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

2020 Annual Report

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.

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.

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

2020 Annual Financial Statements

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Word from the Chairman of the Board of Directors

We are currently witnessing significant progress in the worldwide vaccination effort, in which Israel has taken the lead. With the hope that Israelis will continue to adhere to safety precautions, we are seeing a light at the end of the tunnel, sensing a waft of optimism, for a potential exit from the coronavirus crisis which has engulfed the world this past year. Leumi was able to detect the signs of the impending crisis at an early stage, after following the emergence of the coronavirus crisis in China, in December 2019. As a result, Leumi was a pioneer in switching to crisis management mode as early as February 2020 - well before the Israeli government handed down any restrictions; we were thus able to dynamically adjust our service model, as well as our work, management and strategy - exercising open-mindedness and forward-looking planning - while taking care of our employees' and customers' health.

Leumi encountered the coronavirus crisis with financial robustness in terms of capital adequacy and liquidity ratios, a highly-professional and dedicated staff, and technological advancement. This helped us assume a leading role in resuscitating the Israeli economy; as early as the first months of the crisis, Leumi provided diverse and creative solutions, adjusted to the changing needs of all its customers. The Bank leveraged its technological leadership and high level of preparedness for business continuity under stress scenarios, including telecommuting with a smaller staff, and immediately accelerated its loan originations, where the Bank's employees demonstrated inspiring engagement, devotion and professionalism in providing service and banking solutions for all customers who were facing a complex, changing reality.

The coronavirus crisis - which was a global perfect storm, with health, social and economic implications - brought about, as in every crisis, challenges and opportunities in the immediate and long-term future, while reshaping the future banking environment. The crisis brought about several transformations: customers have altered their tastes, habits and needs; the use of decision-supporting technologies and remote service to customers has accelerated; and regulatory measures derived from the Strum Reform and the crisis. Leumi adjusted its business strategy while optimizing its resources.

During 2020, while coping with the coronavirus crisis, the Leumi Group continued to champion proactive, innovative banking for our customers, while further improving our relationship with them, as well as the level of service our customers receive - whether they choose to communicate with us through a representative or by way of digital correspondence - as part of our commitment to providing dedicated, fair, transparent, professional and highly accessible service. Leumi continued to invest in, and upgrade, its digital services and solutions, including digital customer journeys, mobile payments, digital mortgage, Pepper, digital portfolio management through Videa, and digital trading in securities through Pepper Invest. At the same time, Leumi adjusted its branching model and boosted its human response according to customers' needs - whether for scheduling an appointment at the branch, corresponding with a banker through the app, or at the call center.

2020 was a year of progress in terms of regional peace, with the signing of the Abraham Accords between Israel and the United Arab Emirates, the kingdom of Bahrain, the kingdom of Morocco and the republic of Sudan. The Accords laid out the political infrastructure for peace between the countries, expressing in the clearest terms the nations' wish to extend their hands in peace. Leumi is proud of its leadership role in realizing the business relations between the countries and in promoting them through human, financial and business capital, leveraging its 120-year-long experience. Thus, together with the President & CEO and the members of management, we led a delegation of business people to the UAE and held in Dubai - in cooperation with economic newspaper *Calcalist* and Channel 13 - the first business conference for Israeli and Emirati businesspeople. We signed memoranda of understanding with the UAE's leading banks - First Abu Dhabi Bank and Emirates NBD, and with the National Bank of Bahrain. In addition, we welcomed and hosted government and business delegates from the UAE and Bahrain in order to boost social and economic ties between the countries. These initiatives helped to form the basis for peace and rapprochement between the nations of the entire region, and the pillars for extensive economic collaboration.

The Leumi Group concludes 2020 with a net income of NIS 2,102 million, which reflects a 5.7 percent of return on equity. with most of its revenues and profitability coming from its core activities. In early 2020, the Bank led a tier-2 subordinated bonds issuance for foreign investors - a pioneering move in Israel - in which it raised a total of USD 750 million. The measure reflects the faith in Leumi and its management, and their significant reputation in foreign markets as well as Israel's economic robustness.

In annual terms, Israel's GDP declined by 2.4 percent year-on-year, versus 3.4 percent increase in 2019. In addition, in 2020, the government deficit reached NIS 160.3 billion (approx. 11.5 percent of GDP) compared to a NIS 52.2 billion deficit (approx. 3.7 percent of GDP) in 2019; the debt ratio was up, reaching 69 percent of GDP following two decades of ongoing decline. During 2020, the shekel underwent significant volatility due to a short-term liquidity crunch, and after weakening during March, it ended the year following a 7.0 percent appreciation against the US dollar. In early Q2 2020, the Bank of Israel reduced its stated interest by 0.1 percent, a rate it has maintained ever since. According to the assessment of the International Monetary Fund (IMF), the GWP was down 3.5 percent in 2020 (versus a 2.8 percent growth in 2019); it is expected to recover to a 5.5 percent growth in 2021, on the back of a positive contribution of vaccinations and additional budgetary expansions in several large countries. The world's leading economies sustained substantial harm due to the coronavirus crisis, reaching negative growth rates of 3.4 percent and 7.2 percent in the US and Euro Zone, respectively. In all leading economies, the interest rate is near-zero and in some - even negative, with little likelihood of increasing in the foreseeable future.

As a leading financial group, which affects Israel's business and social fabric, we regard our commitment to the community as a social and valuable anchor we continue to nurture, according to Leumi's vision, values and tradition. In this context, Leumi contributed thousands of shekels to hospitals in order to acquire equipment for handling the coronavirus. Leumi's employees helped residents in assisted-living facilities to use financial and technological solutions so as to better cope with the challenging period. In addition, Leumi continued to boost and promote education, "tomorrow's generation", and the elderly, while forming strategic partnerships with numerous NGOs (such as "Aharai!", LaTet, Amaniana, Stars of the Desert, Adopt a Soldier, etc.). In 2020, Leumi invested a total of approx. NIS 37 million in the community, with more than 2,300 Leumi employees volunteering approx. 16,000 volunteering hours in a wide range of community outreach programs.

I would like to thank members of management who have retired this year for their contribution in leading the Bank with professionalism and devotion and wish the new members great success and fruitful work. I and the Board of Directors would like to thank management and the employees for their dedicated work in a highly challenging year. I, the Board, management and the employees would also like thank our customers and shareholders for their ongoing faith in us and in our way.

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Dr. Samer Haj Yehia
Chairman of the Board

March 8 2021

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 119 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 the customers' needs, by providing an integrative multi-channel customer experience, via the Bank's branches and direct channels (such as 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 Market 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 involved in 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 2020, this mainly included non-financial investments, underwriting and investment banking activities carried out by Leumi Partners.

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, the Bank began the process of closing its China office. The Chinese regulator's approval of the closure is yet to be obtained.

The Leumi Group operates in an increasingly competitive market in all of its operating 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, non-bank entities, other institutional entities and technology-based solutions (FinTech companies).

Accountancy firm Somekh Chaikin (KPMG) & Co. and accountancy firm Brightman Almagor Zohar (Deloitte) have served as joint independent auditors of the Bank since 1950 and 2020, respectively.

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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.

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" 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.

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, 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 and the digital "write to a banker" service, 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.

In the past few years, the financial market underwent significant changes due to four main factors: technological developments, changes in consumer approaches and expectations, regulation and the entry of Big Techs into the market. To maintain flexibility and lead in the New Banking era, Leumi continued to boost its value proposition, business model and interfaces with customers by expanding and upgrading the digital services provided by the Group.

Selected examples:

In 2017, the Leumi Group launched Pay, a secure, free-of-charge payments app, offered to customers of all banks; the app allows people and businesses to transfer payments.

In this year Leumi also launched Pepper, a platform providing retail banking services - from opening an account to conducting common banking transactions, such as loans, deposits, credit cards and securities. Pepper uses advanced technology and collaboration as a key differentiation means versus the competition, in order to expand its product value proposition to customers. Pepper offers customers all banking products - including credit products, savings, transfers, debit cards and more - anytime, anywhere, through mobile phones, digitally and independently. The products have been made accessible using a convenient and user-friendly interface, adapted to each customer's personal needs, in an effort to encourage active money management.

In 2018, Pepper launched Pepper Invest, a platform for trading in securities or sizable US-based companies; in addition to the ability to purchase whole shares, the app allows customers to purchase shares at amounts starting at NIS 50 thanks to a special grouping mechanism. Pepper Invest also applies principles of simplicity, transparency and convenience both in terms of user experience and the fees and commissions charged. These principles, in addition to the possibility of experimenting in small investments, quickly proved the "blue ocean" strategy underlying Pepper Invest, attracting market segments which never actively and independently invested in the capital market.

In 2020, Pepper launched the option to pay through the app using a mobile phone at businesses - quickly and securely - allowing customers to better control their expenses.

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 2020 Leumi has added a large number of digital products for the benefit of its customers
- Opening a digital account – opening a bank account using a fully-digital process, including: individual accounts, joint accounts and managed investment account.
- Loans to customers of all banks – a fully digital, end-to-end process was launched – from a credit check in real time to opening an account and actual extension of the loan.
- Mobile payments service (Leumi Wallet) – a service that allows Leumi app users (Android) to pay at businesses by placing their phones next to the payment terminal, while operating an advanced identification system to prevent fraud. A similar service was launched by Pepper.
- Digital mortgage – the service was extended, allowing customers to find out whether they are entitled to aid in purchasing an apartment from the Ministry of Housing. In addition, customers can now obtain their mortgage documents by email and sign them without physically arriving at the branch (total digital).

All the products and channels 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 is coping with various regulatory requirements, both local and global, including regulation encouraging competition in various segments pertaining to the banking system's areas of activity. This trend is reflected in various legislative 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 reliefs for connecting to the payment and clearing systems, as well as transfer and sharing of information stored by banks. In this context, the following may be mentioned: the Open Banking Reform, the reform for spinning off the credit card companies from the large banks, and a series of infant industry protections and reliefs granted to them under the reform, the transitioning between banks reform, and the Bill for Encouraging the Development of FinTech in Israel, with the purpose of creating a regulatory framework which will allow FinTech companies to operate in Israel and in order to increase accessibility to various products and services, improve the level of service and competition and decrease the cost of financial services in Israel.

In addition, the Bank is handling compliance risks such as FATCA, CRS, tax offense as a predicate offense, risk management requirements, regulation aimed at addressing the coronavirus crisis constraints, 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 and/or products in the retail sector, but lately also in business banking and other areas. 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), the leading technology companies, 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 new digital bank is expected to launch in 2021. 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. 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 (for example: payments), without being defined as banks or being subjected to regulation similar to banks.

The payments market: Recently, plans for ventures by manpower companies, large retailers and digital wallets of traditional banks were publicized in the press. Examples include CAL's developing initiative and Bit, as well as Shufersal and Paybox's venture.

Open Banking

During 2021, the main phases of the Open Banking Initiatives will enter into force, allowing customers of banks and credit card companies to share their financial information with third parties. New actors – not necessarily banks – will be able to access customers' account with their consent and offer them banking services customized to their needs.

Open Banking takes center stage in the Bank's strategy, with the aim of offering and allowing the Bank's customers to consume the most advanced products and services available.

Condensed Financial Information and Key Performance Indicators

Following are the key performance indicators (in %)

	As at December 31				
	2020	2019	2018	2017	2016
Key performance indicators:					
Return on net income attributable to the Bank's shareholders	**5.7**	9.8	9.5	9.8	9.3
Return on net income attributable to the Bank's shareholders to average assets[d]	**0.4**	0.8	0.7	0.7	0.6
CET1 capital ratio	**11.87**	11.88	11.07	11.43	11.15
Leverage ratio[e]	**6.57**	7.35	7.05	6.94	6.77
Liquidity coverage ratio[e]	**137**	123	121	122	132
Ratio of income[b] to average assets[d]	**2.55**	3.02	3.05	3.05	2.97
Efficiency ratio	**53.8**	56.8	60.6	62.9	66.1
Ratio of net interest income to average assets[d]	**1.70**	1.92	1.97	1.84	1.74
Ratio of fees and commissions to average assets[d]	**0.64**	0.70	0.91	0.92	0.90
Additional performance indicators:					
Total capital to risk-weighted assets[a]	**15.58**	15.67	14.54	14.99	15.21
Equity attributable to the Bank's shareholders to total assets	**6.8**	7.6	7.7	7.4	7.1
Rate of tax provision from profit, before taxes	**38.8**	33.9	33.0	35.2	38.3
Loan loss expenses (income) in respect of average outstanding loans to the public	**0.88**	0.22	0.19[f]	0.06	(0.05)
Of which: Expenses for collective provision for average outstanding loans to the public[f]	**0.65**	0.20	0.26[f]	0.20	0.19
Net interest income to average balance of interest-bearing assets (NIM)	**1.90**	2.14	2.19	2.05	1.95
Total income to total assets under management by the Group[b][c]	**0.75**	0.86	0.96	0.94	1.02
Total operating and other expenses to total assets under the Group's management[c]	**0.41**	0.49	0.58	0.59	0.67
Key credit quality indicators:					
Percentage of balance of loan loss provision for loans to the public out of outstanding loans to the public	**1.76**	1.16	1.21[f]	1.18	1.31
Percentage of impaired non-performing loans to the public in arrears of 90 days or more out of outstanding loans to the public	**1.61**	1.23	1.34[f]	1.60	1.75
Percentage of net accounting write-offs out of average loans to the public	**(0.18)**	(0.24)	(0.09)[f]	(0.15)	(0.03)

(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 Period" and Note 36F to the financial statements as at December 31 2018.

Return on equity in 2019 and 2018, net of the effect of Leumi Card, was 9.2 percent and 9.0 percent, respectively.
The efficiency ratio in 2019 and 2018, net of the effect of Leumi Card was 58.1 percent 60.5 percent, respectively.

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

	2020	2019	2018	2017	2016
	In NIS million				
Net income attributable to the banking corporation's shareholders	**2,102**	3,522	3,257	3,172	2,791
Interest income, net	**8,723**	8,841	8,890	8,046	7,526
Loan loss expenses (income)	**2,552**	609	519	172	(125)
Noninterest Income	**4,366**	5,081	4,871	5,342	5,328
Of which: fees and commissions	**3,281**	3,225	4,121	4,052	3,887
Total operating and other expenses	**7,046**	7,908	8,337	8,415	8,500
Of which: salaries and related expenses	**3,742**	4,325	4,544	4,591	4,778
Net earnings per share attributable to the banking corporation's shareholders (in NIS):					
Basic earnings	**1.44**	2.37	2.15	2.08	1.85
Diluted net earnings	**1.44**	2.37	2.15	2.08	1.84

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

	2020	2019	2018	2017	2016
	In NIS million				
Total assets	**556,035**	468,781	460,560	450,916	438,603
Of which: Cash and deposits with banks	**136,194**	76,213	80,113	81,333	74,757
Securities	**92,297**	84,949	74,571	77,299	77,201
Loans to the public, net	**295,341**	282,478	272,602	268,764	261,957
Total liabilities	**517,940**	432,907	424,399	417,363	406,889
Of which: deposits by the public	**447,031**	373,644	364,714	362,854	346,854
Deposits by banks	**15,143**	6,176	5,210	4,858	3,394
Bonds, promissory notes and subordinated bonds	**16,303**	19,958	17,798	15,577	22,640
The banking corporation's shareholders' equity	**37,664**	35,406	35,305	33,167	31,347
Additional data:					
Price per share (in NIS)	**18.9**	25.1	22.6	21.0	15.9
Dividend per share (in agorot)[(a)]	**-**	95.339	86.609	63.594	-
Average number of jobs	**9,080**	9,621	11,208	11,623	12,257

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

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 risks 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. The credit risk exposures are managed by identifying and estimating the risks, setting the Bank’s risk appetite boundaries, control mechanisms, risk monitoring and reporting.

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 sources 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 and Financial 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]

General Background

Since early 2020, most world countries have experienced substantial waves of morbidity due to the spread of the coronavirus. As of the Report's publication date, more than 780,000 people have been infected by the virus and more than 5,700 people have died in Israel. Most governments around the world imposed lockdowns, bringing to a halt significant parts of the economic activity and taking care of those hurt by the disease, while significantly increasing the costs incurred for taking care of citizens and businesses whose work was disrupted. In the second quarter, economies began to open, and economic activity was gradually resumed. During the third quarter, morbidity among many countries, including Israel, was on the rise, with Israel being placed under a second lockdown in September 2020. At the beginning of the fourth quarter, this trend worsened in many countries. In Israel, a strict lockdown was imposed in early January 2021; in early March, most restrictions were lifted. Simultaneously, in December 2020, Israel began to vaccinate its population, and more than 4.8 million people (as of the report's publication date) had been given the first dose out of the two required for the vaccination to become effective, and approximately 3.5 people had been given the second dose.

The Global Economy

On January 26 2021, the International Monetary Fund (IMF) revised its global growth forecasts for 2020 and subsequent years. The forecast reflected improvement over the former one (from October 2020), mostly due to good growth data in the second half of the year in multiple regions. According to the forecast, the gross world product (GWP) is expected to decline by 3.5 percent in 2020 (compared to a 2.8 percent growth in 2019, i.e., a negative difference of 6.3 percent), recovering to a growth rate of 5.5 percent in 2021 - a figure which was revised upwards. The upward revision was due to the expectation that the vaccination effort would positively contribute to the economic outlook, as will the budgetary easing expected in several countries. As for the leading economies, the damage is also substantial: In the US, and especially in the Eurozone, negative growth rates are expected: 3.4 percent and 7.2 percent, respectively.

Global growth/real change rate
Source: IMF - World economic outlook/January 2021

	2020	2019
World	(3.5)%	2.8%
USA	(3.4)%	2.2%
Eurozone	(7.2)%	1.3%
Japan	(5.1)%	0.3%
UK	(10.0)%	1.4%
China	2.3%	6.0%
India	(8.0)%	4.2%

The coronavirus pandemic has led the world's largest central banks to implement a highly expansionary monetary policy, including the use of various tools beyond the interest rate to support the financial and monetary markets. The Federal Reserve, for example, decreased the interest rate to the 0.00-0.25 percent range and implemented quantitative easing by various means. In all leading economies, the interest rate is near-zero and in some - even negative, with little likelihood of increasing in the foreseeable future. Long-term interest rate is also at very low levels, and in some economies - even negative.

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

Growth in the Israeli Economy

The coronavirus crisis began to adversely affect the Israeli economy as early as the first quarter of 2020, during which a negative growth rate was recorded, worsening in the second quarter; however, in the second half of the year, the economy recovered somewhat, such that annually, the GDP was down by approx. 2.4 percent (a 4.1 percent decrease per capita), vs. an increase of approx. 3.4 percent in 2019. This was against the backdrop of a substantial 9.4 percent decline in private consumption and 4.8 percent in fixed asset investments. The decrease in private consumption was highly affected by the decline in the consumption of various services, such as: flights; art, entertainment and leisure; and restaurants and hotels. Accordingly, multiple industries, especially in the services domains - such as tourism and cultural events, were hard-hit, some even undergoing complete shutdown throughout most of the crisis period. The labor market was immediately affected by the crisis and in April 2020, approx. 1.5 million workers were off-work, most on unpaid leave. Even as of December 2020, close to five hundred thousand workers had yet to return to work. Employment in the above service sectors sustained the greatest harm. The governmental aid programs mitigated the harm to income of households, especially in those whose members' work was discontinued.

The return to normal, albeit in a different format than prior to the crisis, will be affected, inter alia, by the percentage of the population being vaccinated and the vaccinations' efficacy. In a forecast published on January 4 2021, the Bank of Israel estimated that in 2021, growth would eventually reach 6.3 percent under the quick vaccination scenario (which involves swift vaccination by the population by May 2021); however, under the slow vaccination scenario (which involves a more prolonged vaccination process - until June 2022), growth in 2021 is expected to be lower - 3.5 percent. Under each of the scenarios, once the population has been vaccinated, the government would not impose any restrictions carrying economic implications. According to the central bank's estimate, in light of the quick vaccination pace of the two weeks preceding the forecast's publication, it appears that the probability of the quick scenario's materialization is significantly higher than that of the slow scenario.

