and Capital Adequacy”, under “Securities”.

Segment’s profit

The segment’s profit is mainly impacted by the nostro activity, the trading room activity, ALM management, management of customers’ accounts and accounts of other corporations with extensive capital market activities, as well as the results of non-financial associates. Set forth below are the main components of the net income:

- Results of market risks management, including changes in transfer prices. Income and expenses resulting from changes in transfer prices are carried in full to the financial segment, to which all of the market risks from the other operating segments are also transferred.
- Realized gains/losses of securities and from provisions for impairment of securities in respect of a decline which is not temporary in nature in the value of securities and unrealized gains/losses from adjustments of tradable securities to market value.
- Adjustment of derivatives to market value.
- Effects of exchange rate differentials (foreign currency/NIS) and linkage differences (to the CPI), including adjustments from translation of foreign investments and the effect of the applicable taxes.
- Income arising from market-making activities.
- Income/expenses arising from investment of pension, jubilee and regular leave reserves.
- Certain costs relating to pension liabilities, calculated on an actuarial basis.
- Profits of associates.

The segment’s operating expenses mainly include direct operating expenses, as well as overheads associated with management of market risks, the Bank’s own securities (nostro) portfolios and the trading room.

Developments in the markets

In 2019, the shares and bonds markets underwent sharp price increases and smaller spreads, respectively. The Fed’s interest rate changed course, going down several times throughout the year, while remaining unchanged in Israel - at 0.25 percent.

Services and products

The segment's activity mainly involves custodian services, brokerage, and tradable and non-tradable derivatives. In addition, the Bank provides operating services to provident funds, mutual funds and investment funds’ management companies.

Customers

The segment's customers include insurance companies, provident funds, study funds, pension funds, mutual funds, exchange-traded funds, commercial banks and investment banks, as well as other customers with extensive capital market activities.

Income and Expense Rates[a] and Analysis of the Changes in Interest Income and Expenses

Part A - Average Outstanding Balances and Interest Rates - Assets

	2019			2018			2017		
	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest-bearing assets									
Loans to the public[c]									
In Israel	**249,881**	**8,648**	**3.46**	243,675	8,887	3.65	236,619	8,222	3.47
Outside Israel	**24,333**	**1,178**	**4.84**	24,530	1,198	4.88	23,227	977	4.21
Total[i]	**274,214**	**9,826**	**3.58**	268,205	10,085	3.76	259,846	9,199	3.54
Loans to the government									
In Israel	**717**	**32**	**4.46**	719	33	4.59	650	25	3.85
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**717**	**32**	**4.46**	719	33	4.59	650	25	3.85
Deposits with banks									
In Israel	**10,115**	**172**	**1.70**	9,032	130	1.44	5,092	86	1.69
Outside Israel	**359**	**5**	**1.39**	395	3	0.76	487	5	1.03
Total	**10,474**	**177**	**1.69**	9,427	133	1.41	5,579	91	1.63
Deposits with central banks									
In Israel	**48,514**	**122**	**0.25**	49,146	57	0.12	45,884	47	0.10
Outside Israel	**1,053**	**14**	**1.33**	1,958	21	1.07	4,271	22	0.52
Total	**49,567**	**136**	**0.27**	51,104	78	0.15	50,155	69	0.14
Securities borrowed or purchased under reverse repurchase agreements									
In Israel	**886**	**4**	**0.45**	1,042	2	0.19	1,115	2	0.18
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**886**	**4**	**0.45**	1,042	2	0.19	1,115	2	0.18
Bonds - available-for-sale[d]									
In Israel	**66,968**	**1,087**	**1.62**	64,904	819	1.26	62,543	498	0.80
Outside Israel	**5,375**	**143**	**2.66**	5,269	156	2.96	5,208	130	2.50
Total	**72,343**	**1,230**	**1.70**	70,173	975	1.39	67,751	628	0.93
Bonds - held-for-trading[d]									
In Israel	**5,347**	**32**	**0.60**	5,929	38	0.64	7,912	54	0.68
Outside Israel	**-**	**-**	**-**	56	2	3.57	159	1	0.63
Total	**5,347**	**32**	**0.60**	5,985	40	0.67	8,071	55	0.68
Total interest-bearing assets	**413,548**	**11,437**	**2.77**	406,655	11,346	2.79	393,167	10,069	2.56
Non-interest-bearing receivables for credit cards	**5,901**			6,695			6,784		
Other non-interest-bearing assets[e]	**41,050**			38,348			38,514		
Total assets	**460,499**	**11,437**		451,698	11,346		438,465	10,069	
Total interest-bearing assets attributed to foreign operations	**31,120**	**1,340**	**4.31**	32,208	1,380	4.28	33,352	1,135	3.40

See comments below.