The State Budget and its Funding

In 2020, the state budget deficit reached NIS 160.3 billion (11.7 percent of the GDP) compared with a deficit of NIS 52.2 billion (about 3.7 percent of the GDP) in 2019. The sharp rise in the deficit stems from the health crisis experienced by the entire world, Israel included, since early 2020. When examining the increase in the deficit, which amounts to 8 percent of GDP, it appears that most of it is due to a substantial increase in government spending as a result of the coronavirus crisis (6.5 percent of the 8 percent of GDP), while the lower income amounted to a 1.5 percent contribution to the GDP. This was due to a decline in tax revenues, which was relatively moderate, inter alia, due to direct taxes, the collection of which increased in the previous year, with the effect of the sharp rise in unemployed persons not (significantly) manifested by collecting tax on their income.

Due to the fact that the government operated without an approved budget throughout 2020, it was able to spend 1/12 of the 2019 budget each month, a situation which limited its budgetary easing capacity. Due to the coronavirus crisis, the government was required to substantially increase its spending. Therefore, on April 7 2020, an amendment to the law was enacted, followed by additional amendments to the temporary order on increasing spending due to the coronavirus crisis, enabling the government to increase its spending beyond the budget limit described above for the sole purpose of funding the handling of the crisis.

Since March 2020, the government decided on a series of measures totaling approx. NIS 130 billion, designed to support the economy in coping with the crisis, as outlined below.

To diversify the deficit's funding sources and relieve the burden on the local bond market, the Israeli Government raised approx. USD 10 billion in long-term bond issues held overseas, in March and April 2020, following another approx. USD 3 billion in bonds it had raised in January 2020. In early October 2020, approx. EUR 1.5 billion was raised in global markets. The issuances were made for durations of two and four years, with an average interest rate of less than 0.02 percent.

Foreign Trade

Israel’s trade deficit, i.e. the difference between goods imports and exports, reached USD 20.2 billion in 2020, a 15 percent decline over the 2019 deficit. However, the “basic” trade deficit (i.e., the trade deficit excluding ships, airplanes, diamonds and energy materials) was even up - by 22 percent - during the past year, reaching USD 15.9 billion; it appears that the effect of the decline in energy prices following the coronavirus crisis is the main cause of the decrease in imports and decrease in overall deficit. The crisis, which began with a lockdown during March 2020, caused a sharp decline both in goods imports and exports. Nevertheless, since May 2020, despite the subsequent lockdowns in later in the year, foreign trade recovered somewhat. This is evident in imports of both consumer products and investment products - where levels were significantly higher than prior to the crisis. Raw materials import increased, which was also expressed in the recovery of manufacturing exports.

Exchange Rate and Foreign Exchange Reserves

In 2020, the shekel appreciated against the US dollar by 7.0 percent, with most of the appreciation (6.6 percent) taking place during the last quarter of the year. The shekel depreciated by 1.7 percent against the euro, but appreciated against the currency basket by 5.1 percent. During March 2020, there was significant volatility in the foreign exchange market, and the NIS depreciated against the US dollar, reaching 3.862 on March 17. The activity of the Bank of Israel, which is outlined below, was aimed at mitigating the volatility and strengthening the shekel.

At the end of December 2020, the Bank of Israel's foreign exchange reserves stood at approximately USD 173.3 billion compared to USD 126.0 billion as at the end of December 2019. The significant rise in the balances is mainly explained by a revaluation of the balances, absorption of US dollar credit, transfers of funds from abroad by the state and substantial foreign currency purchases. In 2020, the Bank of Israel increased its intervention in the foreign currency market, purchasing approx. USD 21 billion.

On January 14 2021, the Bank of Israel announced it would purchase in 2021 USD 30 billion on the foreign currency market. The advance notice regarding the intended purchases is designed to provide the market with certainty regarding the BOI’s commitment to cope with the sharp appreciation of late, and thereby to support the continued handling of the economy with the economic implications of the coronavirus crisis.

Inflation and Monetary Policy

The Consumer Price Index (“in lieu” CPI) was down by 0.7 percent in 2020, compared to a 0.6 percent increase in 2019. This represents a significant deviation from the price stability target (1-3 percent) set by the government. The coronavirus crisis compromised the Central Bureau of Statistics’ ability to collect data since March, a situation which required it to use various tools to complete the missing data. Looking at the main CPI items, it is evident that the decrease in the CPI during the year was across the board - eight main items out of ten in total were down in 2020, with some declining mainly on the back of the implications of the coronavirus pandemic.

In 2020, the “known” CPI was down 0.6 percent.

During the first quarter of the year, there was no change in the Bank of Israel interest rate, which was 0.25 percent. On April 6 2020, due to the extent of the damage to economic activity in Israel, the Monetary Committee decided to lower the interest rate from 0.25 percent to 0.1 percent, a rate which has not changed since.
On January 4 2021, the Committee noted that the “rapid pace of vaccination in Israel raises the level of optimism regarding a swift resumption of the Israeli economy’s growth course in the coming year. However, the risks to the economic activity are still high and the damage to the market - especially the labor market - is expected to be prolonged. Therefore, the Committee will continue to utilize a range of tools in order to increase the monetary policy easing and to ensure the continued orderly function of the financial markets. The Committee will expand the use of the existing tools, including the interest rate tool, and will operate additional ones, to the extent that it assesses that it is necessary in order to achieve the monetary policy goals and to moderate the negative economic impact resulting from the crisis.”

Israel’s Capital Market

The Shares and Convertible Securities Index was down in the first nine months of the year by approximately 0.4 percent after increasing by 17.8 percent in 2019. Most of the price decreases were in March 2020, following the worsening of the coronavirus crisis across the world and in Israel, which adversely affected financial markets worldwide. In the second quarter of the year, against the background of the lockdown eases, the CPI increased and continued to increase in the third quarter as well, under the effect of the government aid schemes. In the last quarter of the year, the increases accelerated on the back of approval of the coronavirus vaccine by the US authorities and the launch of the vaccination effort in Israel.

The average daily trade volume of shares and convertibles was up 42.9 percent in 2020 compared with the 2019 average, totaling NIS 1.858 billion.

In 2020, the government bond market was characterized by various developments from quarter to quarter during the year, as a result of the coronavirus crisis. In 2020, the CPI-Linked Government Bond Index was up approximately 1.2 percent, while the non-linked Government Bond Index was up by approximately 1.3 percent.

The CPI-linked non-government bond market (corporate bonds) maintained its stability in 2020. Despite sharp price declines during the first quarter, due to the fear of the effect of the crisis on companies' positions, the index recovered during the next three quarters and was up.

The Israeli Government's Relief Program

The coronavirus crisis, which dealt a harsh, quick economic blow to households and businesses, brought the Israeli Government to announce, in March 2020, a series of measures totaling approximately NIS 80 billion, which were increased in May to NIS 100 billion and subsequently to more than NIS 130 billion, in order to cope with the crisis. These programs mainly included, among other things, state-backed loan funds and support for the self-employed.

In July, the government decided to provide a safety net to salaried employees, self-employed persons and businesses until June 2021, with the main principles being providing certainty for the coming years and transferring the funds quickly. The Governor of the Bank of Israel estimates that the potential budgetary cost of the scheme amounts to tens of billions of shekels. In addition, on July 29, the Knesset approved the Economic Relief Program, under which most of Israel's residents will receive payouts totaling more than NIS 6 billion.

At the end of September 2020, the Knesset approved a series of measures to mitigate the damage to the economy during the second lockdown and to expand financial support for businesses, inter alia, by reducing the eligibility threshold for receiving a fixed expenses payout for September and October to 25 percent, paying advances in respect of the fixed expenses payout, introducing an extensive employee retention scheme, and postponing the reduction in unemployment benefits. To fund the said measures, as well as the expected increase in the eligible population due to the restrictions imposed at this stage, the Knesset's plenum approved a NIS 2.5 billion increase in government spending in 2020 to cope with the coronavirus crisis and an additional NIS 8 billion in 2021. The increase shall not be taken into account in terms of spending restrictions in the coming years.

The Bank of Israel's Monetary Program

Beginning in March 2020, the Bank of Israel took measures - through a series of policy measures, beyond decreasing the interest rate to 0.1 percent in order to support the financial markets - to assist by implementing the monetary policy and help the customers of the banking system, businesses and consumers. The actions included the following:

1. Open market activity, including purchasing NIS 85 billion in redeemable government bonds of various types and durations in the secondary market in order to ensure the proper functioning of the government bonds market and to ease the credit terms in the economy, supporting economic activity and financial stability. As of December 31 2020, purchases reached NIS 46.2 billion.
2. Executing repo transactions with government bonds as well as corporate bonds rated AA and above, as collateral, with financial institutions.
3. Various regulatory reliefs to provide services to the public.
4. Activation of another liquidity tool in the financial market, in the amount of up to USD 15 billion, designed to provide dollar liquidity to the local banks. During the third quarter, the Bank of Israel no longer engages in these transactions and, as of December 31 2020, the balance of these transactions is zero.
5. Decreasing the capital requirements from the commercial banks by one percentage point.

6. Issuing guidance to the banks' boards of directors to reconsider their dividend distribution and share buyback policies at this time.
7. The Bank of Israel offers the banks a fixed-interest loan scheme for a period of 3 years at a 0.1 percent rate in order to increase the credit supply for small and micro-businesses without a cap on the loan amount. The Bank of Israel plans to have the scheme in place until further notice. On July 6, the Bank of Israel announced the extension of its long-term loan scheme, provided to the Banking sector in an effort to increase the credit available to small and micro businesses. On October 22 2020, the Bank of Israel announced a new tier in its credit easing scheme for small and micro businesses in an amount of up to NIS 10 billion, which will be in place through the end of June 2021. Under the scheme, the Bank of Israel will provide the banking system with loans for a period of four years at a fixed interest rate of minus 0.1 percent against loans granted by the Banks to small and micro-businesses, provided the interest rate for the loans to small and micro-businesses shall not exceed prime +1.3 percent. Total loans under these schemes reached NIS 19.6 billion as at December 31 2020.
8. In December 2020, the Bank of Israel announced its intention to offer repo transactions to its regulated non-bank credit entities (credit card companies) or through the Capital Market, Insurance and Savings Authority. The repo transactions will take place subject to credit originations to small and micro businesses, and according to the reporting to that effect to the Bank of Israel.
9. Plan for corporate bonds in the secondary market. The Bank of Israel will purchase bonds for NIS 15 billion based on a broad benchmark of securities. The benchmark includes only companies rated A- and higher and does not include foreign corporate bonds, bonds with an equity component or bonds that are not linked to the shekel and are not fixed-rate. As of December 31 2020, the remaining purchases reached NIS 3.5 billion.

These measures by the Bank of Israel boosted stability in the financial markets, thus enabling the Bank to help its customers both in the business segment and household segment.

Impact of the Coronavirus Crisis

The spread of the coronavirus in January 2020 began to affect most world countries during the first quarter of 2020; recently, the virus has been spreading at a quicker pace due to the emergence of various mutations. Most governments imposed temporary lockdowns, bringing to a temporary but prolonged halt significant parts of the economic activity and taking care of those hurt by the disease, while significantly increasing the costs incurred for taking care of citizens and businesses whose work was disrupted. Central banks across the world use a variety of tools to support economic activity, beyond reducing interest rates.

The coronavirus crisis is a significant ongoing event which disrupts business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact. The ramifications of the crisis for the global and domestic economies are substantial, with significant decrease in the gross world product in 2020 and 2021; as a result, the Bank's business may be materially affected.

As long as a wide-ranging administering of an effective vaccine or a simple and effective medication has not been achieved, keeping the virus under control will require adhering to social distancing rules, including lockdowns, which continue to disrupt orderly economic activity, with the end of the crisis still nowhere in sight. In the absence of effective measures to control morbidity, the economic ramifications of the coronavirus crisis may continue in the foreseeable future.

In order to provide a solution to current needs and to enable business continuity even in a prolonged states of emergency, key Leumi functions transitioned to a new work mode, which combines work from home and physical split of organic units into pods. Adjustments were made to the work and control procedures. In order to ensure that the exposure remains within the boundaries of the risk tolerance - business, work-flow and automation controls were set to mitigate the risks. Since this dynamic work mode changes from time to time, an ongoing process is underway to examine the required changes to the work processes and their adjustments to the risk tolerance.

In the wake of the coronavirus crisis, the Banking Supervision Department decided (in a letter dated March 29 2020), to reduce the minimum regulatory capital adequacy requirements. As a result, the Bank's Board of Directors decided on April 16 2020 to set an internal CET1 capital ratio threshold of 9.5 percent in lieu of 10.5 percent and that the Bank will discontinue, at this stage, the dividend distribution and the Bank's share buyback plan.

In addition, due to the increased risk levels, emphases in credit granting during the crisis period were pinpointed, and risk focal points and market developments are being monitored on a regular basis in order to prepare in advance and adapt the activity, as needed.

In addition, the Bank is exploring ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are taken into account and customers are scrutinized in depth. Following the crisis, loan loss expenses increased, and amounted in 2020 to NIS 2,552 million. Most of the increase is in the collective loan loss provision. The Bank's loan loss provision reflects the Bank's estimates. The provision is an estimate based on significant judgment, which was applied during the reporting period in a changing environment characterized by unusual uncertainty.

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

Due to the spread of the coronavirus, there was an increase in the volatility level of risk factors in financial markets, and substantial price decreases were recorded in equity and marketable credit markets, with sharp volatility in risk-free interest rate curves and exchange rates. As of the second quarter of the year, market volatility subsided, and equity markets recovered. However, uncertainty still prevails in the equity markets, and volatility may continue.

During the fourth quarter, there was no material change in the liquidity coverage ratio. Throughout the reviewed period, the LCR in foreign exchange and across all currencies was above the regulatory requirement.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

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.
- Technology risk.
- Regulatory risk.
- Environmental Risk
- Conduct risk.
- Macroeconomic risk.

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

Material Changes in Financial Statement Items

Net income attributable to the banking corporation's shareholders was NIS 2,102 million in 2020, compared with NIS 3,522 million in the same period last year, a 40.3 percent decrease.

Return on equity in 2020 was 5.7 percent, compared with 9.8 percent in 2019 (9.2 percent net of the effects of the sale of Leumi Card).

Return on equity in the fourth quarter of the year was 9.8 percent, compared with 8.7 percent in the same period last year.

The CET1 capital to risk components ratio as at September 31 2020 was 11.87 percent. The total capital ratio as at December 31 2020 was 15.58 percent. For more information, please see Note 25B.

Net interest income decreased in 2020 by approx. NIS 118 million compared to the same period last year, a 1.3 percent decrease. The decrease in the net interest income stems mainly from the negative (0.6) percent CPI in the reporting period compared to a positive CPI of 0.3 percent in the same period last year. The effect of the decrease in the Bank of Israel's interest rate and the Fed's interest rate was partially offset by an increase in the average balance of interest-bearing assets.

Loan loss expenses in 2020 reflect an expense rate of 0.88 percent of the average outstanding loans to the public vs. a 0.22 percent expense rate in the same period last year. The substantial increase in the rate of loan loss expenses stems from the effect of the changes in the macroeconomic environment against the backdrop of the coronavirus pandemic and its effect on the economic situation in Israel and across the world, and the uncertainty regarding its implications. Most of the increase is reflected in the collective provision, which constitutes approximately 74 percent of the total loan losses in the reporting period. The increase in the collective provision - which stems from the increase in troubled debts and the worsening of the economic indicators underlying the calculation of the provision - was designed to meet the possible worsening in borrowers' position in the subsequent quarters and a possible adverse development in the number of days in arrears, on the back of the current uncertainty regarding the duration of the crisis and its future repercussions.

Most of the increase in the loan loss expenses over last year stems from the first half of the year. The rate of loan loss expenses in the first half of the year was 1.19 percent; in the third quarter - 0.76 percent; and in the fourth quarter of the year - the rate of loan loss expenses was down to 0.37 percent.

The rate of loan loss provision relative to the outstanding loans as at December 31 2020 was 1.76 percent.

For more information, please see section entitled "Credit Risks" below.

Noninterest finance income totaled NIS 1,026 million compared to NIS 1,686 million in the corresponding period last year (NIS 1,372 million excluding the effect of Leumi Card). Most of the decrease stems from losses recorded in this item in the first quarter of the year, on the back of decreases in equity markets and the effect of derivatives and exchange rate differentials. It is also noted that the revenues for the reporting period includes a gain on the sale of Visa US equity totaling NIS 86 million (before tax). The revenues for the corresponding period last year included revenues in the amount of NIS 123 million on the sales of the Super-Pharm and Automated Banking Services Ltd. (ABS) (before tax).

The operating and other fees and commissions in 2020 were up by NIS 56 million compared to the corresponding period last year. Most of the increase is due to fees and commissions on securities and exchange commissions due to an increase in transaction volumes and demand for foreign currency.

Operating expenses were down by NIS 862 million in the reporting period compared to the corresponding period last year, a 10.9 percent decrease, Salaries and related expenses were down by NIS 13.5 percent, mainly due to provisions for bonuses in respect of the financial results and the decline in the number of employees.

Other operating expenses (including the maintenance expenses and depreciation) were down 7.8 percent.

The **efficiency ratio** for 2020 reached 53.8 percent, compared with 56.8 percent in the previous year (58.1 percent net of the effect of the gain on the sale of Leumi Card).

Efficiency ratio in the fourth quarter of the year was 50.7 percent, compared with 61.7 percent in the same period last year.

Basic earnings per share attributable to shareholders of the banking corporation in 2020 totaled NIS 1.44 compared to NIS 2.37 per share in 2019.

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

Interest Income, Net

Net interest income of the Leumi Group decreased in 2020 by approx. NIS 118 million compared to 2019, a 1.3 percent decrease. The decrease in income at said amount is due to the effect of the CPI on interest income in 2020, which was a NIS 101 million expense, compared with a NIS 55 million income last year, on the back of a negative CPI of 0.6 percent in 2020, compared to a positive CPI of 0.3 percent in 2019. In addition, in 2020, there was a decrease in return on interest-bearing assets, mainly in the non-linked NIS segment. These effects were partially offset by an increase in total interest-bearing financial assets.

The ratio of net interest income to the average balance of interest-bearing assets (net yield on interest-bearing assets) is 1.90 percent, compared with 2.14 percent in the corresponding period last year.

Total interest spread in 2020 is 1.78 percent, compared with 1.91 percent in the same period last year.

The following table presents interest spread information by segment:

In the non-linked shekel segment, the total interest spread in 2020 was 2.00 percent, compared with 2.22 percent in the corresponding period last year. In the foreign currency segment, the total interest spread in 2020 was 0.78 percent, compared with 0.79 percent in the corresponding period last year. In the CPI segment, the total interest spread in 2020 was 1.12 percent, compared with 0.94 percent in the corresponding period last year.

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

Loan Loss Expenses

	For the year ended December 31			
	2020	2019	Change	
	In NIS million			In %
Loan loss expense - specific	**669**	59	610	+
Loan loss expense - collective	**1,883**	550	1,333	+
Total loan loss expense	**2,552**	609	1,943	+
Of which:				
Loan loss expenses in respect of commercial credit risk	**2,105**	454	1,651	+
Loan loss expenses for credit risk in respect of housing loans	**175**	22	153	+
Loan loss expenses for other credit risk for private individuals	**271**	134	137	+
Loan loss expenses (income) for credit risk in respect of banks and governments	**1**	(1)	2	+
Total loan loss expense	**2,552**	609	1,943	+
Ratios (in %):				
Percentage of specific loan loss expense out of average outstanding loans to the public	**0.23**	0.02		
Percentage of expenses in respect of loan losses out of the average outstanding loans to the public[(a)]	**0.88**	0.22		
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	**(0.18)**	(0.24)		
Percentage of net write-offs for loans to the public out of the average outstanding provision for loan losses to the public	**(10.00)**	(20.04)		

For more information regarding loan loss 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		Change	
	2020	2019		
	In NIS million			In %
Noninterest finance income	**1,026**	1,686	(660)	(39.1)
Fees and commissions	**3,281**	3,225	56	1.7
Other income	**59**	170	(111)	(65.3)
Total	**4,366**	5,081	(715)	(14.1)

Breakdown of noninterest finance income

	For the year ended December 31		Change	
	2020	2019		
	In NIS million			In %
Net income (expense) in respect of derivatives and net exchange rate differentials for not-held-for-trading activities[d]	**(1)**	711	(712)	-
Gains on sale of available-for-sale bonds, net	**377**	189	188	(99.5)
Gains, net and dividend from not held-for-trading equity securities[c]	**227**	185	42	22.7
Net gains (losses) on sale of investees' shares [b]	**(2)**	287	(289)	-
Gains on sold loans, net	**-**	15	(15)	+
Net income for derivatives for trading activities	**367**	148	219	+
Realized and unrealized gains from adjustments to fair value of held-for-trading bonds and equity securities, net[a]	**58**	151	(93)	(61.6)
Total	**1,026**	1,686	(660)	(39.1)

(a) Realized and unrealized gains from fair value adjustments of held-for-trading bonds and equity securities, net also include the effect of exchange rate differentials.
(b) In 2019 - including a gain of NIS 314 million (before tax effect) on the sale of Leumi Card and a gain of NIS 71 million (before tax effect) on the sale of Super-Pharm, less loss on the sale of the Romanian office in the amount of NIS 99 million.
(c) In 2020, including a gain on the sale of Visa equity in the amount of NIS 86 million (before tax effect) and in 2019 - a NIS 52 million gain on the sale of ABS shares (before tax).
(d) Including loss for interest derivatives, mainly for economic hedging of the effect of the changes in the market value of available-for-sale bonds in the capital reserve.

Breakdown of fees and commissions

	For the year ended December 31			
	2020	2019	Change	
	In NIS million			In %
Account management	642	690	(48)	(7.0)
Activity in securities and certain derivatives	727	637	90	14.1
Credit Cards	327	310	17	5.5
Credit handling	173	197	(24)	(12.2)
Financial product distribution fees and commissions[(a)]	268	296	(28)	(9.5)
Exchange rate differentials	392	361	31	8.6
Financing fees and commissions	442	431	11	2.6
Other fees and commissions	310	303	7	2.3
Total fees and commissions	3,281	3,225	56	1.7

(a) Including management fees and commissions on life and home insurance

The 1.7 percent increase in fees and commissions in 2020 compared to the same period last year is due to fees and commissions on securities and exchange commissions on the back of an increase in transaction volumes and demand for foreign currency, especially in the first quarter of the year, following the outbreak of the coronavirus. These increases were offset by a decrease in account management fees and credit handling fees and commissions, inter alia, on the back of a decrease in market activity due to the coronavirus. Income from fees and commissions represent 46.6 percent of the operating and other expenses, compared to 40.8 percent in the corresponding period last year.

Breakdown of other income

	For the year ended December 31			
	2020	2019	Change	
	In NIS million			In %
Gains on severance pay reserve	9	22	(13)	(59.1)
Other income, including on sale of buildings and equipment	50	148	(98)	(66.2)
Total	59	170	(111)	(65.3)

Operating and Other Expenses

	For the year ended December 31			
	2020	2019	Change	
	In NIS million			In %
Salaries and related expenses	3,742	4,325	(583)	(13.5)
Depreciation and amortization	678	600	78	13.0
Maintenance expenses for buildings and equipment	853	921	(68)	(7.4)
Other expenses	1,773	2,062	(289)	(14.0)
Total operating and other expenses	7,046	7,908	(862)	(10.9)

The operating and other expenses in 2020 constitute 53.8 percent of total income, compared with 56.8 percent in the same period last year.

Total (annualized) operating and other expenses constitute 1.27 percent of total assets, compared with 1.69 percent in the corresponding period last year.

Salary expenses

	For the year ended December 31			
	2020	2019	Change	
	In NIS million			In %
Salaries and related expenses	**3,374**	3,969	(595)	(15.0)
Pension, severance and retirement expenses	**368**	356	12	3.4
Total salary expenses	**3,742**	4,325	(583)	(13.5)

Salaries and related expenses constitute 53.1 percent of total operating expenses, compared with 54.7 percent in the same period last year.

Salary expenses were down compared to the same period last year, especially due to provisions for bonuses, taking into account the financial results and the decline in the number of employees.

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 2020			
	In NIS million			
	Software	Hardware[(a)]	Other	Total
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	384	86	-	470
Expenses for acquisition or usage licenses not capitalized to assets	145	49	-	194
Outsourcing expenses	60	-	3	63
Depreciation expenses	497	84	9	590
Other expenses	37	24	27	88
Total expenses	1,123	243	39	1,405
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	246	-	-	246
Outsourcing costs	102	-	-	102
Costs of acquisition or usage licenses[(b)(c)]	145	60	-	205
Costs of equipment, buildings and land	-	-	18	18
Total costs	493	60	18	571
Balances of assets in respect of the IT function				
Total amortized cost	908	183	339	1,430

	For the year ended December 31 2019			
	In NIS million			
	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	-	189
Outsourcing expenses	47	39	4	90
Depreciation expenses	395	94	9	498
Other expenses	44	22	30	96
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 in respect of the IT function				
Total amortized cost	982	197	313	1,492

(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.

Summary of the Comprehensive Income Statement:

	Other comprehensive income (loss) before attribution to non-controlling interests							
	Adjustments for presentation of available-for-sale bonds (2018 – securities) at fair value	Adjustments from translation,[a] net after the effect of hedges[b]	Net gains (losses) on cash flow hedges	The Bank's ownership interests in other comprehensive income of equity-accounted investees	Adjustments in respect of 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 million							
Balance as at January 1 2018	104	(170)	-	(39)	(2,950)	(3,055)	(4)	(3,051)
Net change during the year[d]	(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)
Sale of equity of a consolidated company	-	-	-	-	23	23	4	19
Cumulative effect in respect of 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)
Net change during the year	**539**	**(96)**	**28**	**(3)**	**214**	**682**	**(21)**	**703**
Balance as at December 31 2020	**1,163**	**(295)**	**26**	**(16)**	**(3,734)**	**(2,856)**	**(64)**	**(2,792)**

(a) Adjustments from 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) 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 and include executed voluntary retirement plans.
(d) Including balances classified as held-for-sale assets. For more information, please see Note 36F in the financial statements as at December 31 2018.
(e) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - "Financial Instruments", including updates thereof. Please see Note 1.D. in the financial statements as at December 31 2019.

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

The **total assets** of the Leumi Group as at December 31 2020 amounted to NIS 556.0 billion, compared to NIS 468.8 billion at the end of 2019, an 18.6 percent increase; as at December 31 2020, the Bank's total assets amounted to NIS 532.8 billion compared with NIS 449.0 billion at the end of 2019, an 18.7 percent increase.

The value of assets denominated in, and linked to, foreign currency out of the Group's total assets is approximately NIS 109.1 billion, 19.6 percent of total assets. In 2020, the shekel appreciated against the US dollar by 7.0 percent, depreciated against the euro by 1.7 percent, and appreciated against the pound sterling by 3.7 percent. The change in the shekel's exchange rate against all foreign currencies contributed to a 1.2 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 1,734 billion, compared with a total of NIS 1,621 billion as at the end of 2019, a 7.0 percent increase.

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

	Consolidated			
	December 31			
	2020	2019	Change	
	In NIS million			In %
Total assets	**556,035**	468,781	87,254	18.6
Cash and deposits with banks	**136,194**	76,213	59,981	78.7
Securities	**92,297**	84,949	7,348	8.6
Loans to the public, net	**295,341**	282,478	12,863	4.6
Buildings and equipment	**2,932**	3,043	(111)	(3.6)
Deposits by the public	**447,031**	373,644	73,387	19.6
Deposits by banks	**15,143**	6,176	8,967	+
Bonds, promissory notes and subordinated bonds	**16,303**	19,958	(3,655)	(18.3)
The Bank's shareholders' equity	**37,664**	35,406	2,258	6.4

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

	Consolidated			
	December 31			
	2020	2019	Change	
	In NIS million			In %
Documentary credit, net	**1,067**	727	340	46.8
Loan guarantees, net	**5,186**	5,219	(33)	(0.6)
Guarantees for apartment buyers, net	**20,123**	21,230	(1,107)	(5.2)
Guarantees and other commitments, net	**16,999**	16,099	900	5.6
Unutilized credit card credit facilities, net	**15,655**	14,824	831	5.6
Unutilized current loan account facilities and other credit facilities in demand accounts, net	**12,813**	12,431	382	3.1
Irrevocable loan commitments approved but not yet granted and commitments to issue guarantees, net	**52,909**	45,282	7,627	16.8
Derivatives[(a)]	**698,304**	763,365	(65,061)	(8.5)
Options - all types	**92,392**	218,622	(126,230)	(57.7)
Customers' off-balance-sheet monetary assets	**1,177,655**	1,152,658	24,997	2.2

(a) Including forward transactions, financial swap contracts, swaps, futures and credit derivatives. For more information, please see Note 28A and 28B to the Financial Statements.

For more information regarding the reduction of credit card limits in accordance with the provisions of Section 9(c) to the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (Legislative Amendments), 2017, please see the "Laws and Regulations Governing the Banking System".

Loans to the Public, Net

Gross loans to the public grew 5.2 percent in 2020. Net loans to the public in the Leumi Group as at the end of 2020 totaled NIS 295.3 billion versus NIS 282.5 billion as at the end of 2019, a 4.6 percent increase. Net of the effect of the change in the shekel's exchange rate against all foreign currencies, loans to the public, net as at December 31 2020 increased by 5.4 percent over 2019.

Total loans to the public, net constitute 53.1 percent of total assets, compared with 60.3 percent at the end of 2019.

In addition to loans to the public, the Group invests in corporate securities, which total NIS 19,048 million as at the end of 2020 compared to NIS 18,141 million as at the end of 2019, and which also embody credit risk.

Net non-linked shekel loans to the public constitute as at December 31 2020 approx. 71.5 percent of total loans compared with 70.1 percent in the same period last year. Linked loans constitute, as at December 31 2020, 14.6 percent of total loans, compared with 15.5 percent as at December 31 2019.

For more information regarding the impact of the coronavirus crisis, please see the section entitled “Credit Risks”.

Development in loans to the public, after loan loss provision by main economic sectors

	December 31			
	2020	2019	Change	
	In NIS million			In %
Private individuals - housing loans	**89,753**	83,954	5,799	6.9
Private individuals – other	**25,412**	27,398	(1,986)	(7.2)
Construction and real estate	**69,542**	62,187	7,355	11.8
Commercial	**27,048**	28,212	(1,164)	(4.1)
Manufacturing	**19,991**	20,134	(143)	(0.7)
Other	**63,595**	60,593	3,002	5.0
Total	**295,341**	282,478	12,863	4.6

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					
	2020			2019		
	On-balance-sheet	Off-balance-sheet	Total	On-balance-sheet	Off-balance-sheet	Total
	In NIS million					
Impaired non-performing credit risk, net	**2,925**	**153**	**3,078**	1,997	253	2,250
Substandard credit risk, net	**339**	**25**	**364**	361	108	469
Special mention credit risk, net	**3,299**	**309**	**3,608**	2,078	271	2,349
Total	**6,563**	**487**	**7,050**	4,436	632	5,068

Following is the troubled credit risk after specific and collective provisions (cont.)

	December 31	
	2020	2019
	In NIS million	
Troubled credit risk – commercial	**7,807**	4,920
Troubled credit risk – retail	**1,427**	1,460
Total	**9,234**	6,380
Balance of loan loss provision	**2,184**	1,312
Troubled credit risk after loan loss provision	**7,050**	5,068

For more information regarding troubled loans, please see section entitled "Credit Risk" and Note 30.

For more information on the guidance of the Banking Supervision Department in the wake of the coronavirus, please see Note 1.W.5.

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 2020, the Group's investments in securities amounted to NIS 92.3 billion, compared to NIS 84.9 billion as at the end of 2019, an 8.6 percent increase.

The Group's securities are divided into four classes: held-for-trading securities, not held-for-trading equity securities and funds, 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 equity securities, available-for-sale bonds, not held-for-trading equity securities and funds, 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). Bonds 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 in respect of presentation of available-for-sale bonds at fair value” less related tax, in other comprehensive income. As at January 1 2019, not held-for-trading equity securities and mutual funds with an available fair value are presented in the balance sheet at fair value and the difference between the fair value and 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-marketable Israeli bonds denominated in NIS are revalued using a fair value model, since these bonds do not have an active market.

At the end of 2019, 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 available-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									
	2020					2019				
	Held-to-maturity bonds	Available-for-sale bonds[a]	Not held-for-trading shares and mutual funds	Held-for-trading securities[b]	Total	Held-to-maturity bonds	Available-for-sale bonds[a]	Not held-for-trading shares and mutual funds	Held-for-trading securities[b]	Total
	In NIS million									
Bonds										
Of the Israeli Government	**3,919**	**34,821**		**3,144**	**41,884**	3,080	33,132		2,715	38,927
Of foreign governments[c]	**-**	**19,893**		**223**	**20,116**	-	18,121		213	18,334
Of Israeli financial institutions	**-**	**69**		**323**	**392**	-	-		101	101
Of foreign financial institutions[d]	**-**	**8,861**		**98**	**8,959**	-	9,597		201	9,798
Asset-backed (ABS) or mortgage-backed (MBS)	**2,265**	**6,996**		**80**	**9,341**	1,543	7,748		154	9,445
Of other Israeli entities	**-**	**220**		**58**	**278**	-	140		53	193
Of other foreign entities	**818**	**6,067**		**46**	**6,931**	822	3,530		87	4,439
Equity securities and mutual funds			**4,335**	**61**	**4,396**			3,712	-	3,712
Total securities	**7,002**	**76,927**	**4,335**	**4,033**	**92,297**	5,445	72,268	3,712	3,524	84,949

(a) Including unrealized gains, net from fair value adjustments in the amount of NIS 2.06 billion recorded in other comprehensive income (December 31 2019 - net gains of NIS 1.09 billion).

(b) Including unrealized gains, net from fair value adjustments in the amount of NIS 52 million recorded in profit and loss (December 31 2019 - net gains of NIS 25 million).

(c) Of which: The US government - NIS 11.5 billion (December 31 2019 – NIS 12.7 billion).

(d) Most bonds of foreign financial institutions are rated Supranational or are state-backed.

As at December 31 2020, approx. 83.3 percent of the Group's own (nostro) portfolio was classified as available-for-sale, approx. 4.4 percent as held-for-trading, approx. 4.7 percent - as not held-for-trading equity securities and mutual funds and 7.6 percent as held-to-maturity. Approximately 4.8 percent of the securities' value is investments in mutual funds and corporate shares that are not equity-accounted, but rather stated at cost or according to the share/fund market price.

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

Available-for-sale portfolio

1. In 2020, there was a NIS 0.8 billion increase (before tax) in other comprehensive income in respect of available-for-sale bonds, compared with an increase of NIS 1.5 billion (before tax) in 2019.
2. In 2020, Net gain on sale of available-for-sale bonds totaling NIS 0.4 billion net was carried to income or loss, compared with gains totaling NIS 0.2 billion in 2019.

The net accumulated balance of fair value adjustments of available-for-sale bonds portfolio as at December 31 2020 totaled a positive NIS 1.2 billion (after tax) compared with a positive NIS 0.6 billion as at the end of 2019. These amounts represent net unrealized gains as at the reporting dates.

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 2020, investments in marketable shares and funds totaled NIS 4.4 billion, of which NIS 2.8 billion in marketable and NIS 1.6 billion - non-marketable. As at January 2019, changes in the fair value of unrealized not held-for-trading equity securities and funds will be recognized directly, on a regular basis, in the income statement rather than in Other comprehensive income. The entire investment of NIS 4.3 billion is classified to the not held-for-trading equity securities and funds portfolio.

As at December 31 2020, the capital required in respect of these investments is NIS 0.6 billion.

For more information, please see Note 12.

Held-for-trading portfolio

As at December 31 2020, the held-for-trading portfolio has NIS 4.0 billion in bonds, compared with NIS 3.5 billion as at December 31 2019. As at December 31 2020, the held-for-trading portfolio constitutes 4.4 percent of the Group's total nostro (own) portfolio, compared with 4.1 percent as at December 31 2019.
Realized and unrealized gains totaling NIS 51 million were recorded in the income statement for held-for-trading bonds, compared to gains of NIS 148 million in 2019; realized and unrealized losses totaling NIS 7 million were recorded for shares and funds, compared with gains of NIS 3 million in 2019.

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 9.3 billion (about USD 2.9 billion) as at December 31 2020, compared to NIS 9.4 billion as at the end of 2019. Out of the above portfolio, as at December 31 2020, NIS 7.0 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 2020, the available-for-sale foreign asset-backed securities, including investment in mortgage-backed bonds, totaled NIS 5.1 billion. 93.27 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 2020, the total net increase in value from the mortgage-backed bonds portfolio charged to shareholders' equity was NIS 66 million.

Total mortgage-backed bonds that are neither government-backed (USA) nor backed by US federal institutions total NIS 0.3 billion.

The weighted average maturity for the entire mortgage-backed bond portfolio is 2.78 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 approx. NIS 1.9 billion, of which CLO bonds account for NIS 1.5 billion. The weighted average maturity for the entire non-mortgage asset-backed bond portfolio is 4.7 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 2020, the Group's securities portfolio includes NIS 45.7 billion (USD 14.2 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 39.5 billion (about USD 12.3 billion) is classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios. 98.85 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 of December 31 2020, the aggregate increase in the value of common stock in respect of securities which are not backed by assets issued abroad within the available-for-sale portfolio amounted to NIS 1.1 billion (NIS 0.7 billion 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. 88.42 percent of the securities in the held-for-trading portfolio are investment-grade.

As at December 31 2020, the value of the non-asset-backed held-for-trading portfolio was NIS 0.4 billion (USD 0.1 billion).

Investments in bonds issued in Israel

As at December 31 2020, investments in bonds issued in Israel amounted to NIS 36.3 billion, of which NIS 35.6 billion was in shekel-denominated bonds issued by the Israeli Government and the remainder - in corporate bonds. 43.1 percent of corporate bonds investments - which are NIS 0.3 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 0.3 billion - include a positive capital reserve of NIS 16 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 2020, the deposits by the public with the Group amounted to NIS 447.0 billion, compared to NIS 373.6 billion as at the end of 2019, a 19.6 percent increase. Net of the effect of the change in the exchange rates, the deposits by the public as at December 31 2020 increased year-on-year by 21.5 percent.
The increase is mainly due to a transfer of funds from financial markets to deposits following the markets' fluctuations due to the coronavirus, and an increase in deposits by institutionals.

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

	December 31			
	2020	2019	Change	
	In NIS million			In %
NIS:				
Non-linked	**310,835**	244,462	66,373	27.2
CPI-linked	**10,925**	13,877	(2,952)	(21.3)
Foreign currency:				
Including foreign currency-linked	**123,595**	113,937	9,658	8.5
Non-monetary	**1,676**	1,368	308	22.5
Total	**447,031**	373,644	73,387	19.6

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

- Deposits by the public in non-linked shekels increased by NIS 66.4 billion, compared with December 31 2019, mainly in demand deposits.
- Deposits by the public denominated in, and linked to, foreign currency grew by NIS 9.7 billion, an 8.5 percent increase compared to December 31 2019.
- CPI-linked deposits by the public declined by NIS 3.0 billion, compared with December 31 2019, mainly in fixed deposits.

Customers' Off-Balance-Sheet Monetary Assets

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

	December 31			
	2020	2019	Change	
	In NIS million			In %
Securities portfolios[(a)]	**843,017**	815,751	27,266	3.3
Assets for which operating services are provided:[(a)(b)(c)]				
Mutual funds[(d)]	**-**	56,280	(56,280)	(100.0)
Provident and pension funds	**178,964**	150,291	28,673	19.1
Study funds	**155,674**	130,336	25,338	19.4

(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.
(d) At the end of 2020, the Group ceased providing operating services to provident funds.