Part B - Average Balances and Interest Rates - Liabilities and Capital

	2019			2018			2017		
	Average balance[(b)]	Interest expense	% of expense	Average balance[(b)]	Interest expense	% of expense	Average balance[(b)]	Interest expense	% of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest-bearing liabilities									
Deposits by the public									
In Israel	**258,793**	**(1,736)**	**(0.67)**	247,570	(1,585)	(0.64)	241,181	(1,187)	(0.49)
Demand deposits	**126,291**	**(152)**	**(0.12)**	114,355	(90)	(0.08)	102,912	(34)	(0.03)
Fixed deposits	**132,502**	**(1,584)**	**(1.20)**	133,215	(1,495)	(1.12)	138,269	(1,153)	(0.83)
Outside Israel	**15,549**	**(290)**	**(1.87)**	15,756	(262)	(1.66)	15,581	(142)	(0.91)
Demand deposits	**5,781**	**(77)**	**(1.33)**	5,453	(72)	(1.32)	4,966	(24)	(0.48)
Fixed deposits	**9,768**	**(213)**	**(2.18)**	10,303	(190)	(1.84)	10,615	(118)	(1.11)
Total	**274,342**	**(2,026)**	**(0.74)**	263,326	(1,847)	(0.70)	256,762	(1,329)	(0.52)
Deposits by the Israeli government									
In Israel	**198**	**(3)**	**(1.52)**	240	(4)	(1.67)	161	(3)	(1.86)
Outside Israel	**307**	**-**	**-**	329	-	-	548	-	-
Total	**505**	**(3)**	**(0.59)**	569	(4)	(0.70)	709	(3)	(0.42)
Deposits by central banks									
In Israel	**42**	**(1)**	**(2.38)**	35	-	-	40	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**42**	**(1)**	**(2.38)**	35	-	-	40	-	-
Deposits by banks									
In Israel	**4,993**	**(26)**	**(0.52)**	4,905	(28)	(0.57)	4,152	(17)	(0.41)
Outside Israel	**50**	**-**	**-**	56	(1)	(1.79)	22	-	-
Total	**5,043**	**(26)**	**(0.52)**	4,961	(29)	(0.58)	4,174	(17)	(0.41)
Securities borrowed or sold under reverse repurchase agreements									
In Israel	**384**	**(3)**	**(0.78)**	477	(2)	(0.42)	467	(2)	(0.43)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**384**	**(3)**	**(0.78)**	477	(2)	(0.42)	467	(2)	(0.43)
Bonds									
In Israel	**19,896**	**(537)**	**(2.70)**	16,812	(574)	(3.41)	20,810	(672)	(3.23)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**19,896**	**(537)**	**(2.70)**	16,812	(574)	(3.41)	20,810	(672)	(3.23)
Total interest-bearing liabilities	**300,212**	**(2,596)**	**(0.86)**	286,180	(2,456)	(0.86)	282,962	(2,023)	(0.71)
Non-interest-bearing deposits from the public	**91,061**			95,821			88,804		
Non-interest bearing payables for credit cards	**3,945**			6,297			6,451		
Other non-interest bearing liabilities[(f)]	**29,304**			29,104			27,789		
Total liabilities	**424,522**	**(2,596)**		417,402	(2,456)		406,006	(2,023)	
Total capital resources	**35,977**			34,296			32,459		
Total capital commitments and sources	**460,499**	**(2,596)**		451,698	(2,456)		438,465	(2,023)	
Interest rate spread		**8,841**	**1.91**		8,890	1.93		8,046	1.85
Net return[(g)] on interest-bearing assets									
In Israel	**382,428**	**7,791**	**2.04**	374,447	7,773	2.08	359,815	7,053	1.96
Outside Israel	**31,120**	**1,050**	**3.37**	32,208	1,117	3.47	33,352	993	2.98
Total	**413,548**	**8,841**	**2.14**	406,655	8,890	2.19	393,167	8,046	2.05
Total interest-bearing liabilities attributed to foreign operations	**15,906**	**(290)**	**(1.82)**	16,141	(263)	(1.63)	16,151	(142)	(0.88)

See comments below.

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Activities in Israel

	2019			2018			2017		
	Average balance[b]	Interest income (expen-ses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (expen-se)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Unlinked NIS									
Total interest-bearing assets	**272,720**	**6,854**	**2.51**	272,333	6,593	2.42	263,930	6,334	2.40
Total interest-bearing liabilities	**200,685**	**(580)**	**(0.29)**	195,011	(437)	(0.22)	193,677	(553)	(0.29)
Interest rate spread			**2.22**			2.20			2.11
CPI-linked NIS									
Total interest-bearing assets	**46,504**	**1,563**	**3.36**	45,767	1,959	4.28	47,373	1,657	3.50
Total interest-bearing liabilities	**29,722**	**(720)**	**(2.42)**	30,994	(1,000)	(3.23)	34,595	(935)	(2.70)
Interest rate spread			**0.94**			1.05			0.80
Foreign currency (including foreign-currency linked NIS)									
Total interest-bearing assets	**63,204**	**1,680**	**2.66**	56,347	1,414	2.51	48,512	943	1.94
Total interest-bearing liabilities	**53,899**	**(1,006)**	**(1.87)**	44,034	(756)	(1.72)	38,539	(393)	(1.02)
Interest rate spread			**0.79**			0.79			0.92
Total activity in Israel									
Total interest-bearing assets	**382,428**	**10,097**	**2.64**	374,447	9,966	2.66	359,815	8,934	2.48
Total interest-bearing liabilities	**284,306**	**(2,306)**	**(0.81)**	270,039	(2,193)	(0.81)	266,811	(1,881)	(0.70)
Interest rate spread			**1.83**			1.85			1.78

See comments below.

Part D - Analysis of Changes in Interest Income and Interest Expenses

	2019 vs. 2018			2018 vs. 2017		
	Increase (decrease) due to change(h)		Net change	Increase (decrease) due to change(h)		Net change
	Quantity	Price		Quantity	Price	
	In NIS millions					
Interest-bearing assets						
Loans to the public						
In Israel	**215**	**(454)**	**(239)**	257	408	665
Outside Israel	**(10)**	**(10)**	**(20)**	64	157	221
Total	**205**	**(464)**	**(259)**	321	565	886
Other interest-bearing assets						
In Israel	**19**	**351**	**370**	63	304	367
Outside Israel	**(21)**	**1**	**(20)**	(58)	82	24
Total	**(2)**	**352**	**350**	5	386	391
Total interest income	**203**	**(112)**	**91**	326	951	1,277
Interest-bearing liabilities						
Deposits by the public						
In Israel	**75**	**76**	**151**	41	357	398
Outside Israel	**(4)**	**32**	**28**	3	117	120
Total	**71**	**108**	**179**	44	474	518
Other interest bearing liabilities						
In Israel	**68**	**(106)**	**(38)**	(86)	-	(86)
Outside Israel	**-**	**(1)**	**(1)**	-	1	1
Total	**68**	**(107)**	**(39)**	(86)	1	(85)
Total interest expenses	**139**	**1**	**140**	(42)	475	433
Total interest, net	**64**	**(113)**	**(49)**	368	476	844

Comments:

(a) The data in the above tables are stated after the effect of hedging derivatives.

(b) Based on monthly opening balances, except for the unlinked Israeli currency segment, where the average balance is calculated according to daily inputs, and before deducting the average book balance of loan loss provisions; foreign subsidiaries - based on quarterly opening balances.

(c) Before deducting the average balance of loan loss provisions. Including nonaccrual non-performing debts.