Deposits by Governments

Deposits by governments amounted to approx. NIS 208 million at the end of 2020 compared with NIS 315 million as at the end of 2019, a NIS 107 decrease compared to 2019.

This item includes deposits by foreign governments with foreign offices, amounting to approx. NIS 15 million at the end of 2020 compared to NIS 131 million at the end of 2019.

Deposits with Banks and by Banks

A. Deposits with banks (central and commercial)

	December 31			
	2020		2019	
	With central banks	With commercial banks	With central banks	With commercial banks
	In NIS million			
NIS:				
Non-linked	**122,785**	**1,477**	61,183	2,208
Foreign currency including foreign currency-linked	**1,434**	**7,952**	839	9,344
Total deposits with banks	**124,219**	**9,429**	62,022	11,552

Total deposits with banks increased by 81.7 percent, mainly due to customers abandoning the capital market and depositing their money in banks, on the back of the coronavirus crisis.

B. Deposits by banks (central and commercial)

	December 31			
	2020		2019	
	By central banks	By commercial banks	By central banks	By commercial banks
	In NIS million			
NIS:				
Non-linked	**8,777**	**1,830**	-	2,281
Foreign currency including foreign currency-linked	**135**	**4,401**	133	3,762
Total deposits by banks	**8,912**	**6,231**	133	6,043

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 2020 the Group's deposits with the Bank of Israel totaled NIS 123 billion; 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 118.5 billion.

Bonds, Capital Notes and Subordinated Bonds

	December 31			
	2020	2019	Change	
	In NIS million			In %
Bonds	**6,488**	9,559	(3,071)	(32.1)
Subordinated bonds and capital notes	**9,815**	10,399	(584)	(5.6)
Total	**16,303**	19,958	(3,655)	(18.3)

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. On May 18 2020, the Israel Securities Authority decided to extend the period for issuing securities under the shelf prospectus until May 24 2021.

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 issuance 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, 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 the US dollar according to the rate as of that date) was issued or according to the set minimum rate (USD 3.6048, subject to adjustments), the higher of the two.

The Series Leumi $ 2031 notes are eligible for inclusion in Tier 2 capital as of their issuance date.

According to a shelf prospectus dated June 2 2020, the Bank issued, on June 4 2020, a total of NIS 2.4 billion in bonds Series 181. The bonds are repayable in one lump sum on September 5 2023, linked to the Consumer Price Index, and bear an annual interest rate of 1 percent, payable annually on September 5 of each year from 2020 to 2023, inclusive. The Series 181 Bonds are not recognized for regulatory capital purposes.

For more information, please see the immediate report dated February 17 2020, immediate report dated May 19 2020 and immediate reports dated June 4 2020.

On June 30 2020, at total of NIS 5.3 billion par value in Bonds Series 177 of the Bank were repaid. These bonds were not part of the Bank's regulatory capital.

For more information, please see the immediate report dated November 11 2020.

On November 10 2020, Subordinated Bonds Series N of the Bank at a par value of NIS 0.9 billion were redeemed. According to the directives of the Bank of Israel, these subordinated notes are included in the regulatory capital, subject to the transitional provisions of Proper Conduct of Banking Business Directive No. 299, and subject to straight-line amortization in the last five years prior to their redemption. Accordingly, in the last year before their repayment, the Series N Subordinated Bonds were not included in the Bank's regulatory capital.

Early redemption of subordinated capital notes

On July 8 2020, the Bank's Board of Directors decided to redeem, by way of full early redemption, Capital Notes Series 300 and 301, which were issued to the public in August 2009. Accordingly, on August 10 2020, a total of NIS 2.1 billion in capital notes were redeemed (including linkage differences for Series 300).

For more information, please see the immediate report dated July 8 2020, immediate report dated July 16 2020 and immediate report dated August 11 2020.

On December 30 2020, the Bank's Board of Directors decided to exercise full early redemption of Subordinated Bonds (Series 400), which were issued to the public in January 2016. Accordingly, on January 21 2021, the subordinated notes were redeemed in the amount of NIS 0.9 billion. Following the decision regarding full early redemption, which was published on December 30 2020, Subordinated Bonds Series 400 were not recognized as part of the Bank's regulatory capital as at December 31 2020.

On December 30 2020, the Bank's Board of Directors decided to also redeem, by way of full early redemption, Capital Notes Series 200 and 201, which were issued to the public in February 2010. Accordingly, on February 4 2021, Capital Notes Series 200 and 201 were redeemed for a total of NIS 2.3 billion. The capital notes were partially included in the Bank's regulatory capital as at December 31 2020, according to the transitional provisions of Proper Conduct of Banking Business Directive No. 299.

For more information, please see the immediate reports dated December 30 2020, the immediate report dated January 17 2021, the immediate report dated January 24 2021 and the immediate report dated February 7 2021.

Equity and Capital Adequacy

Equity attributable to the Bank's shareholders totaled NIS 37,664 million on December 31 2020 compared with NIS 35,406 million as at the end of 2019.

The change in shareholders' equity was affected by the profit for the period and the increase in the capital reserve for available-for-sale bonds, which was offset by the increase in employee benefits liabilities due to the decrease in the discount interest rate.

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 Banking Supervision Department's Proper Conduct of Banking Business Directive No. 202.

The capital to balance sheet ratio reached 6.8 percent as at December 31 2020, compared to 7.6 percent as at December 31 2019.

Capital Adequacy Structure[(a)]

	December 31	
	2020	2019
	In NIS million	
Capital base for capital ratio purposes		
CET1 capital, after regulatory capital deductions and adjustments	**39,262**	37,603
Tier 2 capital, after deductions	**12,297**	11,987
Total capital	**51,559**	49,590
Balances of risk-weighted assets		
Credit risk	**303,356**	288,340
Market risks	**5,313**	5,008
Operational risk	**22,182**	23,116
Total balances of risk-weighted assets	**330,851**	316,464
Capital to risk-weighted assets ratio		
Ratio of CET1 capital to risk-weighted assets	**11.87%**	11.88%
Total capital to risk-weighted assets	**15.58%**	15.67%
Minimum CET1 capital ratio set by the Banking Supervision Department	**9.23%**	10.27%
Minimum total capital ratio set by the Banking Supervision Department	**12.73%**	13.77%

(a) For more information regarding the capital adequacy structure, please see Note 25B.

Common Equity Tier 1 capital was 11.87 percent as at December 31 2020, a 0.01 percent decrease compared to December 31 2019.

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 equity 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 at 10 percent until January 1 2022. The recognition ceiling for 2020 is 20 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 that the instrument must include are: (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 2020 which are eligible for inclusion in Tier 2 capital and for information on redeemed Tier 2 capital instruments, please see section entitled “Bonds, Capital Notes and Subordinated Bonds”.

For a description of the main features of issued regulatory capital 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 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 Directive No. 201, “Capital Measurement and Adequacy - Introduction, Application and Calculation of Requirements”, which was in effect until March 1 2020, a large banking corporation whose consolidated total assets represent at least 20 percent of the Israeli banking system’s total assets, was required to meet a minimum Common Equity Tier 1 capital ratio of 10 percent and a minimum total capital ratio of 13.5 percent, beginning on January 1 2017. This requirement applies to Leumi.

Additionally, under 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.

Circular amending Proper Conduct of Banking Business Directive No. 201 - “Introduction, Scope of Application and Calculation of Minimum Capital Requirements” and Amendment to Proper Conduct of Banking Business Directive No. 218, “Leverage Ratio“

On March 1 2020, the Bank of Israel published an update to the circular revising Proper Conduct of Banking Business Directive No. 201, “Introduction, Scope of Application and Calculation of Requirements” and Amendment to Proper Conduct of Banking Business Directive No. 218, “Leverage Ratio“. In accordance with the circular, the directives were amended such that a banking corporation whose consolidated total assets constitute more than 24 percent (in lieu of 20 percent prior to the circular) of the Israeli banking sector’s total assets shall have a CET1 capital to risk-weighted assets ratio of no less than 10 percent, the ratio of total capital to risk-weighted assets shall not fall below 13.5 percent and the leverage ratio shall be no less than 6 percent. The circular is valid from its publication date. The amendment to the directives does not affect Leumi’s minimum capital requirements.

Circular entitled “Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order)” - Proper Conduct of Banking Business Directive No. 250

On March 29 2020 the Banking Supervision Department published a letter entitled “Profit Distribution Following the Coronavirus Crisis” (hereinafter: the “Banking Supervision Department’s letter of March 29 2020”). The Banking Supervision Department announced in its letter the reduction in the minimum regulatory capital requirements applicable to the banks, following the coronavirus crisis and in the context of all measures adopted by the Bank of Israel in the wake of the crisis. In addition, all the banks were requested to reconsider their dividend distribution policy and share buyback plan, on the backdrop of the coronavirus crisis and the uncertainty, out of expectation that the capital resources that will be released as a result of the relief will not be used for dividend distribution or to perform share buybacks.

On March 31 2020, the Bank of Israel published a circular entitled Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) (Directive No. 250) (hereinafter: the “Temporary Provision”), against the backdrop of the unfolding coronavirus event and its ramifications for the Israeli and world economies. Among its other provisions, the circular prescribed an adjustment to Proper Conduct of Banking Business Directive No. 201, “Measurement and Capital Adequacy”, such that a banking corporation whose consolidated total assets constitute more than 24 percent of the Israeli banking system’s total assets shall have a CET1 capital to risk-weighted asset ratio of no less than 9 percent and the ratio of total capital to risk-weighted assets shall not fall below 12.5 percent (in lieu of 10 percent and 13.5 percent, respectively, prior to the circular’s publication). The directive applies to Leumi.

The original temporary order was valid until September 30 2020. On September 16 2020, the Bank of Israel published a circular extending the temporary order until March 31 2021 (its expiry date). The relief in capital targets will be in effect until 24 months from the Temporary Provision expiry date, provided that the capital ratios of the banking corporation will not fall below the lower of: the capital ratios upon the Temporary Order’s expiry date or the minimum capital ratios applicable to the banking corporation prior to the Temporary Provision.

On March 7 2021, the Bank of Israel published a draft circular amending the temporary order. The draft circular suggests to extend the temporary order until September 30 2021. In addition, according to the draft circular, in the six-month period after the expiry of the temporary order, a decrease of up to 0.3 percentage points in the capital ratios shall not be deemed as deviating from the required capital ratios, subject to strict, conservative capital planning and reporting to the Banking Supervision Department. On March 7, the Bank of Israel published a notice, according to which. in addition to the proposition to extend the temporary order and the capital expedients as of September 30 2021, the Banking Supervision Department expects the Banking system to refrain from using any capital surplus for the purpose of dividend distribution at least until the temporary order expires.

On April 27 2020, the Bank of Israel published a circular entitled “Additional Adjustments to Proper Conduct of Banking Business Directive for Dealing with the Coronavirus Crisis (Temporary Order)” (Directive No. 250). According to the circular, and in order to provide support to, and mitigate the impact of the crisis on, mortgage borrowers, the Temporary Order stipulated that the additional capital requirement of 1 percent of the outstanding loan, stipulated in Section 14A, will not be applicable to housing loans extended during the crisis period (from March 19 2020 until the Temporary Provision expiry date). Proper Conduct of Banking Business Directive No. 329, Limitations on Issuing Housing Loans. The temporary order was extended until March 31 2021 under the circular dated September 16 2020 extending the temporary order.

In accordance with the Temporary Provision, and with the additional capital requirement for outstanding housing loans, the minimum capital requirements applicable to the Bank as of December 31 2020 are 9.23 percent for the Common Equity Tier 1 capital ratio and 12.73 percent for total capital ratio.

On November 15 2020, the Bank of Israel published a circular entitled "Additional Adjustments to Proper Conduct of Banking Business Directive for Dealing with the Coronavirus Crisis (Temporary Order)" (Directive No. 250). According to the circular, the Bank complies with Proper Conduct of Banking Business Directive No. 218, "Leverage ratio", according to which a banking corporation shall have a leverage ratio of no less than 4.5 percent on a consolidated basis, in lieu of 5 percent prior to the circular's publication). A banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking sector's total assets shall have a consolidated leverage ratio of no less than 5.5 percent (in lieu of 6 percent prior to the circular's publication). According to the circular, Leumi shall be required to meet a minimum leverage ratio of 5.5 percent. Upon the expiry of the Temporary Order, the easement shall apply for another 24 months, provided that the leverage ratio shall be no less than the leverage ratio on the Order's expiry or the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order, the lower of the two. The directive applies to Leumi as of the circular's publication date.

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. For more information on the ICAAP process and the use of stress tests, please see the Risk Management Report as at December 31 2020.

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 target to 10.5 percent, as from December 31 2017.

In light of the specifications in the Banking Supervision Department's letter of March 29 2020 and the Temporary Order, and in accordance with the minimum regulatory requirements applicable to the banks in the wake of the coronavirus crisis, as outlined above, the Bank's Board of Directors decided on April 16 2020 that the internal CET1 capital ratio threshold would be 9.5 percent in lieu of 10.5 percent.

For more information, please see the immediate report dated April 16 2020 (Ref. No. 2020-01-034294).

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.

As outlined above, in the Banking Supervision Department's letter of March 29 2020, all banks were asked to reexamine their dividend distribution policy and share buyback plan due to the coronavirus crisis. Further to the specifications in the letter, and in light of the Temporary Order (Directive No. 250), published on March 31 2020, the Bank's Board of Directors decided on April 16 2020 to discontinue, at this stage, the dividend distribution and the Bank's share buyback plan.

For more information, please see the immediate report dated April 16 2020 (Ref. No. 2020-01-034294).

Details of paid dividend

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS million
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
February 26 2020	March 23 2020	20.29	297

The Bank's share buyback plan

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 took place through an external, independent member of the TASE, which acted under an irrevocable power of appointment, in accordance with the safe harbor mechanism published by the Israel Securities Authority. The buyback plan included three stages, each of which was irreversible, in accordance with the safe harbor mechanism. In stage A, which started on March 1 2020 and ended on April 2 2020, 13,488,021 shares in the amount of NIS 250 million were purchased.

As outlined above, further to the Banking Supervision Department's letter of March 29 2020, in which all the banks were asked to reconsider their dividend distribution policies and share buyback plan due to the coronavirus crisis, and in light of the Temporary Order (Directive No. 250) of March 31 2020, the Bank's Board of Directors decided on April 16 2020 to discontinue, at this stage, the Bank's share buyback plan.

As of the report publication date, the Bank owns 71,824,258 treasury shares.

For more information, please see the immediate report dated April 16 2020 (Ref. No. 2020-01-034294).

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, 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 has been implemented as from the financial statements for the period ended June 30 2016.

On January 13 2020, the Bank of Israel extended the approval until the Annual 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".

Relief 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 a relief, 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 2020, 90 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 2020, 70 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 incurred a one-time increase in its actuarial liability totaling NIS 526 million before tax (about NIS 346 million after tax).

As part of the understanding regarding the collective agreement, the Bank’s Board of Directors approved a voluntary retirement plan. The cost of the plan was NIS 167 million (after tax). As of December 31 2020, 30 percent of the plan’s costs are attributable to regulatory capital.

In December 2019, the Banking Supervision Department published a letter extending 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.

Regulatory and other changes in measuring the capital requirements

Developments in the guidance of the Basel Committee on Banking Supervision regarding capital adequacy measurement

In December 2017, the Basel Committee on Banking Supervision completed its revision of the overall capital adequacy Basel III 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. In March 2020, the body overseeing the Basel Committee published a notice whereby the application of the various standards included in the revision will be postponed by one year and will begin on January 1 2023. 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 “The Standardized Approach for Measuring Counterparty Credit Risk Exposures” (SA-CCR) as at June 1 2021 or one year after the actual EU implementation date, whichever is later. On February 7 2021, the Banking Supervision Department published a draft circular on the application of the directives, according to which the directives’ effective date is expected to be July 1 2022. The Bank is examining the effects of the draft circular and continues to prepare for applying the directives.

Reporting by banking corporations and credit card companies in Israel pursuant to US GAAP on leases

On July 1 2018, the Banking Supervision Department published a circular entitled “Reporting by Banking Corporations and Credit Card Companies in accordance with US GAAP on Leases”, which adopts US GAAP on leases. The circular’s guidelines apply as of January 1 2020. The effect of the standard as of December 31 2020 is a 0.03 percent decrease in the Common Equity Tier 1 capital ratio.

For more information on the leases standard, please see Note 1.N.

Circular regarding Proper Conduct of Banking Business Directive No. 299, “Regulatory Capital - Effect of Implementation of Accounting Principles regarding Expected Loan Losses”

On December 1 2020, the Banking Supervision Department published a circular regarding Proper Conduct of Banking Business Directive No. 299, “Regulatory Capital - Effect of Implementation of Accounting Principles regarding Expected Loan Losses”, which includes transitional provisions applicable to the effect of the principles’ first-time adoption on expected loan losses. In accordance with the circular of the new rules, their effective date for banking corporations is January 1 2022. If, as a result of the first-time adoption of these rules, there will be a decrease in the Bank’s Common Equity Tier 1 capital, net of tax, the Bank will be able partially include in Common Equity Tier 1 (i.e., to add back to Common Equity Tier 1) the decrease in Common Equity Tier 1 recorded on the initial application date, over a period of three years (with an additional 75 percent in the first application year, with a 25 percent reduction per year, until reaching 0 percent on January 1 of the fourth application year).

For more information on the general application of accounting principles on loan losses, please see Note 1.X.

Circular amending Proper Conduct of Banking Business Directive No. 202, “Measurement and Capital Adequacy - Regulatory Capital and Proper Conduct of Banking Business Directive No. 203, “The Standardized Approach - Credit Risks”

On February 2 2021, the Banking Supervision Department published a circular entitled “Expected Loan Losses from Financial Instruments”, adjusting Proper Conduct of Banking Business Directives to the new rules regarding expected loan losses. Among other things, the following were revised: Proper Conduct of Banking Business Directive No. 202, Capital Measurement and Adequacy - Regulatory Capital, and Proper Conduct of Banking Business Directive No. 203 - Capital Measurement and Adequacy - The Standardized Approach - Credit Risk, according to which banking corporations will be required, as of January 1 2022, to deduct from Common Equity Tier 1 amounts to cover for housing loans that do not accrue over time.

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 330.9 billion at the end of December 2020. Every NIS 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio by approx. 0.04 percent.
- Change in CET1 capital - Common Equity Tier 1 as at December 31 2020 totaled NIS 39.3 billion. A NIS 100 million decrease in Common Equity Tier 1 capital will decrease the Common Equity Tier 1 capital and total capital ratio by 0.03 percent.
- Change in the foreign exchange rate - a 1 percent depreciation in the shekel’s exchange rate against all currencies will decrease the Common Equity Tier 1 capital and total capital ratio by 0.02 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, means a cumulative effect of 0.09 percent on the CET1 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”.

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	
	2020	2019
	In NIS million	
Consolidated data		
Tier 1 capital	**39,262**	37,603
Total exposures	**597,538**	511,820
Leverage ratio		
Leverage Ratio	**6.57%**	7.35%
Minimum total leverage ratio set by the Banking Supervision Department	**5.50%**	6.00%

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

For more information regarding compliance with the leverage ratio temporary order, please see Proper Conduct of Banking Business Directive No. 250 above.

The leverage ratio as at December 31 2020 is 6.57 percent, a 0.78 percent decrease compared to December 31 2019.

The decrease in the leverage ratio stems, inter alia, from the substantial increase in total assets, mainly as a result of a NIS 60 billion increase in cash and deposits with banks and a NIS 7 billion increase in securities.