(d) The average balance of unrealized gains/losses from fair value adjustments of held-for-trading bonds were deducted/added from the average balance of held-for-trading bonds and available-for-sale bonds, as were gains/losses in respect of available-for-trading bonds included in shareholder's equity under other comprehensive income, in the adjustments in respect of presentation of available-for-sale securities at fair value item in respect of bonds transferred from the available-for-sale portfolio, in the amount of NIS 418 million (December 31 2018 – NIS (274) million; December 31 2017 - NIS (38) million).

(e) Including book balances of derivatives, other nonaccrual assets, non-monetary assets, and less loan loss provision.

(f) Including book balances of derivative instruments and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the quantity change was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the former quantity by the new price.

(i) Fees and commissions in the amount of NIS 399 million were included in interest income from loans to the public (December 31 2018 - NIS 365 million; December 31 2017 - NIS 432 million).

Quarterly Consolidated Income Statement - Multi-Quarter Information

	For the year ended December 31							
	2019				2018			
	4	3	2	1	4	3	2	1
	In NIS millions							
Interest income	2,676	2,526	3,556	2,679	2,926	2,811	3,188	2,421
Interest expense	513	434	1,090	559	652	615	774	415
Interest income, net	2,163	2,092	2,466	2,120	2,274	2,196	2,414	2,006
Expenses (income) in respect of loan losses	158	181	288	(18)	205	198	(14)	130
Interest income, net after loan loss expenses	2,005	1,911	2,178	2,138	2,069	1,998	2,428	1,876
Noninterest income								
Noninterest Finance Income	383	305	333	665	88	454	89	51
Fees and commissions	799	800	817	809	1,053	1,023	1,022	1,023
Other income	18	27	44	81	6	6	38	18
Total noninterest income	1,200	1,132	1,194	1,555	1,147	1,483	1,149	1,092
Operating and other expenses								
Salaries and related expenses	1,021	1,043	1,125	1,136	1,132	1,119	1,225	1,068
Buildings and equipment - Maintenance and depreciation	397	379	370	375	402	380	376	411
Other expenses	658	514	455	435	649	546	532	497
Total operating and other expenses	2,076	1,936	1,950	1,946	2,183	2,045	2,133	1,976
Profit before taxes	1,129	1,107	1,422	1,747	1,033	1,436	1,444	992
Provision for profit tax	386	324	499	621	321	515	521	262
Profit after taxes	743	783	923	1,126	712	921	923	730
The Bank's share in associates' profits (loss), after tax	7	(8)	10	(24)	(11)	35	2	10
Net income:								
Before attribution to non-controlling interests	750	775	933	1,102	701	956	925	740
Attributable to non-controlling interests	(8)	(10)	(10)	(10)	(13)	(20)	(22)	(10)
Attributable to the Bank's shareholders	742	765	923	1,092	688	936	903	730
Basic and diluted earnings per share (in NIS)								
Diluted net income attributable to the Bank's shareholders	0.51	0.52	0.62	0.73	0.46	0.62	0.59	0.48

Loan Loss Expenses

	For the year ended December 31							
	2019				2018			
	4	3	2	1	4	3	2	1
	In NIS millions							
Expense (Income) for loan losses - Specific	**42**	**68**	**73**	**(124)**	(56)	-	(71)	(64)
Loan loss expenses - Collective	**116**	**113**	**215**	**106**	261	198	57	194
Total expense (income) for loan losses	**158**	**181**	**288**	**(18)**	205	198	(14)	130
Of which:								
Loan loss expenses (income) for credit risk for commercial credit risk	**127**	**147**	**202**	**(22)**	117	114[(b)]	(47)[(b)]	63[(b)]
Loan loss expenses (income) for risk for housing loans	**8**	**(2)**	**25**	**(9)**	6	22[(b)]	(2)[(b)]	6
Loan loss expenses for other credit risk for private individuals	**22**	**38**	**60**	**14**	80	62[(b)]	35[(b)]	63[(b)]
Loan loss expenses (income) for credit risk for banks and governments	**1**	**(2)**	**1**	**(1)**	2	-	-	(2)
Total expense (income) for loan losses	**158**	**181**	**288**	**(18)**	205	198	(14)	130
Ratios (in %):[(a)]								
Percentage of specific expense (income) for loan losses out of total loans to the public, net[(a)]	**0.06**	**0.10**	**0.10**	**(0.18)**	(0.08)	-	(0.10)	(0.10)
Percentage of expenses (income) for loan losses out of the average outstanding balance of loans to the public[(a)]	**0.23**	**0.26**	**0.41**	**(0.03)**	0.30[(c)]	0.29	(0.02)	0.19
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	**(0.23)**	**(0.34)**	**(0.29)**	**(0.09)**	(0.08)	(0.17)	(0.09)	(0.04)
Percentage of net write-offs for loans to the public out of the outstanding loan loss provisions for loans to the public	**(16.42)**	**(23.32)**	**(19.66)**	**(6.48)**	(5.31)[(b)]	(11.49)[(b)]	(6.36)[(b)]	(2.70)[(b)]

(a) 2018 - balances classified as held-for-sale assets. For more information regarding the held-for-sale operation, please see Note 36F to the financial statements as at December 31 2018.

(b) Reclassified.

(c) The rate of expense for loan losses out of average outstanding loans to the public in Q4 2018, net of Leumi Card, was 0.25 percent.

Noninterest Income

	For the year ended December 31							
	2019				2018			
	4	3	2	1	4	3	2	1
	In NIS millions							
Noninterest Finance Income	383	305	333	665	88	454	89	51
Fees and commissions[(a)]	799	800	817	809	1,053	1,023	1,022	1,023
Other income	18	27	44	81	6	6	38	18
Total	1,200	1,132	1,194	1,555	1,147	1,483	1,149	1,092

(a) Reclassified.