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 the 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:

The results of most operating segments according to Management Approach are in line with the overall trends of the development of the Group's income and expenses. 2020 was characterized by a negative CPI of 0.6 percent compared to a positive CPI of 0.3 percent in 2019 and by decreases in the interest rates of the Bank of Israel and the Fed - trends which brought about a decline in interest income, net, mainly in the banking, commercial and business operating segments; these trends were partially offset by an increase in the average balance of interest-bearing assets in the banking and commercial operating segments.

In 2020, the loan loss expenses increased substantially over 2019 across most operating segments in Israel and foreign operations, as a result of the changes in the macroeconomic activity on the back on the coronavirus pandemic and its effect on the economic situation in Israel and across the world, as well as the uncertainty regarding its implications. For more information, please see section entitled “Effect of the Coronavirus Crisis” in the Credit Risks section.

The decrease in total operating and other expenses in 2020 compared to 2019 across the various operating segments in Israel stems mainly from a decrease in salaries and related expenses on the back of provisions for bonuses, due to the financial results and a decline in the number of employees, due to the coronavirus crisis.

In 2019, total income in the “Other” segment included a NIS 314 million gain on the sale of Leumi Card (before tax) and a gain on the sale of ABS shares, as well as revaluation in the amount of NIS 52 million (before tax) and a gain of NIS 52 million (before tax), less loss on the sale of the Romanian office in the amount of NIS 99 million. In 2020, total income in the “Other” segment included the revaluation of Visa USA shares in the amount of NIS 86 million.

	For the year ended December 31 2020											
	The 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 million											
Interest income, net:												
From external	1,126	1,142	2,047	4,315	1,118	880	834	510	-	128	938	8,723
Inter-segmental	657	(20)	(965)	(328)	34	(252)	(127)	668	-	7	(2)	-
Interest income, net	1,783	1,122	1,082	3,987	1,152	628	707	1,178	-	135	936	8,723
Noninterest Income	1,344	448	22	1,814	416	236	309	948	126	254	263	4,366
Total income	3,127	1,570	1,104	5,801	1,568	864	1,016	2,126	126	389	1,199	13,089
Loan loss expenses (income)	333	482	178	993	352	762	210	(18)	(33)	4	282	2,552
Total operating and other expenses	2,610	951	245	3,806	667	227	125	382	871	190	778	7,046
Profit (loss) before tax	184	137	681	1,002	549	(125)	681	1,762	(712)	195	139	3,491
Provision for tax (benefit)	63	47	233	343	188	(43)	233	602	(47)	41	39	1,356
Net income (loss) attributable to the Bank's shareholders	121	90	448	659	361	(82)	448	1,162	(665)	139	80	2,102
Balance as at December 31 2020												
Loans to the public, net	27,530	24,253	91,313	143,096	44,626	39,389	31,559	8,700	5,339	790	21,842	295,341
Deposits by the Public	181,676	47,710	-	229,386	65,775	28,390	10,149	90,938	5	-	22,388	447,031
Assets under management	183,752	19,455	-	203,207	25,909	10,043	2,336	585,627	21,484	312,520	16,529	1,177,655

Condensed results of operations according to management approach (cont.)

	For the year ended December 31 2019											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - total	Com-mercial	Cor-porate	Real estate	Capital markets	Other			
	In NIS million											
Interest income, net:												
From external	927	1,271	2,311	4,509	972	888	821	522	1	81	1,047	8,841
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	2,845	1,097	278	4,220	721	350	133	396	1,059	204	825	7,908
Profit (loss) before tax	369	342	735	1,446	889	612	746	1,721	(622)	206	407	5,405
Provision for tax (benefit)	126	117	251	494	304	209	255	588	(140)	48	72	1,830
Net income (loss) attributable to the Bank's shareholders	243	225	484	952	585	403	491	1,135	(482)	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	17,731	1,152,658

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 marketable 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.

Summary of activities by regulatory operating segments

	For the year ended December 31 2020										
	Activity in Israel									Foreign operations	Total
	Households										
	Housing loans	Other	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutional entities	Financial management	Other		
	In NIS million										
Interest income, net	995	1,499	57	1,802	724	1,441	73	1,202	(6)	936	8,723
Noninterest Income	61	923	151	773	290	549	207	1,127	22	263	4,366
Total income	1,056	2,422	208	2,575	1,014	1,990	280	2,329	16	1,199	13,089
Loan loss expenses (income)	174	271	-	569	285	1,001	(1)	(29)	-	282	2,552
Total operating and other expenses	243	2,345	83	1,531	421	376	231	321	717	778	7,046
Profit (loss) before tax	639	(194)	125	475	308	613	50	2,037	(701)	139	3,491
Tax expenses (income)	236	(73)	47	177	117	219	19	804	(229)	39	1,356
Net income (loss) attributable to the Bank's shareholders	403	(121)	78	298	191	394	31	1,220	(472)	80	2,102
Balance as at December 31 2020											
Loans to the public, gross	90,133	26,212	320[a]	50,658	29,502	77,154	4,386	-	-	22,266	300,631
Deposits by the Public	1	121,146	26,082	77,259	47,145	72,512	80,499	-	-	22,388	447,031
Assets under management	-	62,117	44,850	67,433	25,942	70,151	844,180	46,453	-	16,529	1,177,655

	For the year ended December 31 2019										
	Activity in Israel									Foreign operations	Total
	Households										
	Housing loans	Other	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutional entities	Financial management	Other		
	In NIS million										
Interest income, net	849	1,722	115	2,198	863	1,457	174	446	6	1,011	8,841
Noninterest Income	43	909	145	760	306	559	170	1,541	369	279	5,081
Total income	892	2,631	260	2,958	1,169	2,016	344	1,987	375	1,290	13,922
Loan loss expenses (income)	13	144	-	372	31	27	(6)	(30)	-	58	609
Total operating and other expenses	242	2,848	100	1,581	502	497	274	226	813	825	7,908
Profit (loss) before tax	637	(361)	160	1,005	636	1,492	76	1,791	(438)	407	5,405
Tax expenses (income)	227	(141)	57	359	229	536	28	677	(214)	72	1,830
Net income (loss) attributable to the Bank's shareholders	410	(220)	103	646	407	956	48	1,099	(224)	297	3,522
Balance as at December 31 2019											
Loans to the public, gross	84,114	28,159	346[(a)]	50,605	28,879	67,085	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	-	17,731	1,152,658

(a) Including outstanding housing loans as at December 31 2020 in the amount of NIS 103 million as at December 31 2019 totaling NIS 107 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		
	2020	2019	Change	**2020**	2019	Change	**2020**	2019	Change
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Israel	**526,844**	438,923	20.0	**273,499**	259,512	5.4	**424,643**	351,280	20.9
USA	**23,484**	23,774	(1.2)	**17,213**	17,777	(3.2)	**19,514**	19,137	2.0
UK	**5,684**	6,058	(6.2)	**4,629**	5,189	(10.8)	**2,874**	3,227	(10.9)
Other foreign operations	**23**	26	(12)	**-**	-	-	**-**	-	-
Total	**556,035**	468,781	18.6	**295,341**	282,478	4.6	**447,031**	373,644	19.6

Following is a breakdown of the net income by geographic region

	Net income (loss)			
	For the year ended December 31			
	2020	2019	Change	
	In NIS million			In %
Israel	**2,120**	3,360	(1,240)	(36.9)
USA	**121**	228	(107)	(46.9)
UK	**(142)**	(64)	(78)	-
Romania	**-**	(13)	13	-
Other foreign operations	**3**	11	(8)	(72.7)
Total	**2,102**	3,522	(1,420)	(40.3)

(a) Classified by office's location.

For more information, please see sections "Major Investee Companies", "Credit Risk" and Note 29A.D.

Major Investees[1]

The 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 2020, the Bank's total investments in investees (including in capital notes) was NIS 10.8 billion, compared with NIS 12.0 billion as at December 31 2019. The decrease in total investments stems mainly from redemption of capital notes. In 2020, the investees contributed NIS 166 million to the Group's net income, compared with NIS 333 million in 2019.

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 7,243 million as of December 31 2020, compared with NIS 8,062 million as of December 31 2019. Their contribution to the Group's net income in 2020 was NIS 139 million, compared with NIS 141 million in 2019, a 1.2 percent decrease. In 2020, the Group's return on investment in the Israeli consolidated subsidiaries was 2.0 percent compared with 2.3 percent in 2019.

Leumi Partners Ltd.

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

Leumi Partners ended 2020 with a NIS 106 million net income, mainly on the back of investments and income from fees and commissions, compared to a gain of NIS 141 million in 2019.

Shareholders' equity totaled NIS 3,634 million as at December 31 2020, compared with NIS 1,961 million as at the end of 2019.

On July 19 2020, the Bank of Israel approved Bank Leumi's request to gradually increase the Leumi Group's non-financial investments (which are currently carried out through Leumi Partners) up to a maximum amount which constitutes 12.5 percent of the Bank's shareholders' equity.

To fund the increase in investments as aforesaid, and as part of the restructuring of the Leumi Group - the aim of which is to concentrate the real investments of the Group in a single company (Leumi Partners), Leumi Financial Investments Ltd. and Leumi Real Investments Ltd. (subsidiaries of Bank Leumi) invested in Leumi Partners a total of NIS 1,570 million against an allocation of Ordinary Shares B and a total of NIS 795 million against capital notes.

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.

   During 2020, the Company made new investments in companies, funds and extended mezzanine loans for a total of NIS 623 million. It further committed to additional investments totaling NIS 233 million. The Company's outstanding commitments for investment in private equity funds totaled NIS 592 million as of December 31 2020. The Company's balance of non-banking investments as of December 31 2020 is NIS 3.14 billion.

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

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

In 2020, Leumi Partners Underwriters participated in several public offerings for a total of NIS 18 billion and led 33 public offerings for a total of NIS 6.2 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.

On October 12 2020, the Israel Innovation Authority approved an investment cap of NIS 225 million for Leumi Partners Ltd., under the Authority's benefit track no. 43.

Under the track, investments in technology companies which comply with the terms and conditions of the benefit shall be entitled to protection against loss of up to 40 percent for all investments thereunder."

Foreign Consolidated Companies (Offices)

The Bank's total investments (including in capital notes) in its foreign offices as at the end of 2020 was NIS 3,543 million, compared with NIS 3,874 million as at the end of 2019. In 2020, the foreign offices' contribution to the Group's shekel net income was NIS 25 million, compared with NIS 189 million in 2019.

The Bank has affiliates in the US and UK. In addition, in 2020, the Bank began the process of closing its China office.

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

BLUSA's net income in 2020 was USD 49 million, compared with USD 75 million in the same period last year, a 35 percent decrease; the decrease in the net income arises mainly from loan loss expenses recorded due to the coronavirus crisis.

Return on equity in 2020 was approx. 6 percent, compared to 9 percent in 2019.

BLUSA's total assets in 2020 was USD 7,224 million, compared to a total of USD 6,884 million in 2019, a 5 percent increase.

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 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.

BLUK’s net loss in 2020 was GBP (4) million, compared with a net income of GBP 10 million in the same period last year.

Return on equity in 2020 was 2 percent, compared with 4.5 during 2019.

BLUK’s total assets in 2020 was GBP 1,306 million, compared to a total of GBP 1,334 million in 2019, a 2 percent decrease.

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 and LeumiTech, 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 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 of defense, 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.

On January 1 2021, the Risk Management Division was restructured, with the compliance function now reporting to the Risk Management Division.

The Bank strives to apply a risk management framework at the Group level, which includes corporate governance and control principles that are in line with the provisions of the law and local regulations at foreign offices. 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

The spread of the coronavirus in January 2020 began to affect most world countries during the first quarter of 2020; recently, the virus has been spreading at a quicker pace due to the emergence of various mutations. The coronavirus crisis is a significant ongoing event which disrupts business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact. Leumi's risk profile is examined on a quarterly basis, as part of the risk exposure report reported to the Board of Directors each quarter. The risk profile is examined, inter alia, by using a methodology for classifying the severity level of exposures to different risks. The methodology is based on quantifying the effect of various scenarios being realized on the Group's capital, i.e. its stability, and includes "expert assessments" by relevant functions in the Bank. For changes in the severity of the risk factors against the backdrop of the coronavirus crisis, please see the risk factor severity table. 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 2021.

For more information regarding risk exposure and assessment, please see the Risk Management Report as at December 31 2020.

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 2021, 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 which the banking system and a single bank are 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.

Against the backdrop of the coronavirus crisis event and its implications for the economic activity, the Bank ran in June and November 2020 uniform scenarios for the coronavirus crisis. 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.

Thereof

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 as at December 31 2020.

Credit Risk

Credit provision is a core activity of the Bank and Group and 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 embody credit risk include on- and off-balance-sheet credit risk, such as: 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 three "lines of defense".

As part of its credit risk management, the Bank monitors the quality of its credit portfolio, including the overall adequacy of its loan loss provision to cover losses embodied in the loan portfolio; the credit portfolio concentration level and activity by main products, such as: credit granted to the construction and real estate sector; housing loans; credit granted to private individuals; housing loans and leveraged credit.

During 2020, adjustments were made to the credit risk management and risk appetite, and temporary orders for the credit policies were set.

In 2020, there were no material changes in the corporate governance structure related to credit risk.

Impact of the coronavirus crisis

The coronavirus crisis is a significant ongoing event which is disrupting business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact. The ramifications of the crisis for the global and domestic economies are substantial, with significant decrease in the gross world product in 2020 and 2021; as a result, the Bank's business may also be materially affected.

Due to the high morbidity rates, the virus is handled by adherence to social distancing rules, including lockdowns, which continues to disrupt orderly economic activity. If the vaccination process in Israel continues successfully, achieving inoculation and natural vaccination of the majority of the population, the ability to continue opening various activities in the economy will grow, going back to normal relatively quickly and creating market demand as a result of improvement in households' financial position. In the absence of control over morbidity, the economic and medical ramifications of the coronavirus crisis may continue for a long time.

Taking into account the unique characteristics of the crisis, its adverse effects are not uniform and are more pronounced in industries directly affected by the restrictions, primarily public gathering and social distancing. The industries which sustained the most significant harm include: tourism, aviation, culture, entertainment, and food services, as well as significant indirect impacts on a wide range of industries in the fields of commerce, services and non-residential real estate.

The government aid programs supported households adversely affected by the coronavirus crisis. However, the implications of the restrictive measures and lockdowns burden the labor market and state of employment. According to past experience, this criterion may have an adverse effect on the Bank's households loans portfolio.

Due to the continuous nature of the crisis, it is too early to assess the extent of its effect on the Bank's loans portfolio. The Bank is assessing its ability to withstand adverse developments using systemic stress scenarios, conducting uniform stress scenarios following a request by the Banking Supervision Department.

In addition, due to the increased risk levels, emphases in credit granting during the crisis period were pinpointed, and risk focal points and market developments are being monitored on a regular basis in order to prepare in advance and adapt the activity, as needed.

In addition, the Bank is exploring ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are taken into account and customers are scrutinized in depth.

As part of the Bank's efforts to support its customers' needs and overcome the crisis, the Bank extended credit to its customers through the state-backed Business Loan Funds and approved requests to alter the terms and conditions of loans extended to households and business customers who encountered temporary crises.

Following the crisis, loan loss expenses increased, and amounted in 2020 to NIS 2,552 million. Most of the increase is in the collective loan loss provision.

The Bank's loan loss provision reflects the Bank's estimates. The provision is an estimate based on significant judgment, which was applied during the reporting period in a changing environment characterized by unusual uncertainty.

The provision process includes three main stages, which were adapted to the circumstances of the crisis:

- Identifying and locating borrowers who exhibit adverse indicators, including borrowers who were hurt by the coronavirus crisis, or who are active in economic sectors that are more exposed to the adverse effects of the crisis. The Bank places significant emphasis on strict credit underwriting processes and the monitoring and follow-up activities in order to understand the development of the risks embodied in the credit portfolio, prepare in a timely manner and apply the necessary adjustments. At the same time, the Bank carefully evaluates the need to escalate risk ratings and classification of debts which may be adversely affected by the crisis.
- Recording loan loss expenses, which reflect the expected impaired non-performing debt at the individual level.
- Making collective provisions which reflect the expected loss to the Bank on the collective level. In this context, the Bank is relying on information that is available to it, such as: volume of write-offs, risk profile of the economic sector, debt classification, risk appetite, economic conditions, etc. During 2020, emphasis was placed on the change in customers' risk characteristics and those of the various economic sectors as well as the economic assessments, taking into account, among other things, the unemployment and growth rates. A worsening of any of these criteria is expected to bring about an increase in the loan loss provision. The rate of unemployment - according to a broad definition of the Central Bureau of Statistics (the usual definition, with the addition of those temporarily absent due to unpaid leave and decline in the participation rate) was 16.3 percent in December 2020. The rate of growth in 2020 was negative, with the GDP declining by 2.4 percent - a moderate decline relative to forecasts of various entities - both public and private - published during the year. In addition, the Bank included in the process of developing the provision estimates an examination of the status of customers who were directly hit by the crisis, or who are involved in economic sectors that are more exposed to the adverse effects of the crisis, such as aviation, tourism, hospitality, food, entertainment and energy. In this framework, a mechanism was established to examine and map out risk groups according to the extent of the damage they sustained from the crisis on the one hand, and their chances of recovery on the other hand. The next step was to estimate the possibility that a certain portion of these customers will experience a deterioration in their financial position to their point of their being classified as troubled or the occurrence of a loss event. The mechanism includes a series of different factors which were added to the usual provision process described above, such as: risk ratings and probability of default, assumptions regarding loss in case of default, assessments regarding the number of customers harmed by the crisis in a manner that could elevate the credit risk therefrom, assessments regarding the state of arrears, etc. In this framework, several scenarios were calculated which represent circumstances that management believes are within a reasonable range, which were attributed weights for the purpose of obtaining the best estimate. It should be emphasized that due to the significant uncertainty involved in the current circumstances and, as a result, the difficulty in identifying, recognizing and measuring loan losses, the loan loss provision estimate under the crisis is the result of assumptions and assessments the reasonableness of which is very difficult to determine at this point. This difficulty is exacerbated by actions taken to mitigate the effects of the crisis - such as loan deferments and the Government's assistance program - which may render the ramifications of the customers' credit risk less obvious.

Due to the rapid changes in the financial and economy-wide conditions, in 2020, the Bank re-examined the key indicators used in the provision process and revised them accordingly. However, additional changes in management's assessments, estimates and forecasts may significantly impact the loan loss provision.

Assessments and economic- and other forecasts regarding the duration and severity of the crisis may change frequently and significantly and are therefore subject to a high degree of uncertainty. Therefore, it is difficult to assess or predict how customers' status and behavior will change.

It is difficult to assess how potential changes in any variable may affect the loan loss provision in general, since management takes into account a wide range of factors, measures and indicators in its estimates. It is possible that changes in these variables may not occur at the same rate, or will be inconsistent in terms of their effect of the various components of the loan portfolio. Moreover, future changes in the loan loss provision estimate may stem from different and varied factors, such as changes in the outstanding loan balances, industry credit mix, borrower quality, write-offs, accounting classifications, etc.

Despite the aforesaid, in order to illustrate the sensitivity of the provision and to examine the alternative effect of other assumptions and estimates, the Bank used the various scenarios underlying the estimate and compared them to the outstanding provision that was recognized at the balance sheet date and calculated based on the allocation of weights to these scenarios. In this context, the Bank assumed that - under an optimistic scenario - the scope of customers exposed to the crisis whose financial condition will deteriorate such that it will cause their classification to worsen and/or that the provision made in respect thereof shall be lower than the estimates in the underlying scenario; the scenario is based on a series of different variables as outlined above, circumstances which may be accompanied by a lower unemployment rate than the one used in the underlying assessments, as well as a higher growth rate than in the underlying assessments. On the other hand, the Bank assumed that alternatively - under a pessimistic scenario - the scope of customers exposed to the crisis whose financial position will deteriorate such that it will cause their classification to worsen and/or that the provision made in respect thereof shall be higher than the estimates in the underlying scenario - based on several factors, as described above - circumstances which may be accompanied by an unemployment rate according to its broad definition, which would remain in the two-digit range on an annual average, accompanied by a lower GDP growth rate than the one used in the underlying assessments prior to the crisis. The Bank compared the results of the two alternative scenarios described above to the outstanding loan loss provision recognized in its financial statements as at December 31 2020. Without taking into account the effects of offsets or correlations, the effect of the above may hypothetically cause the loan loss provision to be reduced by approx. NIS 0.5 billion, or may increase it by approx. NIS 0.3 billion.