Fees and Commissions

	For the year ended December 31							
	2019				2018			
	4	3	2	1	4	3	2	1
	In NIS millions							
Account management	171	172	172	175	188	174	175	179
Credit cards	80	74	85	71	286	299	276	268
Activity in securities and certain derivatives	156	163	158	160	149	155	166	168
Financial products distribution fees and commissions	62	60	59	57	62	65	66	67
Management, operating and trust services provided to institutional entities	17	17	19	19	21	21	21	22
Credit handling	53	44	45	55	51	42	47	46
Exchange differences	88	91	91	91	91	89	87	94
Foreign trade activity	28	31	29	31	32	29	31	29
Net income from loan portfolio servicing	2	3	3	3	3	3	3	3
Management fees and commissions on life and home insurance	12	16	17	13	16	14	13	13
Loan fees and commissions	105	103	114	109	128	107	110	109
Other fees and commissions	25	26	25	25	26	25	27	25
Total fees and commissions	799	800	817	809	1,053	1,023	1,022	1,023

Salary Expenses

	For the year ended December 31							
	2019				2018			
	4	3	2	1	4	3	2	1
	In NIS millions							
Salaries and related expenses	926	952	1,035	1,056	1,055	1,028	1,134	979
Pension, severance and retirement expenses	95	91	90	80	77	91	91	89
Bonuses and expenses not granted/incurred in the ordinary course of business	-	-	-	-	-	-	-	-
Total salary expenses	1,021	1,043	1,125	1,136	1,132	1,119	1,225	1,068

Consolidated Balance Sheet as of End of Quarter - Multi-Quarter Information

	December 31							
	2019				2018			
	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	76,213	63,066	83,605	76,380	80,113	74,312	70,491	72,138
Securities	84,949	85,781	80,763	79,553	74,571	76,861	82,113	80,061
Securities borrowed or purchased under reverse repurchase agreements	1,470	1,006	2,963	946	1,257	1,465	931	878
Loans to the public	285,806	283,646	280,988	280,854	275,954	271,379	268,156	267,788
Loan loss provision	(3,328)	(3,272)	(3,354)	(3,308)	(3,352)	(3,221)[b]	(3,159)[b]	(3,219)[b]
Loans to the public, net	282,478	280,374	277,634	277,546	272,602	268,158	264,997	264,569
Loans to governments	744	672	734	723	782	642	757	723
Investments in associates	765	668	690	601	623	792	869	831
Buildings and equipment	3,043	2,973	2,940	2,863	2,853	2,736	2,737	2,762
Goodwill	16	16	16	17	17	17	17	16
Assets for derivatives	10,970	12,321	11,099	9,408	12,750	9,820	12,076	11,803
Other assets	8,486	8,584	8,092	8,450	6,642	7,066	7,132	8,274
Held-for-sale assets[e]	-	-	-	-	8,570	8,806	8,329	8,513
Total assets	469,134	455,461	468,536	456,487	460,780	450,675	450,449	450,568
Liabilities and capital								
Deposits by the public	373,644	359,896	374,007	364,019	364,714	359,116	361,220	362,509
Deposits by banks	6,176	4,295	4,939	4,478	5,210	4,927	3,473	3,047
Deposits by governments	315	439	437	424	709	790	552	515
Securities loaned or sold under repurchase agreements	476	709	954	664	541	655	559	495
Bonds, capital notes and subordinated bonds	19,958	20,002	19,981	20,951	17,798	17,805	16,954	15,603
Liabilities for derivatives	11,528	13,251	11,626	9,519	12,089	9,315	11,323	11,417
Other liabilities	21,163	21,266	20,339	20,001	14,780	15,376	14,716	16,561
Held-for-sale liabilities[e]	-	-	-	-	8,778	7,095	6,137	6,470
Total liabilities	433,260	419,858	432,283	420,056	424,619	415,079	414,934	416,617
Shareholders’ equity	35,406	35,144	35,795	35,950	35,305	34,760	34,680	33,565
Non-controlling interests	468	459	458	481	856	836	835	386
Total capital	35,874	35,603	36,253	36,431	36,161	35,596	35,515	33,951
Total liabilities and capital	469,134	455,461	468,536	456,487	460,780	450,675	450,449	450,568

(a) For more information, please see Note 36F to the financial statements as at December 31 2018.
(b) Reclassified.

Consolidated Income Statement for 2015-2019 - Multi-Year Information

	2019	2018	2017	2016	2015
	In NIS millions				
Interest income	**11,437**	11,346	10,069	9,552	8,784
Interest expense	**2,596**	2,456	2,023	2,026	1,666
Interest income, net	**8,841**	8,890	8,046	7,526	7,118
Expenses (income) for loan losses	**609**	519	172	(125)	199
Interest income, net after loan loss expenses	**8,232**	8,371	7,874	7,651	6,919
Noninterest income					
Noninterest finance income	**1,686**	682	919	1,282	1,610
Fees and Commissions	**3,225**	4,121	4,052	3,887	4,092
Other income	**170**	68	371	159	595
Total noninterest income	**5,081**	4,871	5,342	5,328	6,297
Operating and other expenses					
Salaries and related expenses	**4,325**	4,544	4,591	4,778	4,938
Buildings and equipment - Maintenance and depreciation	**1,521**	1,569	1,661	1,697	1,678
Amortization of goodwill	**-**	-	-	-	5
Other expenses	**2,062**	2,224	2,163	2,025	2,215
Total operating and other expenses	**7,908**	8,337	8,415	8,500	8,836
Profit before taxes	**5,405**	4,905	4,801	4,479	4,380
Provision for profit tax	**1,830**	1,619	1,692	1,717	1,691
Profit after taxes	**3,575**	3,286	3,109	2,762	2,689
The banking corporation's share in associates' profits after tax effect	**(15)**	36	92	66	177
Net income					
Before attribution to non-controlling interests	**3,560**	3,322	3,201	2,828	2,866
Attributable to non-controlling interests	**(38)**	(65)	(29)	(37)	(31)
Attributable to the Bank's shareholders	**3,522**	3,257	3,172	2,791	2,835
Basic and diluted earnings per share (in NIS)					
Basic net income attributable to the Bank's shareholders	**2.37**	2.15	2.08	1.85	1.92
Diluted net income attributable to the Bank's shareholders	**2.37**	2.15	2.08	1.84	1.92

Consolidated Balance Sheet as at December 31 - Multi-Year Information

	2019	2018	2017	2016	2015
	In NIS millions				
Assets					
Cash and deposits with banks	**76,213**	80,113	81,333	74,757	60,455
Securities	**84,949**	74,571	77,299	77,201	69,475
Securities borrowed or purchased under reverse repurchase agreements	**1,470**	1,257	1,161	1,284	1,764
Loans to the public	**285,806**	275,954	271,977	265,428	265,070
Loan loss provision	**(3,328)**	(3,352)	(3,213)	(3,471)	(3,671)
Loans to the public, net	**282,478**	272,602	268,764	261,957	261,399
Loans to governments	**744**	782	715	642	453
Investments in associates	**765**	623	807	901	924
Buildings and equipment	**3,043**	2,853	2,986	3,147	3,095
Goodwill	**16**	17	16	17	18
Assets for derivatives	**10,970**	12,750	9,573	10,654	11,250
Other assets	**8,486**	6,642	8,262	8,043	7,666
Held-for-sale assets[(a)]	**-**	8,570	-	-	-
Total assets	**469,134**	460,780	450,916	438,603	416,499
Liabilities and capital					
Deposits by the public	**373,644**	364,714	362,854	346,854	328,693
Deposits by banks	**6,176**	5,210	4,858	3,394	3,859
Deposits by governments	**315**	709	452	900	750
Securities loaned or sold under repurchase agreements	**476**	541	558	539	938
Bonds, promissory notes and subordinated bonds	**19,958**	17,798	15,577	22,640	21,308
Liabilities for derivatives	**11,528**	12,089	9,740	10,677	11,098
Other liabilities	**21,163**	14,780	23,324	21,885	20,746
Held-for-sale liabilities[(a)]	**-**	8,778	-	-	-
Total liabilities	**433,260**	424,619	417,363	406,889	387,392
Non-controlling interests	**468**	856	386	367	340
Shareholders' equity	**35,406**	35,305	33,167	31,347	28,767
Total capital	**35,874**	36,161	33,553	31,714	29,107
Total liabilities and capital	**469,134**	460,780	450,916	438,603	416,499

For more information, please see Note 36F to the financial statements as at December 31 2018.

Glossary of Terms

Term	Definition
A	
Actuarial Calculation	Any calculation that reflects uncertainties, i.e., is risk-adjusted. For example, an Actuarial Calculation reflects past experience and management's estimates as to the expected retirement dates of a bank's employees and the expected retirement benefits which are allocated on a linear basis over the expected service period.
Active Market	A market in which transactions in an asset or liability exist at a sufficient frequency and volume to provide information about pricing on an ongoing basis.
Actuarial Gain/Loss	Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and a deduction of amounts previously recorded in other comprehensive income.
Asset and Liability Management (ALM)	Management of the Bank's assets and liabilities with the aim of avoiding a mismatch between the two and, in the long-term, increasing the Bank's capital for the benefit of its shareholders.
Asset-Backed Securities (ABSs)	A security whose interest and principal payments are collateralized or pledged by a specific financial asset.
Auxiliary Corporation	A corporation which is not in itself a banking corporation and whose activities are limited to the fields of activity permitted to the banking corporation controlling it, except activities reserved exclusively for corporations defined as banking corporations under law.
Average Duration (AD)	Average Duration is measured in years and weights the periodic interest payments of the financial instrument over its life until final redemption.
B	
Balanced Score Card (BSC)	A performance metric used for measuring the performance of the Bank and its business lines on a number of quantitative and qualitative issues defined by Bank's management in its strategic plan.
Basel II/Basel III	Banks' risk management directives set by the Basel Committee on Banking Supervision (BCBS), which is the primary supervision and global standard setter for prudential regulation and supervision of banks. The BCBS's directives serve as the benchmark for leading standards designed to ensure the stability of financial institutions.
Basic Earnings per Share	Basic earnings per share will be calculated by dividing the profit or loss attributed to holders of the parent company's ordinary shares (the numerator) by the weighted average number of ordinary shares outstanding during the period (the denominator).
Basis Point (BP)	1/100th of 1 percent; BP is used as a common unit of measure for interest rates.

Basis Risks	Basis Risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases.
Benchmark Interest Rate	Interest determined on an external objective basis according to a pre-set formula, i.e., the banking corporation plays no direct role in setting it.
Bid-Ask Spread	The difference between the offered purchase price and selling price. This is, in fact, the difference between the highest price a buyer is willing to pay for an asset and the lowest price in which a seller is willing to sell it.
Build Operate Transfer (BOT)	A model used to finance public projects whereby a public entity grants a concession to a private company to finance, plan, build and operate a public facility for a fixed period of time, at the end of which control of the facility is transferred to the government.
C	
Capital Adequacy Ratio	The ratio between the Bank's qualifying Regulatory Capital and its risk-weighted assets (the Bank's assets weighted to reflect credit, market and operational risks), calculated in accordance with the Bank of Israel's directives and to reflect the risk associated with exposures undertaken by the Bank during the course of its activities.
Collateralized Debt Obligation (CDO)	A bond backed by a portfolio of bonds and/or loans of various seniority levels and ratings.
Collateralized Loan Obligation (CLO)	A bond backed by a loans portfolio.
Collective Provision	A Collective Provision for Loan losses is applied to large groups of relatively small and homogeneous debts and to debts that were reviewed individually and were found to be unimpaired. The Collective Provision in respect of the off-balance sheet loans is based on provision rates that were set for balance sheet loans, while taking into account the expected materialization rate of the off-balance sheet credit risk.
Common Equity Tier 1 Capital	Going Concern Capital Common Equity Tier 1 (CET1) Capital includes the equity attributed to a banking corporation's shareholders, with the addition of some of the noncontrolling interests (minority interests) of consolidated subsidiaries less goodwill, other intangible assets and regulatory adjustments and additional deductions, pursuant to Proper Conduct of Banking Business Directive No. 202, *Measurement and Capital Adequacy – Regulatory Capital* and pursuant to the transitional provisions of Proper Conduct of Banking Business Directive No. 299, *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