This analysis is highly subjective and is not intended, nor purports, to estimate future changes in the loan loss provision, for many reasons, including:

- The effects of such changes may not be linear.
- There are interactions, which may be material, between the changes.
- The crisis has rapidly affected numerous areas, with force and patterns that are unprecedented in recent history; the uncertainty therefore overshadows any estimation process.
- Significant changes in the severity and duration of the crisis, the effects of government aid, developments on the health level and speed of recovery may significantly alter the provision estimates, regardless of the sensitivities outlined above
- The existence of financial harm and the customer's ability to cope therewith depend on numerous factors, which are not clear enough at this stage, including: the speed of going "back to normal", the success of the vaccination effort, the ability of businesses and households to handle and adapt - by changing activity and behavior patterns, government aid, measures taken by the Bank of Israel, etc.

Management believes that the current estimate is adequate as at the reporting date. Since the analysis involved significant judgment, others performing similar analyses may reach different conclusions.

It is clarified that the uncertainty regarding the trajectory of the crisis's development and its ramifications for the real economy are still high, such that the provision may change - increase or decrease - in the future by material amounts in accordance with the developments and due to the uncertainty, as described above.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under Forward-Looking Information.

Changes in debt covenants as part of coping with the coronavirus crisis

The Bank implemented the Bank of Israel's guidance as follows: guidance dated April 21 2020, Regulatory Emphases for Handling Debts and Reporting to the Public and dated October 11 2020 on the coronavirus crisis - Regulatory Emphases Regarding Additional Changes in the Terms and Conditions of Loans, and guidance dated December 3 2020 and December 17 2020 on the coronavirus crisis - Emphases on the Additional Outline for Payments Deferment and the Coronavirus Crisis - Emphases on the Additional Outline for Loan Deferment for Small Businesses, respectively.

The Bank adopted the uniform outlines for loan deferment formulated by the Bank of Israel, which were revised and extended as from May 7 2020, July 13 2020 and September 29 2020, and followed provisions of said outlines to approve applications of private individuals and businesses to alter their loan covenants, mostly through deferment. According to the comprehensive revised outline dated September 29 2020, the deadline for applying for a loan deferment was extended to December 31 2020. The extension comprised all types of loans: mortgages, consumer credit and business credit.

As a rule, the loan deferment was provided to borrowers who had met their loan repayments immediately prior to the crisis and are in a temporary crisis due to the coronavirus, but whom the Bank believes will overcome the crisis. According to the Bank of Israel's guidance, consumer loans of up to NIS 100,000 also included a deferment component which is not subject to the Bank's discretion.

In addition, on November 30 2020, the Bank adopted the additional uniform outline for deferment of mortgage and consumer loan payments, and on December 10 2020, the Bank adopted the uniform outline for providing loan repayment aid to small and micro-businesses.[1]

The new outline for deferment f payments for mortgages and consumer loans from November 30 2020 is designed to provide customers who were significantly affected by the crisis and who meet several cumulative conditions.[2] These customers can contact the bank (without the bank's discretion) and request that it follow the new uniform outline so as to significantly decrease their loan repayments for predefined, prolonged periods. The outline became effective on January 1 2021.

The new outline for aiding small and micro-businesses, dated December 10 2020, allows small and micro-businesses significantly hurt by the crisis, who meet several cumulative conditions,[3] to contact the bank and request that the bank defer the principal component of the loan, without the bank exercising any discretion. In loans of up to NIS 500 thousand - for a period of up to one year (at the customer's choice) and for loans of over NIS 500 thousand - for a period of up to six months (at the customer's choice). The outline became effective on January 1 2021.

Approval of applications for loan deferment in 2020 according to said uniform outlines was based on outlines formulated by the business lines in collaboration with the Accounting Division and Risk Management Division, and adjusted in respect of the characteristics of the business lines and risk characteristics of the customers (including customers in arrears of over 30 days, customers in monitored lists and classified customers), including up-to-date borrowers' ratings and reassessment of the adequateness of their classification, in accordance with the Bank's rules and the regulation. The approval process was accompanied by defining a dedicated authorization outline.

The majority of the outstanding amounts of loans approved for deferment as of the reporting date, and which are still under deferment, is for terms ranging from three to six months for consumer and business loans; deferment was provided by extending the loan term by deferring principal repayments.

In housing loans, most deferments were given by way of full grace (principal and interest), with the deferred payments - plus interest and linkage differences - paid over the remaining loan term.

The vast majority of the applications were granted.

The Bank is monitoring all of its customers, especially those who have deferred their loan payments, in order to identify on time any credit deterioration, including potential exposure to loss. This both as part of the monitoring and

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1 Small business - turnover of NIS 10-50 million. Micro-business - turnover of up to NIS 10 million.

2 Cumulative conditions: customers whose loans have been deferred as at the date of the additional outline, whose household income, as of February 28 2020 does not exceed NIS 20,000, net and whose income was down by at least 40 percent.

3 The loan is in deferment status as at December 31 2020, the business's turnover is down by about 25 percent for three months (not necessarily consecutive months), during March to December 2020, compared to the same period last year.

identification processes of customers in the Bank's ongoing tracking lists and as part of special-purpose monitoring to identify customers with a higher potential of incurring damage as a result of the crisis.

Out of all frozen outstanding mortgages as at December 31 2020, approximately 63 percent have resumed regular payments.

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 as at December 31 2020.

Outstanding debts in Israel[a] the covenants of which were amended as part of dealing with the coronavirus from March 1 2020 to December 31 2020, which were not classified as restructuring of troubled debt following the deferment

				More information about outstanding loans to the public for which deferment was granted					More information about deferred debts by deferment period[c]		Debts whose deferment term has ended, as of the reporting date	
	Deferred debts as of the reporting date[b]				Non-troubled debts				Non-troubled debts with accrued deferment			
	Outs-tanding loans for which payments were deferred	No. of loans[e]	Amount of payments deferred	Trou-bled debt	Debts without credit perfor-mance rating	Outs-tanding perfor mance-rated loans in arrears of 30 days or more	Non-delin-quent debts with credit perfor-mance rating	Total non-troubled debts	More than 3 months to 6 months	More than 6 months	Outs-tanding loans to the public	Of which: in arrears of 30 days or more
	In NIS million											
Corporations	688	44	75	174	159	-	355	514	386	1	1,027	-
Mid-sized businesses	345	123	24	33	46	-	266	312	119	74	2,325	15
Small- and micro-businesses	2,416	14,631	308	98	261	7	2,050	2,318	1,262	680	7,145	46
Private individuals - excluding housing loans	1,512	30,928	232	37	237	1	1,237	1,475	786	416	1,608	21
Housing loans	8,219	17,929	505	104	5,597	154	2,364	8,115	2,391	5,488	12,844	142
Total as at December 31 2020	13,180	63,655	1,144	446[d]	6,300	162	6,272	12,734	4,944	6,659	24,949	224
Total as at September 30 2020	17,697	83,088	1,194	585	4,845	258	12,009	17,112	11,314	4,142	21,690	125

(a) Debts which were deferred in foreign subsidiaries, were done so according to local outlines and their outstanding amount is immaterial.
(b) As at January 31 2021, the outstanding balance for which payments were deferred was NIS 7,584 million, and the outstanding payments deferred in effect totaled approx. NIS 682 million.
(c) The deferment period is the cumulative period of deferments granted for a debt from the beginning of the coronavirus period and does not include deferment for which the borrower is eligible under any law.
(d) Of which: classified as non-accrual impaired non-performing debts in the amount of NIS 205 million.
(e) The number of loans is presented separately.

Until January 31 2021, Leumi placed a moratorium on current payments of loans to small and micro-businesses totaling NIS 1.2 billion, out of which, only NIS 170 million are still under moratorium.
Until January 31 2021, Leumi placed a moratorium on current payments of mortgages totaling NIS 0.9 billion, out of which, only NIS 360 million are still under moratorium.

Separately from the above uniform outline, as from August 2020, the Bank allows customers who met their repayment schedules to date, under certain conditions, to receive a partial grace period (for principal repayments) of up to two years.

State-backed loans

Against the background of the coronavirus outbreak, the Bank signed agreements with the state (which were revised from time to time) for extending state-backed loans as part of the "Coronavirus Funds", the purpose of which is to aid businesses (small, mid-sized and large), which encounter cash flow difficulties as a result of the coronavirus crisis. The loan covenants were determined by the Ministry of Finance and are uniform for all types of borrowers.

The funds are designed for extending loans to finance cash flow gaps for businesses.

The "Coronavirus Funds" have several loan tracks: the general track, the higher-risk track and the large-business track

- General track - maximum loan amount of up to 40 percent of the annual turnover, but no more than NIS 20 million
- Higher-risk track (beginning on June 21 2020) - maximum loan amount of up to 40 percent of the annual turnover, but no more than NIS 20 million

In this tracks, a new business will be eligible for a loan that shall not exceed 16 percent of the cumulative expenses of the business or NIS 0.5 million, whichever the higher.

- Large business track - maximum loan amount of up to 8 percent of turnover, and no more than NIS 100 million, the lowest of the two.
- For high-tech companies: the lower of 8 percent of turnover or 8 percent of expenditure, excluding finance expenses, but no more than NIS 100 million.

Loan term: for all tracks - one to 10 years (for new loans only), with the principal repayments deferred by up to six months for loans of up to two years.
In loans of over two years, a 12-month grace period may be granted.
In existing loans, whose grace period has ended, the extension of the grace period for another period of up to 12 months may be discussed.
In the general and higher-risk tracks, the interest in the first year, for the grace period, is paid for by the state.
Customer collateral: up to 5 percent of the approved loan amount.

The credit risk for this type of loan is hedged by the state according to the following rates:

- In the general track: up to 85 percent in specific credit and no more than 15 percent for the entire portfolio.
- Higher-risk track: Up to 95 percent in specific credit and no more than 60 percent for the entire extended track portfolio (intended for businesses which were hard-hit by the coronavirus crisis, according to tests prescribed by the Ministry of Finance).
- In the large business track: up to 75 percent in a single loan and no more than 12 percent for the entire portfolio.

Obtaining guarantees from the State has helped the Bank support the needs of its customers and positively contributed to the quality of the Bank's loan portfolio.

Information regarding state-backed credit granted as part of the handling of the coronavirus crisis as at December 31 2020

Customer classification	Outstanding debt as at December 31 2020 In NIS million
Small- and micro-businesses	3,807
Mid-sized businesses	1,595
Corporations	469
Total	5,871

Comments:

1. Customer classification is based on regulatory operating segments.
2. Until shortly before the financial statements' publication date, the Bank extended loans to businesses totaling NIS 6.2 billion through the state-backed Business Loan Fund.
   Additionally, the Bank approved NIS 0.2 billion in loans which have yet to be withdrawn by customers.

For more information about credit risk, please see the "Credit Risk" section in the Annual Risk Management Report as at December 31 2020.

Credit risk and non-performing assets

	December 31 2020			
	Commercial	For housing	Private individuals - other	Total
	In NIS million			
1. Credit risk in credit performance rating:[(a)]				
On-balance-sheet credit risk	198,744	83,930	24,028	306,702
Off-balance-sheet credit risk	88,669	3,226	17,129	109,024
Total credit risk in credit performance rating	287,413	87,156	41,157	415,726
Credit risk not in credit performance rating				
a. Non-troubled	3,358	5,687	1,519	10,564
B. Total troubled[(b)]	7,213	772	641	8,626
Special mention	3,177	722	250	4,149
Substandard	404	-	54	458
Impaired non-performing	3,632	50	337	4,019
Total on-balance-sheet credit risk	10,571	6,459	2,160	19,190
Off-balance-sheet credit risk	873	-	212	1,085
Total credit risk not in credit performance rating	11,444	6,459	2,372	20,275
Of which: Unimpaired debts in arrears of 90 days or more[(c)]	56	720	38	814
Total credit risk of the public	298,857	93,615	43,529	436,001
More information on non-performing assets				
a. Non-accrual impaired non-performing debts	3,212	50	207	3,469
b. Assets received for settled loans	8	-	-	8
Total non-performing assets of the public	3,220	50	207	3,477
Percentage of non-accrual impaired non-performing loans to the public (NPL) out of total loans to the public[(d)]				1.15%

(a) Credit risk whose credit rating at the reporting date matches 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) The NPL was up compared with December 31 2019, as a result of the effects of the coronavirus crisis; most of the increase took place in the fourth quarter of 2020 due to classifying commercial debts in economic sectors that are more exposed to the adverse effects of the crisis as impaired non-performing debts under restructuring.

Credit risk and non-performing assets (cont.)

	December 31 2019			
	Commercial	For housing	Private individuals - other	Total
	In NIS million			
1. Credit risk in credit performance rating:[(a)]				
On-balance-sheet credit risk	189,787	83,117	25,740	298,644
Off-balance-sheet credit risk	84,484	2,573	16,748	103,805
Total credit risk in credit performance rating	274,271	85,690	42,488	402,449
Credit risk not in credit performance rating				
a. Non-troubled	1,973	472	1,684	4,129
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 on-balance-sheet credit risk	6,148	1,302	2,297	9,747
Off-balance-sheet credit risk	865	-	19	884
Total credit risk not in credit performance rating	7,013	1,302	2,316	10,631
Of which: Unimpaired debts in arrears of 90 days or more [(c)]	92	830	58	980
Total credit risk of the public	281,284	86,992	44,804	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 matches 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.

Change in Outstanding Impaired Non-Performing Loans

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

	December 31							
	2020				2019			
	Com-mercial	For housing	Private indi-viduals - other	Total	Com-mercial	For housing	Private indi-viduals - other	Total
	In NIS million							
Outstanding impaired non-performing debts as at the beginning of the year[(e)]	2,220	-	311	2,531	2,380	31	340	2,751
Loans classified as impaired non-performing debts during the year	2,789	50	234	3,073	1,476	-	184	1,660
Debts once again classified as unimpaired	(8)	-	-	(8)	(33)	-	(1)	(34)
Written-off impaired non-performing debts	(502)	-	(55)	(557)	(639)	-	(62)	(701)
Repaid impaired non-performing debts	(838)	-	(153)	(991)	(900)	(14)	(149)	(1,063)
Adjustments from translation of financial statements	(29)	-	-	(29)	(41)	(2)	-	(43)
Cessation of consolidation	-	-	-	-	(23)	(15)	(1)	(39)
Outstanding impaired non-performing debts as at the end of the year	3,632	50	337	4,019	2,220	-	311	2,531

Of which: change in troubled debts under restructuring

	December 31							
	2020				2019			
	Com-mercial	For housing	Private indi-viduals - other	Total	Com-mercial	For housing	Private indi-viduals - other	Total
	In NIS million							
Balance of troubled debts under restructuring as at the beginning of the year	729	-	290	1,019	1,318	8	319	1,645
Restructurings carried out during the year	2,179	-	214	2,393	310	-	168	478
Debts reclassified as unimpaired following subsequent restructuring	-	-	-	-	-	-	-	-
Written-off restructured debt	(87)	-	(48)	(135)	(159)	-	(46)	(205)
Repaid restructured debt	(489)	-	(139)	(628)	(702)	-	(150)	(852)
Adjustments from translation of financial statements	(8)	-	-	(8)	(20)	(1)	-	(21)
Cessation of consolidation	-	-	-	-	(18)	(7)	(1)	(26)
Balance of troubled debts under restructuring as at the end of the year	2,324	-	317	2,641	729	-	290	1,019

The increase in the outstanding debts under restructuring as at the end of 2020, compared with the end of 2019, is the result of the effects of the coronavirus crisis; most of the increase took place in the fourth quarter of 2020 due to classifying commercial debts in economic sectors that are more exposed to the adverse effects of the crisis as impaired non-performing debts under restructuring.

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.

For more information regarding the manner in which the rates of the collective provision for the coronavirus crisis were calculated, please see the section entitled "Effect of the Coronavirus Crisis" under "Credit Risks".

For more information regarding the loan loss provision, please see "Critical Accounting Policies and Estimates".

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

	December 31							
	2020				2019			
	Com-mercial	For housing	Private indi-viduals - other	Total	Com-mercial	For housing	Private indi-viduals - other	Total
	In NIS million							
Balance of loan loss provision for impaired non-performing debts as at the beginning of the year	**372**	**-**	**167**	**539**	459	4	150	613
Loan loss expenses (income)	**698**	**7**	**(30)**	**675**	158	-	(78)	80
Accounting write-offs	**(502)**	**-**	**(55)**	**(557)**	(639)	-	(62)	(701)
Collection of debts written off in previous years	**309**	**-**	**130**	**439**	408	-	157	565
Adjustments from translation of financial statements	**(2)**	**-**	**-**	**(2)**	(2)	-	-	(2)
Cessation of consolidation	**-**	**-**	**-**	**-**	(12)	(4)	-	(16)
Balance of loan loss provision for impaired non-performing debts as at the end of the year	**875**	**7**	**212**	**1,094**	372	-	167	539

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	
	2020	2019
	In %	
Percentage of impaired non-performing loans to the public out of outstanding loans to the public	1.34	0.89
Percentage of unimpaired loans to the public in arrears of 90 days or more out of outstanding loans to the public	0.27	0.34
Percentage of troubled credit risk to the public out of the overall credit risk for the public	2.12	1.54
Percentage of expenses for loan losses out of the average outstanding loans to the public	0.88	0.22
Percentage of net write-offs for loans to the public out of average outstanding loans to the public	(0.18)	(0.24)
Percentage of balance of the loan loss provision for loans to the public out of outstanding loans to the public	1.76	1.16
Percentage of balance of the loan loss provision for loans to the public out of outstanding impaired non-performing loans to the public	131.62	131.49
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	109.46	94.79
Percentage of net write-offs for loans to the public out of the outstanding loan loss provision for loans to the public	(10.00)	(20.04)

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 2020						
					Loan losses[c]		
	Total credit risk[a]	Of which: Credit perfor-mance rating[e]	Of which: Troubled credit risk[d]	Of which: Impaired non-perfor-ming credit risk	Loan loss expenses (income)	Accoun-ting write-offs, net	Balance of loan loss provision
	In NIS million						
<u>For borrowers activity in Israel - public-commercial</u>							
Manufacturing	26,086	25,216	511	281	147	105	(454)
Construction and real estate - construction[f]	62,099	61,643	350	137	145	25	(479)
Construction and real estate - real estate activity	33,769	32,926	525	332	100	(32)	(405)
Commerce	31,491	30,407	1,000	467	157	35	(471)
Financial services	33,751	33,739	12	4	51	(13)	(233)
Other sectors	47,542	44,922	1,953	941	828	112	(1,261)
Commercial - total[g]	234,738	228,853	4,351	2,162	1,428	232	(3,303)
Private individuals - housing loans	93,455	87,028	748	26	174	6	(635)
Private individuals - other	43,115	40,745	654	336	271	136	(790)
Total loans to the public - activity in Israel	371,308	356,626	5,753	2,524	1,873	374	(4,728)
Banks and governments - in Israel	46,509	46,509	-	-	1	-	(3)
Total activity in Israel	417,817	403,135	5,753	2,524	1,874	374	(4,731)
<u>For borrower activity outside Israel</u>							
Total, public - activity outside Israel	64,693	59,100	3,481	1,732	678	155	(984)
Foreign banks and governments	53,737	53,722	15	15	-	-	-
Total activity outside Israel	118,430	112,822	3,496	1,747	678	155	(984)
Total activity in and outside Israel	536,247	515,957	9,249	4,271	2,552	529	(5,715)

(a) On- 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 311,668, 87,901, 3,019, 15,255 and 118,404 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) On- 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 matches 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 2,707 million extended to purchasing groups currently in the process of construction.