Conduct Risk	Conduct Risk is the risk that any dealings with Bank's customers which are not fair, transparent and aimed to meet their needs will lead to losses due to legal damages, fines or reputational damage.
Committee Of Sponsoring Organizations of the Treadway Commission (COSO)	A structured internal controls model. The model is intended to assist businesses and other entities to assess, estimate and enhance their internal control functions.
Cost of Interest	The interest component allocated to a current year and classified into payroll expenses.
Cost of Service	All components of employee benefits costs allocated to a specific period.
Credit Default Swap (CDS)	A financial instrument that transfers the credit exposure between parties to a transaction to the issuing entity.
Credit Derivative	A contract that transfers the credit risk from a buyer to a seller. There are various forms of Credit Derivatives: Credit Default Swap (CDS), a note for partial cover of credit risk, Total Return Swap (TRS), etc..
Credit Valuation Adjustment (CVA)	The calculation of credit risk in derivatives reflects the expected loss to the bank in case the counterparty to the transaction will default.
Credit Risk	Credit risk is the Bank's risk of loss as a result of the possibility that a borrower or counterparty fails to meet its agreed commitments towards the banking corporation.
Cross Border Activity	A term referring to various cross-border financing arrangements, such as cross border loans, letters of credit or bankers' acceptances.
Cyber Event	An event during which the Bank's IT and/or computer-embedded systems and infrastructures are attacked by, or on behalf of, opponents (whether external or internal to the banking corporation) and such attack may result in the materialization of the cyber risk, including an attempted attack even if it did not result in actual damage.
D	
Defined Benefit Plan	Fixed and predetermined pension or insurance amounts which are paid to eligible employees, whether or not they depend on the investment results of the pension fund or insurer.
Delinquent Debt	The delinquency (arrears) status of a debt is determined according to its contractual repayment terms. The debt is in arrears if some or all of the debt amount has not been repaid within 30 days of its due date. For this purpose, a debt in a current account in excess of the authorized credit facility will be regarded as being in arrears if not repaid within 30 days, or if that account is not credited with sums sufficient to cover the debt under the credit facility within the period determined by the Bank's management.

Diluted Earnings Per Share	Dividing the profit or loss attributed to holders of the parent company by the weighted average number of ordinary shares outstanding, to assume conversion of all potentially dilutive ordinary shares.
Dodd Frank Wall Street Reform and Consumer Protection Act (DFA)	The DFA is a U.S. federal law which came into force on July 28 2019. The DFA sets in motion a comprehensive financial reform which has various implications for the Leumi Group, the principal of which is associated with transactions involving over-the-counter derivative swaps.
E	
Embedded Derivatives	Embedded Derivatives are derivative instruments which are embedded into other financial contracts and instruments or into commercial contracts for the purchase or sale of products and services (these contracts are known as host contracts). The accounting treatment is applied according to the economic substance of the items and transactions, rather than according to their legal form; therefore, embedded derivatives whose economic characteristics are not clearly and closely related to those of the host contract are bifurcated therefrom for the purpose of measurement in the Bank's books of accounts.
European Market Infrastructure Regulation (EMIR)	A regulation of the European Union which is intended to enhance the stability of over-the-counter markets in all EU countries.
Exposure at Default (EAD)	The expected amount of counterparty exposure in case of credit default.
F	
Fair Value	The amount for which an asset can be exchanged or a liability assumed in a transaction between knowledgeable, willing parties. This value is determined according to the fair value hierarchy set in accounting standards: a. Level 1 – Value based on quoted market prices; b. Level 2 – Estimated value based on observable inputs; c. Level 3 – Estimated value determined by using valuation techniques that include unobservable inputs.
Fannie Mae (FNMA)	A U.S. government-sponsored enterprise which purchases and securitizes mortgages and sells them on the free market. (The company is not backed by the U.S. government).
Federal Deposit Insurance Corporation (FDIC)	An independent federal agency insuring deposits in U.S. banks; FDIC is one of the U.S.'s banking supervisory bodies.

Foreign Accounts Tax Compliance Act (FATCA)	A U.S. tax law intended to improve tax enforcement. Pursuant to FATCA, non-U.S. financial entities must disclose to the U.S. Internal Revenue Service information about accounts held by them for anyone who is required to report under FATCA, even if he/she is not a U.S. resident.
Forwards	Forwards are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Forwards are not standard contracts and are not traded on capital markets, but are drawn up specifically according to the parties' needs.
Freddie Mac (FHLMC)	FHLMC is a U.S. government-sponsored agency that purchases and securitizes mortgages and sells them to the public. (The company is not backed by the U.S. government).
Futures	Futures are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Futures are standard contracts traded on capital markets.
G	
Ginnie Mae (GNMA)	A federal mortgage company. The bonds issued by GNMA are backed by the Government National Mortgage Association.

I	
Impaired Loan	Balance sheet loan that is assessed on a case by case basis and which - based on present circumstances and information - it is probable that the Bank will be unable to collect the full amounts payable (principal plus interest) under the contractual terms of the debt agreement. A debt which is assessed on a case by case basis shall be classified as Impaired Loan whenever the principal or interest has been past due for a period of 90 consecutive days or more, unless it is both well secured and in the process of collection. Off-balance sheet loans are classified as impaired loans if it is at least reasonably possible that the contingent liability in respect of the off-balance sheet item will materialize, and if the debts that may result from the materialization of the contingent liability should be classified into this category. Furthermore, a debt that which is assessed on an individual basis and whose terms were changed due to restructuring of a troubled debt will also be considered as non-performing loans.
Indebtedness	The Bank’s loan exposures to a borrower or group of borrowers, including loans under the bank’s responsibility, the bank’s investments in the borrower’s securities, commitments of the banking corporation to pay money on a customer’s behalf (including guarantees and Documentary Credit) and transactions in over the counter (OTC) derivatives. Indebtedness is calculated according to the provisions of Proper Conduct of Banking Business Directive No. 313
Interest Rate Risk	The risk of loss or impairment as a result of changes in interest rates across various currencies.
Internal Capital Adequacy Assessment Process (ICAAP)	The capital adequacy assessment process is aimed at calculating the capital required to support the various risks to which the Group is exposed in order to ensure that the Group’s effective capital exceeds the capital requirements at any time.
Internal Rate of Return (IRR)	A measure used to estimate the profitability of potential investments. This metric is an indicator of the efficiency and quality of a specific investment in relation to the net present value, which is an indicator of the value and size of the investment. The Internal Rate of Return is the interest rate that discounts the expected cash flow from a financial instrument to its balance in the Bank’s balance sheet.
L	
Leverage Ratio	Defined as the measured capital (the numerator) divided by the measured exposure (the denominator), with the ratio expressed as a percentage.