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

	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: Impaired non-perfor-ming credit risk	Loan loss expenses (income)	Accoun-ting write-offs, net	Balance of loan loss provision
	In NIS million						
For borrowers activity in Israel - public-commercial							
Manufacturing	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)
Commerce	30,151	29,343	776	433	235	210	(357)
Financial services	33,866	33,848	18	5	(6)	12	(168)
Other sectors	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	42,077	629	311	135	111	(656)
Total loans to the public - activity in Israel	348,837	341,468	4,670	1,952	424	575	(3,228)
Banks and governments - in Israel	43,263	43,263	-	-	(1)	-	(2)
Total activity in Israel	392,100	384,731	4,670	1,952	423	575	(3,230)
For borrower 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	504,031	493,400	6,380	2,871	609	667	(3,716)

(a) On- 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, 1,117, 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) On- 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 matches 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.

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 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 segment's risk characteristics.

The Bank also analyses the real estate sector's risk under a systemic stress scenario. In this context, loan losses are broken down into sub-sectors and examined against the 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.

As of 2016, the Bank insures its guarantee portfolio in accordance with the Sales Law (Apartments). The Bank's management has decided that the insurance will not be renewed for new projects as of January 1 2021. However, sales guarantees issued for projects that began until December 31 2020, including commitments thereto, will continue to be insured under the current policies.

These policies, which were purchased from global, high-rated reinsurers, insure the Bank against paying for the forfeiture of the guarantees, according to the terms and conditions of the policy. 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).

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

On March 15 2020, as part of regulatory reliefs and services to the public applied to the banking system due to the coronavirus outbreak, the Bank of Israel established - as part of a temporary order - that banks may increase credit granted to the construction and real estate industry, such that the total credit (excluding national infrastructure) will increase from 20 percent to 22 percent of the total credit portfolio of the Bank (the restricted rate, including infrastructure, will be 24 percent). On September 16 2020, the order was extended by six months, to March 31 2021.

On January 10 2021, the Bank of Israel revised Proper Conduct of Banking Business Directive No. 315, Industry Indebtedness Limitation for the real estate and construction industry in the banking system, as follows:

- The relief in the temporary order was extended by five years, allowing the banks to increase their exposure to the real estate and construction industry from 20 percent to 22 percent (excluding national infrastructure) until 2025;
- The exposure limitation to the real estate and construction industry (including national infrastructure) grew by 2 percentage points (the threshold was up from 24 percent to 26 percent of the portfolio).
- It was determined that credit for which eligible credit insurance was provided would be classified according to the insuring industry. Such that in order to measure the industry limitation, credit for real estate and construction covered by eligible credit insurance will be deducted from the indebtedness of the real estate and construction industry.

As of December 31 2020, the Bank complies with the regulatory and internal restrictions set out in the law, which are in line with the Bank's assessment of the risk embodied in the various sub-sectors.

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

	December 31		Change	
	2020	2019		
	In NIS million			In %
On-balance-sheet credit risk	**70,646**	62,949	7,697	12.2
Guarantees for apartment buyers[(a)]	**5,181**	5,510	(329)	(6.0)
Other off-balance-sheet credit risk[(a)]	**33,928**	29,649	4,279	14.4
Total overall credit risk	**109,755**	98,108	11,647	11.9

(a) In credit risk terms.

Impact of the coronavirus crisis

As a rule, the assessment is that the residential construction sector will sustain less damage than others, and that companies which experienced the crisis following a decade of prosperity, will emerge from it relatively well compared to companies in other economic sectors. However, more than ever, companies are exposed to cash flow issues due to the effects of the crisis and lockdowns, which may lead to a slowdown in sales and construction delays. In 2020, medium and large commercial centers suffered substantial harm, as a result of movement restrictions throughout the year and due to the public's accelerated transition to online commerce. Looking forward, the assessment is that once full activity is resumed, these centers will recover, albeit at a slow pace, even in light of the online commerce trends and excess supply in the market. The office market showed relative robustness and sustained moderate damage (especially in light of the growth in the high-tech services sector and the moderate damage sustained by office driven industries). Looking forward, due to excess supply of office space even prior to the crisis and the expected continuation of partial work from home, the assessment is that in 2021, occupancy rates and rent may drop.

The Bank is assessing its ability to withstand adverse developments in the sector using systemic stress scenarios, using uniform stress scenarios following a request by the Banking Supervision Department.

In addition, due to the increased risk levels, emphases in credit granting during the crisis period were pinpointed, and risk focal points and market developments are being monitored on a regular basis in order to prepare in advance and adapt the activity, if needed.

In addition, the Bank is exploring ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are taken into account and customers are scrutinized in depth.

As part of the Bank's efforts to support its customers' needs in order to overcome the crisis period, the Bank has implemented the Bank of Israel's guidance.

For more information, please see the section entitled "Credit, changes in debt covenants as part of coping with the coronavirus crisis".

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

		December 31					
		2020			2019		
Maximum credit in NIS thousands		% of total no. of borrowers	% of total balance sheet credit	% of total off-balance-sheet credit	% of total no. of borrowers	% of total balance sheet credit	% of total off-balance-sheet credit
From	To	In %			In %		
-	80	**72.1**	**3.2**	**11.1**	71.3	3.8	11.0
80	600	**21.8**	**17.8**	**11.0**	22.9	19.6	11.2
600	1,200	**4.1**	**14.7**	**4.1**	3.9	14.6	3.9
1,200	2,000	**1.2**	**7.4**	**2.7**	1.1	7.0	2.7
2,000	8,000	**0.6**	**8.5**	**4.9**	0.6	8.3	5.4
8,000	20,000	**0.1**	**6.7**	**4.4**	0.1	6.7	4.6
20,000	40,000	**0.07**	**6.9**	**5.4**	0.06	7.0	5.3
40,000	200,000	**0.06**	**18.2**	**18.7**	0.06	19.0	19.6
200,000	800,000	**0.01(a)**	**10.1**	**18.9**	0.01(a)	9.1	17.9
Over 800.000		**-(b)**	**6.5**	**18.8**	-(b)	4.9	18.4
Total		**100.0**	**100.0**	**100.0**	100.0	100.0	100.0

(a) In 2020 - 152 borrowers and in 2019 - 125 borrowers.
(b) In 2020 - 31 borrowers and in 2019 - 22 borrowers (in %, less than 0.01).

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

		December 31					
		2020			2019		
Maximum credit in NIS millions		No. of borrowers	On-balance-sheet credit	Off-balance-sheet credit risk	No. of borrowers	On-balance-sheet credit	Off-balance-sheet credit risk
From	To		In NIS million			In NIS million	
800	1,200	**17**	**8,462**	**7,264**	9	4,404	3,769
1,200	1,600	**5**	**1,966**	**4,993**	4	1,971	3,387
1,600	2,000	**5**	**5,047**	**3,309**	5	3,863	5,016
2,000	2,400	**2**	**1,641**	**2,743**	2	1,538	3,046
2,400	2,800	**2**	**2,717**	**2,419**	1	1,125	1,458
2,800	3,200	**-**	**-**	**-**	-	-	-
3,200	3,943	**-**	**-**	**-**	1	1,335	2,607
Total		**31**	**19,833**	**20,728**	22	14,236	19,283

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

Borrower Groups[1]

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 "group of borrowers of the credit card type" 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 update to said directive. The update states that a borrower's net indebtedness for speculative and non-supervised activity will be limited to 10 percent of a 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.

As at December 31 2020, 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					
	2020			2019		
	Exposure[a)(b)]			Exposure[a)(b)]		
	Balance-sheet	Off-balance-sheet[(c)]	Total	Balance-sheet	Off-balance-sheet[(c)]	Total
	In NIS million					
USA	**29,300**	**5,774**	**35,074**	29,086	6,771	35,857
UK	**17,678**	**8,049**	**25,727**	13,232	8,660	21,892
France	**3,418**	**1,966**	**5,384**	3,604	1,756	5,360
Switzerland	**1,050**	**1,915**	**2,965**	1,070	1,762	2,832
Germany	**3,665**	**1,613**	**5,278**	5,486	1,356	6,842
Other	**22,090**	**2,616**	**24,706**	17,484	2,069	19,553
Total exposure to foreign countries	**77,201**	**21,933**	**99,134**	69,962	22,374	92,336
Of which: total exposure to GIPS countries[(d)]	**917**	**276**	**1,193**	1,108	206	1,314
Of which: total exposure to LDC countries[(e)]	**1,068**	**892**	**1,960**	1,412	827	2,239
Of which: total exposure to countries with liquidity issues[(f)]	**1,018**	**152**	**1,170**	406	150	556

(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 netting 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) The Bank set several criteria, according to which a list of several countries was drawn, where the current conditions may reflect liquidity problems and which may have an effect on their solvency. The balance relates to 16 countries. (In December 2019 - 13 countries).

Part B - As at December 31 2020 and December 31 2019, 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 other 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.

Impact of the coronavirus crisis

During the first quarter - against the backdrop of the material ramifications of the coronavirus event and the extreme volatility in the financial markets - there was an increase in the credit spreads of all local and foreign financial institutions to which the Bank is exposed. Alongside the volatility in the markets and fears of a global recession, the world's central banks began to implement measures in order to support the global financial systems, including measures such as: capital requirements reliefs, reliefs in applying accounting reforms, provision of liquidity tools to banks, etc.

In the second quarter, the spreads of banks and foreign financial institutions to which the Bank is exposed declined materially. During the third and fourth quarter, credit spreads continued to decline.

The Bank continued to monitor foreign financial institutions and adjusted its exposure thereto in accordance with the changes in the risk environment it had identified. Such management takes into account, inter alia:

- Various financial ratios such as capital ratios, liquidity ratios and more, as published by the banks.
- The market assessment, as reflected in their market capitalization and equity risk embodied in CDSs and bond spreads.
- Ratings are in accordance with those of international rating agencies.
- The financial robustness of the country in which the bank's center of activity is located.
- These measures were implemented by each state in order to support its financial system and economy.
- Quantitative limitations on the extent of the exposure to a single bank and country.

The main exposure to banks and foreign financial institutions is reflected in investment ratings. The Bank does not believe that these banks and financial institutions are at a high risk level.

Credit exposure to foreign financial institutions[a]

	As at December 31 2020[e]		
	On balance-sheet credit risk[b]	Current off-balance-sheet credit risk[c]	Current credit exposure
	In NIS million		
Total current credit exposure to foreign financial institutions[d]			
AA- to AAA	23,742	581	24,323
A- to A+	3,863	725	4,588
BBB- to BBB+	526	216	742
B- to BB+	93	7	100
No credit rating	163	-	163
Total current credit exposure to foreign financial institutions	28,387	1,529	29,916

Please see comments below.

Credit exposure to foreign financial institutions[a] (cont.)

	As at December 31 2019[e]		
	On balance-sheet credit risk[b]	Current off-balance-sheet credit risk[c]	Current credit exposure
	In NIS million		
Total current credit exposure to foreign financial institutions[d]			
AA- to AAA	19,527	762	20,289
A- to A+	4,526	470	4,996
BBB- to BBB+	220	231	451
B- to BB+	160	11	171
No credit rating	148	-	148
Total current credit exposure to foreign financial institutions	24,581	1,474	26,055

(a) Foreign financial institutions include the following: banks, investment banks, brokers/dealers, insurers and institutional entities.
(b) As at December 31 2020, deposits with banks, loans 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 600 million (as at December 31 2019 - NIS 527 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) As of December 31 2020 and December 31 2019, there is no troubled credit risk vis a vis foreign financial institutions.

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 equity investment, government guarantees for certain asset portfolios, guarantees for raising sources 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

Economic developments in Israel in recent years (a low interest environment, the affordable housing program, and a moderate increase in housing prices) have led to a significant increase in housing credit provision, both for housing and investment purposes.
The housing loan portfolio is monitored and the trends in its characteristics and risk centers analyzed on a regular basis, including monitoring of the breakdown of credit by linkage base, monthly repayment capacity, interest rate, LTV ratio, and credit rating, in accordance with the Bank's 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 (LTV), etc., while complying with all of the requirements 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 meets market demand by private organizations, historical landowners, etc. From a risk standpoint, the loans are extended to different, geographically diversified populations, following close scrutiny of each borrower's repayment capacity.

During 2020, new loan performance increased over 2019 due to demand for housing loans in Israel both for housing loans in Israel - both to purchase homes and credit for investing in securing homes.

Performance of new loans and refinancing loans for the purchase of residential apartments and mortgaging of residential apartments in Israel

	2020	2019	
	Total for the year	Total for the	Rate of change
	In NIS million		In %
By the Bank	**17,016**	13,703	24.2
By the Government of Israel	**150**	145	3.4
New loans	**17,166**	13,848	24.0
Recycled loans	**2,590**	2,856	(9.3)
Total performance	**19,756**	16,704	18.3

Impact of the coronavirus crisis

The government aid programs supported households adversely affected by the coronavirus crisis. However, the implications of the restrictive measures and lockdowns burden the labor market and state of employment. According to past experience, this criterion may have an adverse effect of the Bank's housing loans portfolio. Due to the continuous nature of the crisis, it is too early to assess the extent of its effect on the Bank's housing loans portfolio. The Bank is assessing its ability to withstand adverse developments using systemic stress scenarios, using uniform stress scenarios following a request by the Banking Supervision Department.

In addition, due to the increased risk levels, emphases in credit granting during the crisis period were pinpointed, and risk focal points and market developments are being monitored on a regular basis in order to prepare in advance and adapt the activity, if needed.

In addition, the Bank is exploring ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are taken into account and customers are scrutinized in depth.

As part of the Bank's efforts to support its customers' needs in order to overcome the crisis period, the Bank has implemented the Bank of Israel's guidance.

On March 15 2020, the Bank of Israel published several regulatory reliefs including: lifting restrictions on all-purpose loans of households secured by property. The Bank adopted the relief in order to help its customers, after becoming convinced that these customers will be able to overcome the crisis.

On April 27 2020, the Bank of Israel published a temporary order, Proper Conduct of Banking Business Directive No. 250, which revises Proper Conduct of Banking Business Directive No. 329, according to which the banks are entitled to offer apartment buyers mortgages based on their income prior to going on unpaid leave, under several terms and conditions. The purpose of the approval is expected to help the banks customers obtain a mortgage when they are on unpaid leave or cut back to a part-time position due to the coronavirus crisis. The Bank adopted the relief in order to help its customers, after becoming convinced that these customers will be able to overcome the crisis.

From August 2020, the Bank allows customers who met their repayment schedules to date, under certain conditions, to receive a deferment of the loan principal (partial grace) for a period of up to two years.

For more information, please see the section entitled "Credit, changes in debt covenants as part of coping with the coronavirus crisis".

On December 27 2020, the Bank of Israel published a revised Proper Conduct of Banking Business Directive No. 329, which revokes the prime interest rate restriction (according to which the prime portion of the loan shall not constitute more than one third of the total loan), leaving in place only the restriction that the ratio between the variable interest portion of a housing loan and the total loan amount shall not exceed 66.66 percent. The directive became effective on January 17 2021 for new housing loans and on February 28 2021 - for refinancing housing loans.

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Rate of change
	In NIS million	In %
December 31 2018	79,944	3.8
December 31 2019	83,746	4.8
December 31 2020	**89,594**	**7.0**

2018 and 2019 saw an increase in total housing loans. The increase continued and even grew further in 2020, inter alia, due to the rallying of the real estate market as a result of the maturing of affordable housing projects.

As part of its monitoring of risk centers in the housing loans portfolio, the Bank also monitors characteristics of the portfolio and new credit, including the new credit's breakdown by loan-to-value ratios (loan-to-value ratio (LTV) is the ratio of total credit approved for the borrower - even if it has not yet been actually extended either in full or in part - out of the value of the mortgaged property during the approval of the credit line) and the repayment ratio (the repayment ratio is defined as the ratio between the available monthly income and monthly repayment).

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		
	Balance in NIS millions	Percentage of the loans portfolio	Balance in NIS millions	Percentage of the loans portfolio	Balance in NIS millions	Percentage of the loans portfolio	Balance in NIS millions	Percentage of the loans portfolio	Balance in NIS millions	% of the loans portfolio In %	Total loans portfolio, in NIS millions
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	41	13,509	16.1	19,012	22.7	732	0.9	83,746
December 31 2020	**18,904**	**21.2**	**36,380**	**40.6**	**14,077**	**15.7**	**19,658**	**21.9**	**575**	**0.6**	**89,594**

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):

	2020				2019	2018
	Q4	Q3	Q2	Q1	Annual average	Annual average
	Rate of performance					
	In %					
Fixed - Linked	**16**	15.2	16.7	18.8	20.6	17.1
Variable every 5 years or more - linked	**19.1**	17.6	18.5	18.7	19.2	17.2
Fixed - non-linked	**31.2**	29.9	28	29.1	24.3	28.1
Variable every 5 years or more - non-linked	**2.5**	3.9	3.3	2.8	3.2	5.3
Variable up to 5 years - non-linked	**31.2**	33.4	33.4	30.6	32.4	32
Variable - Foreign currency	**-**	-	0.1	-	0.2	0.3

The percentage of new variable-interest housing loans granted by the Bank during 2020 was 54.0 percent compared to approx. 55.0 percent in 2019. 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-interest housing loans extended during 2020 is 32.2 percent compared to 32.6 percent in 2019.

Data on new housing loans in Israel

During 2020, the Bank granted new housing loans totaling NIS 17.0 billion out of its funds.

The average loan extended by the Bank in 2020 was NIS 774 thousand, compared to NIS 723 thousand in 2019 and NIS 717 thousand in 2018.

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

	Recorded outstanding debt	Delinquent amount	Percentage of amount in arrears
	In NIS million		In %
December 31 2018	80,417	862	1.07
December 31 2019	84,212	830	0.99
December 31 2020	**90,228**	**720**	**0.80**

As of December 31 2020, the outstanding loan loss provision, which includes the collective provision for housing loans (hereinafter - the "collective provision"), is NIS 634 million, constituting 0.71 percent of the housing loans' outstanding balance, compared with NIS 466 million as at December 31 2019, which constitutes 0.56 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 an LTV ratio of over 60 percent, (LTV ratio is the ratio of the total loan granted to the borrower - even if it has not yet been granted in effect either in full or in part - out of the value of the pledged property during the approval of the credit line).

	2020				2019	2018
	Q4	Q3	Q2	Q1	Annual average	Annual average
LTV ratio	In %[(a)]					
Over 60 and up to 70, inclusive	**20.5**	19.8	19.9	18.7	17.2	17.5
Over 70 and up to 75, inclusive	**20.1**	18.5	18.2	19.4	17.5	15.5
Over 75	**0.2**	0.2	0.1	0.2	0.2	0.3

(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 2020 stands at 45.5 percent, compared with 45.1 percent in 2019.

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 2020 was 0.3 percent of the total number of new loans granted compared with 0.5 percent in 2019.

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 terms under the loan agreements are longer than 25 years, stood at an average of 37.5 percent of the total new loans granted during 2020, compared with an average of 37.6 percent in 2019.

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 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 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.

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 indicators.
From time to time, and during 2020, the set of internal measures is 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 due to the effect of the coronavirus crisis, and, as a result, in the leverage level of households, the Bank boosted its close monitoring of the developments in this portfolio.

Impact of the coronavirus crisis

The government aid programs supported households adversely affected by the coronavirus crisis. However, the effect of the restrictive measures and lockdowns burden the labor market and state of employment. According to past experience, this criterion may have an adverse effect on the households loans portfolio.

Due to the continuous nature of the crisis, it is too early to assess the extent of its effect on the Bank's private individuals loan portfolio.

The Bank is assessing its ability to withstand adverse developments using systemic stress scenarios, using uniform stress scenarios following a request by the Banking Supervision Department.

In addition, due to the increased risk levels, emphases in credit granting during the crisis period were pinpointed, and risk focal points and market developments are being monitored on a regular basis in order to prepare in advance and adapt the activity, if needed.