Linkage Base and Exchange Rate Exposure	The exposure to the basis risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases. The exposure to basis risks is measured as a percentage of the Group's exposed capital. At the Bank level, the exposed capital includes common equity and certain provisions, net of property, plant and equipment and investments in investees.
Liquidity Coverage Ratio	Liquidity Coverage Ratio examines a time-horizon of 30 days under a stress scenario, and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that is able to cover the corporation's liquidity requirements in this time horizon.
Liquidity Risk	Liquidity Risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss.
Loan-to-Value (LTV) Ratio	The ratio of a bank loan to the value of a purchased asset. LTV reflects one aspect of the loan risk; a higher LTV reflects a higher risk to the lending bank.
Loan under Special Supervision	Loan under Special Supervision is credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loan is classified as loan under special supervision if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category.
Loss Given Default (LGD)	This is the percentage out of a borrower's total Exposure at Default (EAD), which the Bank is expected to lose on default.
M	
Market Risks	Market Risk is defined as the risk of loss in balance sheet and off-balance sheet positions as a result of a change in the fair value of a financial instrument due to change in market conditions (i.e., changes in: price levels in various markets; interest rate volatility; foreign exchange rates; inflation rates; share and commodity prices, as well as in other economic measures).
Mortgage-Backed Securities (MBS)	Bonds which are backed by financial assets, the principal and interest payments of which are based on a cash flow from repayment of loans collateralized by financial assets. The collateral assets may be pools of loans, including housing mortgages or other financial assets.
N	Impaired non-accruing loans.
Net Interest Margin (NIM)	Ratio between net interest income and the average balance of interest-bearing assets.
Non-Preforming Loan (NPL)	

O	
OECD	An international organization whose members are developed countries that accept the principles of liberal democracy and free market. The organization is a platform for discussing policy, benchmarking, identifying solutions to difficulties and drawing up codes, guiding principles and shared standards for the implementation of domestic economic and social policies. Each member state can make a significant contribution to the organization's policy and development of shared policies.
Off-Balance Sheet Exposures	These exposures arise from the Bank's undertakings to its borrowers that have not yet been realized/utilized by the borrowers as of the reporting date and therefore have not yet been recorded as a balance sheet asset or liability. Such exposures include, among other things: Unutilized undertakings to extend loans; א. Unutilized credit facilities; ב. Undertakings pursuant to guarantee agreements; ג. Undertakings pursuant to an approval in principle where the Bank is committed to maintain the interest rate over a certain period, ד. and more.
On-call Loan	Loan granted for several days and repaid on call, in accordance with the conditions of the agreement between the Bank and the customer.
Operational Risk	Operational Risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events. This definition includes legal risk, but does not include strategic risk and reputational risk.
Option Contract/Option	There are two types of Option Contracts: an option to buy (call option) or an option to sell (put option). A call option is the right to buy a specified asset at an agreed price (strike price) up to (American-style option) or on (European-style option) a stipulated date. A put option is the right to sell a specified asset at an agreed price (strike price) up to (American-style option) or at (European-style option) a stipulated date.
P	
Performance Stock Units (PSU)	Performance Stock Unit awards are restricted shares and depend on the banking corporation's future performance.

Pillar 1	The allocation of minimum capital against credit, market and operational risks, using a method that correlates the scope of exposure to the various risks and Regulatory Capital requirement. The Pillar 1 Directives set by BCBS were adopted as part of Proper Conduct of Banking Business Directives No. 201 to No. 209; these directives set a supervisory method for calculation of risk-weighted assets and calculation of the capital requirements in respect of such risk-weighted assets.
Private Individuals	Persons who are not corporations (whether registered or non-registered) and who are not engaged in business activity. According to the directives of the Bank of Israel, private persons are defined such that this category includes non-business loans to individuals who are classified into the private individuals sector according to uniform definitions of the Central Bureau of Statistics including households and private banking.
Probability of Default (PD)	A financial term describing the likelihood of borrower default within a given period of time from the date on which rating is issued. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations.
R	
Regulatory Capital	Capital used to calculate the Bank's capital adequacy ratio and other regulatory ratios (such as: leverage ratio, credit concentration and more). Accounting capital components and other qualifying Regulatory Capital instruments (such as subordinated notes that qualify as Regulatory Capital).
Repurchase Agreement or Reverse Repurchase Agreement	These repo agreements are agreements for the purchase or sale of securities in consideration for cash or securities; when entering into these agreements, the seller and the buyer agree to enter into a reverse transaction at a predetermined date and price.
Reputational Risk	The risk that the publication or public disclosure of a customer-related transaction or practice, as well as the Group's business results and events relating thereto will have an adverse effect on the public's trust in the Group or reduce its customer base or that the Group will incur high legal costs or that its revenues will decline.
Residual Risk	Residual Risk is the risk of loss remaining after all other specific risks have been factored in. For example: when a person purchases an asset, he is exposed to various risks. Many of these risks are not unique to the purchased asset, but rather reflect broader scenarios, such as increase or decrease in share prices, increase or decrease in interest rates or change in growth rate of a specific economy or industry. The exposure to this risk can be reduced by diversification.

Restricted Share Units (RSUs)	An ordinary share whose issuance terms restrict its tradability over a certain period or until the occurrence of a certain event where the period has not yet elapsed and/or the event has not yet occurred.
Restructuring of Troubled Debt	A debt, in respect of which the Bank, whether for economic or legal reasons related to financial difficulties of the borrower, grants the borrower a waiver by changing the terms of the debt, in order to enable the borrower to repay the cash payments in the short term or by accepting other assets as debt repayment.
Return on Equity	Net income less dividend for preferred shares which was not recorded as an expense in profit or loss and was declared in the reported period only, divided by the average common equity.
Return on Equity (ROE)	The ratio between a business's return (net income) and its common equity. This rate measures the Bank's ability to generate profit from its net assets and illustrates how efficiently the Bank operates to utilize further investments in order to increase its revenues. Return on Equity in banks is reflected in the following ratios: (a) Net income attributed to banking corporation's shareholders net of dividend distributed in respect of preferred shares which was not recorded as an expense in profit or loss and was declared during the reporting period, divided by the average common equity; (b) Net income attributed to banking corporation's shareholders net of dividend distributed to preferred shares which was not recorded as an expense in the income statement and was declared during the reporting period, divided by the average common equity net of average balance of preferred shares that were included in common equity.
Return on Risk-Adjusted Capital (RORAC)	A Rate of Return measure used to compare returns on various investments taking into account the risk. Actual return is adjusted by measuring the asset's exposure to risk and curtails the return on higher-risk assets. The method's effectiveness depends on the accuracy of the risk associated with different assets and on the extent to which the "sanction" imposed on higher-risk assets does, indeed, reflect each investor's risk aversion. Risk assessment of new types of assets, such as financial derivatives, involves high levels of uncertainty due to the actual behavior of their prices.

Risk-Weighted Assets (RWA) or Risk Assets	Risk-Weighted Assets reflect balance sheet and off-balance sheet exposures arising from the Bank's activities and weighted by their level of credit, market and operational risk according to Proper Conduct of Banking Business Directives No. 203 to No. 209. Such Risk Assets are designed to reflect the weighted risk in respect of which the Bank is required to comply with the Regulatory Capital Requirement as part of the Capital Adequacy requirements.
S	
Securitization	A process whereby bank loans and credit are pooled to create a long-term loan through bonds.
Securitization Structures	Structures created in order to transfer cash flows from other instruments or assets to bondholders, for which a Special-Purpose Entity (SPE) is set up that pools the underlying cash flow-generating assets that are transferred by the originator and forwards the cash-flows to the bondholders according to a structure agreed upon with the bondholders in accordance with the seniority of the different series of bonds (tranches). Such assignment of rights creates a legal structure in which the assets of the transferring entity will not be accessible to creditors of the SPE and the creditors will not be exposed to the risks associated with other activities of the transferring entity. The sole function of the SPE is to receive the said cash flows and transfer them to the bondholders.
Small Business Administration (SBA)	A U.S. government agency that supports small businesses in the U.S.A.
Standby Letter of Credit (SBLC)	A Standby Letter of Credit is a bank guarantee in the format of a commercial letter of credit, whose main goal is to secure a payment. A Standby Letter of Credit is similar to a guarantee in the sense that it constitutes an undertaking by the Bank to pay the amount specified therein against a payment demand by the beneficiary, whereas in the case of a commercial letter of credit one is required to present various documents in order to secure the payment by the Bank in respect of the guarantee.

Specific Provision	A provision that is determined specifically for each debt being assessed (including any restructuring of troubled debt subject to specific assessment according to the Bank's policy). The provision amount is estimated according to the projected cash flows which are discounted at the debt's original interest rate or, when the debt is defined as a debt whose collection is contingent on the fair value of the collateral - according to the fair value of the collateral net of disposal costs and after appropriate cushions are utilized. In order to determine the appropriate provision, the Bank assesses the relevant borrowers on an ongoing basis and according to procedure. Furthermore, a Specific Provision is carried out in respect of each such debt that is subject to individual review and which is 90 days overdue.
Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.
Subordinated Notes	Bonds the interests in which are subordinate to the claims of all other creditors of the banking corporation, excluding other bonds of the same type.
Substandard Loan	A loan which is insufficiently guaranteed by the current sound worth and repayment capacity of a borrower or a pledged collateral, if any. Balance sheet credit risk that has been classified in this manner should have a well-defined weakness or weaknesses, which jeopardize the repayment of the debt. Loan, in respect of which a collective loan loss provision is recorded, shall be classified as a Substandard Loan when it has been past due for 90 days or more.
Supervisory Review Process (SREP)	The processes intended to ensure that banking corporations have adequate capital to support all the risks associated with their business and also to encourage banking corporations to develop and use better risk management techniques in monitoring and managing their risks. As part of the process, the Banking Supervision Department assesses a banking corporation's risk profile and its internal process for assessing the adequacy of the regulatory capital it maintains against the exposures. This process is designed to provide regulators with tools for independent assessment of the Bank's risk profile and risk management and to enable early intervention in order to prevent compromising the Bank's financial stability.

Swap	A series of forward contracts or a series of futures contracts for several stipulated periods in which two parties agree to exchange cash flows on a notional amount.
Syndication	A transaction in which several lenders share extending a loan to a single borrower, but each borrower extends a loan at a certain amount to a borrower and has the right to be repaid by that borrower. Often, groups of lenders finance such loans together, with the amount extended greater than any single lender is willing to lend.
Synthetic Collateralized Debt Obligation (SCDO)	An agreement backed by a portfolio of (derivative) collateralized debt securities of various seniority levels.
T	
The Economic Capital Model	The Bank uses the Economic Capital Model, which is based on the borrowers' rating, in order to assess the overall credit risk of the entire loan portfolio and portions thereof.
Tier 2 Capital	A tier of capital included in the calculation of qualifying regulatory capital. Tier 2 capital (also known as "gone concern capital") is a substandard component of the Bank's capital; it mainly comprises qualifying instruments previously issued by the Bank and included in Tier 2 capital pursuant to the transitional provisions for the implementation of Basel III Directives as well as the new qualifying capital instruments that constitute the Bank's Contingent Convertible (CoCo) capital instruments issued by the Bank and which will be converted into the Bank's shares if the Bank reaches the point of non-viability. Furthermore, this Tier 2 capital also includes other items, such as: a collective loan loss provision before the relating tax effect up to a ceiling of 1.25 percent of total credit risk assets
Total Indebtedness	A customers' total debts to the bank.
Treasury Shares	Shares directly held by the company. These shares do not have equity or voting rights.
V	
Value at Risk (VaR)	A model for measuring the maximum potential loss as a result of market risks materialization in a set time period and given a predetermined statistical probability. This method requires the revaluation of all of the corporation's positions based on the fair value of the assets and liabilities. The model's objectives are to estimate the risks to which financial institutions are exposed, stemming from materialization of market risks in various activities.