In addition, the Bank is exploring ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are taken into account and customers are scrutinized in depth.

For more information, please see the section entitled "Credit, changes in debt covenants as part of coping with the coronavirus crisis".

For more information regarding this segment, please see the Credit Risks section in the Risk Management Report as at December 31 2020.

Proper Conduct of Banking Business Directive regarding management of consumer credit

On February 4 2021, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 311A, Management of Consumer Credit.

The directive concentrates the requirements imposed by the Banking Supervision Department on the banking system in respect of retail customers.

The directive's effective date will be 9 months from its publication, excluding provisions relating to consumer credit marketing, which will become effective three months after publication.

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

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

	Balance of credit risk
	In NIS million
December 31 2018	44,407
December 31 2019	44,387
December 31 2020	**43,108**

Distribution of on-balance-sheet credit risk (excluding derivatives) for loans to private individuals, by term to maturity (in Israel, excluding housing loans)

	December 31			
	2020		2019	
	In NIS million	% of portfolio	In NIS million	% of portfolio
Up to one year	4,585	17.8	5,158	18.6
Over one year to 3 years	4,993	19.4	4,992	18.0
Over 3 years to 5 years	9,024	35.0	10,464	37.8
Over 5 years to 7 years	3,737	14.5	4,117	14.9
Over 7 years	1,451	5.6	385	1.4
No repayment term[(a)]	2,006	7.7	2,561	9.3
Total	25,796	100.0	27,677	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)

		December 31			
Credit risk amount in NIS thousands		2020		2019	
From	To	In NIS million	% of portfolio	In NIS million	% of portfolio
-	25	5,294	12.3	5,155	11.6
25	50	6,637	15.4	6,526	14.7
50	75	6,049	14.0	5,939	13.4
75	100	5,206	12.1	5,226	11.8
100	150	7,511	17.4	7,758	17.5
150	200	5,038	11.7	5,480	12.3
200	300	4,226	9.8	4,637	10.4
Over 300		3,147	7.3	3,666	8.3
Total overall credit risk		43,108	100.0	44,387	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			
	2020		2019	
	In NIS million	% of portfolio	In NIS million	% of portfolio
Current account balances and utilized credit card balances	5,367	12.4	6,454	14.5
Car purchase loans (secured)	1,201	2.8	1,368	3.1
Other loans	19,228	44.6	19,855	44.7
Total on-balance-sheet credit risk	25,796	59.8	27,677	62.3
Unutilized current account credit facilities	6,883	16.0	6,564	14.8
Unutilized credit card facilities	10,166	23.6	9,971	22.5
Other off-balance-sheet credit risk	263	0.6	175	0.4
Total off-balance-sheet credit risk	17,312	40.2	16,710	37.7
Total overall credit risk	43,108	100.0	44,387	100.0

Distribution of on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by linkage segment and interest track (in Israel, excluding housing loans)

	December 31 2020				
	Non-linked	Linked	Foreign currency	Total on-balance-sheet credit risk	% of portfolio
	In NIS million				In %
Variable interest loans	**24,325**	**39**	**55**	**24,419**	**94.7**
Fixed interest loans	**1,342**	**22**	**13**	**1,377**	**5.3**
Total on-balance-sheet credit risk	**25,667**	**61**	**68**	**25,796**	**100.0**

	December 31 2019				
	Non-linked	Linked	Foreign currency	Total on-balance-sheet credit risk	% of portfolio
	In NIS million				In %
Variable interest loans	26,201	41	60	26,302	95.0
Fixed interest loans	1,326	29	20	1,375	5.0
Total on-balance-sheet credit risk	27,527	70	80	27,677	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	
	2020	2019
	In NIS million	
Deposits by the Public	**96,437**	83,167
Securities portfolios	**51,625**	56,885
Total financial asset portfolio	**148,062**	140,052
Total indebtedness to customers with financial asset portfolios	**34,141**	34,227

Distribution of on-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			
	2020		2019	
Level of income	In NIS million	In %	In NIS million	In %
Accounts without fixed income	**2,127**	**8.2**	1,852	6.7
Of which: loan accounts(b)	**1,515**	**5.9**	964	3.5
Less than NIS 10 thousand	**6,930**	**26.9**	7,959	28.8
More than NIS 10 thousand and less than NIS 20 thousand	**9,317**	**36.1**	9,831	35.5
NIS 20 thousand or more	**7,422**	**28.8**	8,035	29.0
Total	**25,796**	**100.0**	27,677	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 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	
	2020	2019
	In NIS million	
Non-troubled loans	**25,156**	27,065
Troubled unimpaired loans	**304**	302
Troubled impaired non-performing loans	**336**	310
Total on-balance-sheet credit risk	**25,796**	27,677
Percentage of troubled credit risk out of total debt to private individuals	**2.5%**	2.2%
Accounting write-offs, net	**136**	111
Balance of loan loss provision	**776**	641

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 financing. The Bank's credit policy for this segment is subject to unique principles, including with respect to financial criteria, credit authorizations, etc.

As of December 31 2020, 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 2020, the gross outstanding leveraged credit, as defined by the Bank, stands at NIS 2.4 billion, a NIS 0.2 billion increased compared with the previous year. The Bank complies with the Bank of Israel's directives.

Outstanding aggregated credit granted to leveraged borrowers

	December 31					
	2020			2019		
	On-balance-sheet	Off-balance-sheet	Total	On-balance-sheet	Off-balance-sheet	Total
Economic sector	In NIS million					
Industry and manufacturing	-	-	-	320	200	520
Commerce	194	20	214	384	222	606
Transportation and storage	311	2	313	346	2	348
Hotels, accommodation and food services	629	9	638	247	-	247
Construction and real estate	427	17	444	80	-	80
Financial services and insurance services	67	150	217	-	-	-
Water supply, sewage services, waste and garbage treatment and purification services	280	-	280	361	-	361
Total	2,202	198	2,106	1,738	424	2,162

For additional qualitative and quantitative information regarding credit risks, please see the Risk Management Report as at December 31 2020.

Market Risks

Market risk is defined as the risk of loss arising from a change in the value of assets and liabilities due to changes in market prices, 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. Marketable credit risk, caused by credit spread volatility derived from the instrument issuer's repayment capacity or from changes in the overall risk of marketable 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 as well as oversight of these risks, while implementing corporate governance which includes three lines of defense.

Impact of the coronavirus crisis

The coronavirus crisis is a significant event which affects business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact. The ramifications of the crisis for the global and domestic economies, as well as for the Bank’s business, may be substantial.

Due to the spread of the coronavirus, there was an increase in the volatility level of risk factors in financial markets, and substantial price decreases were recorded in equity and marketable credit markets, with sharp volatility in risk-free interest rate curves and exchange rates. As of the second quarter of the year, market volatility subsided, and equity markets recovered. However, uncertainty still prevails in the equity markets, and volatility may continue. Against the background of the crisis, the Bank is assessing its ability to withstand adverse developments using systemic stress scenarios, using uniform stress scenarios following a request by the Banking Supervision Department. In addition, the Bank tracks and monitors developments, applying stringent risk management practices and continuously examining the development of events and modes of operation in order to prepare in advance and adapt its activity as needed.

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 responsibilities 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. The 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, marketable credit spreads and stock prices.

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

The exposures to 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 marketable securities portfolio and derivatives 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 restrictions placed and main risks by business line, product and risk center, as well as reports on unusual events.

For more information regarding activities by portfolio, please see the Risk Management Report as at December 31 2020.

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 used for calculating the actuarial liabilities for employee benefits 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 globally rated AA corporate bonds which match the average durations of the liabilities for employee benefits.

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 discount rate changes. 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 terms 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 interest rate risk and its effect on profitability, equity, assets and liabilities, under various assumptions of interest rate changes, including severe 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 regulatory capital, which includes the effects on capital and capital reserve of a sudden change in the interest rate. These indicators are restricted by various hierarchical levels.

In effect, the interest rate risk is measured and managed on the basis of various behavioral assumptions regarding 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, assumptions about early repayments of mortgages are based on a statistical model that attempts to forecast early repayment based on interest rates. Such estimates are of great significance in managing interest rate risks, inter alia, due to the marked increase in these balances in recent years.

The tools for managing the exposures in the banking portfolio are: the price policy; the management of the Bank's own bonds portfolio; the issue of debt instruments; off-balance-sheet transactions, and more. As part of the assets and liabilities management array, the Bank economically hedges some interest rate risks, through derivatives. In cases where the Bank chooses to follow a perfect hedge outline in accordance with the accounting principles, the changes in the value of the derivatives is classified to a capital reserve, similarly to the hedged asset. In cases where it is impossible to execute a perfect hedge, or the Bank opts not to execute a perfect hedge, the changes in fair value of the derivatives are recognized in profit and loss on inception. In addition, the exposures management relies, inter alia, on forecasts and work assumptions regarding the expected developments in the money and capital markets in Israel and abroad.

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 value structure of assets and liabilities to an interest rate change.

As a rule, interest rate sensitivity is measured at least once a month, with more frequent measurements being made for exposure management purposes.

In the fourth quarter of 2019, the Board of Directors approved the inclusion of the interest exposures in respect of 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. Since the beginning of the year, there was a significant increase in the exposure of fair value to interest rate changes, and fluctuations were recorded in terms of exposure, mainly in the first half of the year on the back of the effect of the crisis and capital market volatility.

It should be clarified that there is uncertainty regarding the ramifications of the continuing coronavirus pandemic and their effect of capital markets in Israel and abroad.

For more information, please see the section entitled Interest Rate Risk, please see the Risk Management Report as at December 31 2020.

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. Accordingly, the financial system is expected to discontinue the publication of LIBOR interest rates and the use thereof, except for the USD LIBOR, which will be published until June 2023.

Following the announcement, various regulatory entities in England, Europe, Japan, and the United States have formed teams dedicated to identifying and adopting alternative benchmarks to replace the LIBOR for each of the five currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc). 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 to calculate that spread for all the types of products available in the market have yet to be defined. 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 for more than one day, on which dates and by which means the interest rates will be converted in relation to the current multiple 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 marketable market for these base rates.

On October 23 2020, the International Swaps and Derivatives Association (ISDA) published a procedure and appendix defining parameters for revising the base interest rate and making adjustments once the LIBOR is no longer published for derivatives (whether OTC or central clearing). The two documents enable, subject to ratification of the procedure or bilateral application of the appendix by both parties to the transaction, the application of the appendix's terms and conditions both to transactions made from that date onwards and to OTC derivative transactions which will be effective as of that date. The Bank signed the procedure in order to apply its terms to relevant transactions.

As part of the preparation for the expected change, the Bank formed a team lead by the Head of the Capital Markets Division, which follows publications in Israel and abroad as well as regulatory guidance regarding the reform; the team is also responsible for forming and implementing the action plan to discontinue the use of LIBOR and transition to alternative interest benchmarks. As part of the preparations, the Bank is mapping out the relevant exposures and products, evaluating risks involved in discontinuing the use of LIBOR interest rates and devising solution therefor, characterizing the changes required in the Bank's systems to transition to the new interest benchmarks, etc.

The Bank issued 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 is evaluating 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 benchmark rates, after there is certainty in financial markets regarding the accepted alternative base rates and subject to the guidance of the Bank of Israel, and revises its forms as needed.

The transition to new interest 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 on-balance-sheet exposure to LIBOR-based contracts which extend beyond 2021. The Bank is exposed to LIBOR as part of activity in derivatives 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 to which is immaterial.

Accounting implications

The said discontinuation of the LIBOR and transition to alternative interest rate benchmarks may have various accounting implications in several areas, such as:

- Hedge accounting - the Bank examined the implications of the change on existing hedge relationships, the documentation in respect thereof and its extension so as to reflect the changes made,
- Debt modification - debt agreements which do not take into account fallbacks 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 interest rates may cause changes in the discount rates and forward curves which serve as input for various models, for the valuation of various assets and liabilities such as: financial instruments, leases, derivatives, impairment of non-financial instruments. The Bank revised the discount interest rate for centrally-settled transactions. The effect of the change in fair value due to the revision of the discount rate is immaterial.
- Fair value hierarchy - some of the relatively new alternative interest rate benchmarks (such as the SOFR). 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.

  The Bank has mapped out the relevant exposures and products, evaluating the changes required in its infrastructure systems. The Bank continues to prepare for the change.

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					
	2020			2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	In NIS million					
Adjusted net fair value[a]	**19,872**	**(1,901)**	**17,971**	20,112	(1,526)	18,586
Of which: banking portfolio	**17,998**	**(2,187)**	**15,811**	18,416	(1,576)	16,840

(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 adjusted fair value of the financial instruments, please see Note 33A.

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

	December 31					
	2020			2019		
	NIS	Foreign currency	Total*	NIS	Foreign currency	Total*
	In NIS million					
Simultaneous changes						
Simultaneous increase of 1%	**608**	**(178)**	**430**	1,488	197	1,685
Of which: banking portfolio	**627**	**(129)**	**498**	1,501	192	1,693
Simultaneous decrease of 1%	**(1,056)**	**(8)**	**(1,064)**	(2,003)	(280)	(2,283)
Of which: banking portfolio	**(1,082)**	**47**	**(1,035)**	(2,031)	(306)	(2,337)
Non-simultaneous changes						
Steepening[b]	**346**	**(59)**	**287**	648	19	667
Flattening[c]	**(367)**	**(142)**	**(509)**	(469)	(98)	(567)
Short-term interest rate increase	**39**	**(193)**	**(154)**	316	(49)	267
Short-term interest rate decrease	**(55)**	**221**	**166**	(340)	53	(287)

(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.

* After netting effects.

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 2020 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 interest rate exposure as reported in the above table and the exposure presented in the Risk Management Report as at December 31 2020 stems from a different treatment of pension liabilities.
- The exposure of the fair value to a 1 percent increase is NIS 0.4 billion. In the past year, there was a NIS 1.3 billion decrease as a result of the business activity, 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:

	December 31					
	2020			2019		
	Interest income	Non-interest finance income	Total*	Interest income	Non-interest finance income	Total*
	In NIS million					
Simultaneous changes						
Simultaneous increase of 1%	**1,220**	**320**	**1,540**	971	184	1,155
Of which: banking portfolio	**1,171**	**395**	**1,566**	974	209	1,183
Simultaneous decrease of 1%	**(1,146)**	**(415)**	**(1,561)**	(942)	(136)	(1,078)
Of which: banking portfolio	**(1,197)**	**(397)**	**(1,594)**	(868)	(209)	(1,077)

* After netting effects.

As of December 2020, Bank Leumi began to manage the accounting profit sensitivity according to a model which reflects the low interest rate environment, taking into account minimum interest rates while differentiating between various customer types and applying various assumptions to scenarios with higher and lower interest rates in terms of transfer of balances from current accounts and deposits; comparative results as at December 2019 were restated according to this model.

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

	Exposure in NIS			Exposure in foreign currency		
	As at December 31 2020					
	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)]	**1,377**	**(1,884)**	**157**	**(766)**	**539**	**(70)**

	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)

(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; the measurement does not take into account the specific approval given by the Bank of Israel for measuring the capital adequacy, according to which the discounting of the liabilities for employee benefits will be carried out according to a moving average curve of eight quarters. This measurement does not include the sensitivity effect of the plan assets to changes in interest rates.

During 2020, the Group complied with all interest exposure restrictions set by the Board of Directors.

For more information, please see the Risk Management Report as at December 31 2020.

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 accounting capital

	Actual situation	
	December 31	
	2020	2019
	In %	
Non-linked	**(38.7)**	(26.3)
CPI-linked[(a)]	**37.4**	25.2
Foreign currency	**1.3**	1.1

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

In 2020, the average percentage of capital invested in the CPI-linked segment was 26.3 percent; the rate fluctuated over the year between a surplus of 4.7 percent and 42.7 percent of the accounting 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 2020. 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	EUR	GBP	CHF	YEN
	In NIS million				
10 percent increase in the exchange rate	133	(30)	(11)	0	(2)
10 percent decrease in the exchange rate	(61)	19	9	0	0

The sensitivity to changes in the CPI as at December 31 2020. 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 Bank's capital
	In NIS million
3% increase in the CPI	425
3% decrease in the CPI	(525)

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	
	2020	2019
	In NIS million	
Marketable shares and funds in the not held-for-trading portfolio	**2,769**	2,395
Non-marketable shares in the not held-for-trading portfolio	**1,566**	1,317
Total	**4,335**	3,712

For additional qualitative and quantitative information regarding the share price risk, please see under "Share Price Risk" in the Risk Management Report as at December 31 2020.

For additional qualitative and quantitative information regarding market risks, please see the Risk Management Report as at December 31 2020.

Liquidity and Financial 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. 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 minimum liquidity coverage ratio (LCR), with adjustments for the Israeli economy.

Proper Conduct of Banking Business Directive No. 221, Liquidity Coverage Ratio, stipulates that a bank shall have a sufficient inventory of high-quality liquid assets to meet the liquidity requirements for a time-horizon of 30 days, under a combined stress scenario presented in the Directive.

As of January 1 2017, the minimum liquidity coverage ratio for the Bank and Group is 100 percent.

Draft directive for calculating Net Stable Funding Ratio (NFSR)

On March 4 2020, the Bank of Israel published Draft Directive No. 222, Net Stable Funding Ratio (NFSR) - which is based on a publication issued by the Basel Committee. Net Stable Funding Ratio is intended to improve the resilience of the liquidity risk profile of banking corporations in the long term by requiring them to maintain stable funding profiles according to their asset composition and off-balance-sheet activities. The ratio limits the banking corporations' dependence on short-term wholesale funding. The application of the directive was set for July 1 2021; in addition, the banks in the system were required to conduct a QIS on the data from December 31 2019 to the end of 2020.
According to the QIS conducted by the Bank of the data as at December 31 2019, the Bank will meet the regulatory threshold (100 percent) required by the directive. The Bank is preparing to implement the directive according to the Bank of Israel's guidelines.

Leumi maintains an adequate liquidity level by investing its own (nostro) portfolio in 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 for different periods of time, with emphasis on raising deposits from retail customers and issuing long-maturity bonds.

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

Impact of the coronavirus crisis

Due to the spread of the coronavirus, there was an increase in the volatility level of risk factors in financial markets, and substantial price decreases were recorded in equity and marketable credit markets, with sharp volatility in risk-free interest rate curves and exchange rates. As of the second quarter of the year, market volatility subsided, and equity markets recovered. However, uncertainty still prevails in the equity markets, and volatility may continue. During the fourth quarter, there was no material change in the liquidity coverage ratio. Throughout the reviewed period, the LCR in foreign exchange and across all currencies was above the regulatory requirement.

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

	As at December 31	
	2020	2019
	In %	
a. Consolidated data		
Liquidity coverage ratio	**137**	123
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
b. Banking corporation's data		
Liquidity coverage ratio	**136**	121
Minimum liquidity coverage ratio required by the Banking Supervision	**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 at December 31 2020, 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 28 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 significant increase in shekel retail deposits, primarily during the first half of 2020. During the reporting period, there was a decrease in the amount of bonds, promissory notes and subordinated bonds by NIS 3.5 billion, net.

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 under “Additional Information on Liquidity Risk and Financing Risk” in the Risk Management Report as at December 31 2020.

Linkage Status, Repayment Periods and Liquidity Position

A. Linkage Status

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

	December 31					
	2020			2019		
	Non-linked	CPI-linked	Foreign currency[b]	Non-linked	CPI-linked	Foreign currency[b]
	In NIS million					
Total assets[a]	**383,169**	**48,412**	**143,244**	308,527	47,018	125,080
Total liabilities[a]	**366,913**	**33,317**	**145,996**	280,548	44,602	127,698
Surplus (deficit) of segment assets	**16,256**	**15,095**	**(2,752)**[c]	27,979	2,416	(2,618)[c]

(a) Including forward contracts and options.

(b) Including foreign currency-linked.

(c) The excess foreign currency liabilities stems 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 2020, the deposits by the public grew by a total of NIS 70 billion (including subordinated bonds and capital notes). The loans to the public increased by NIS 13 billion; investments in bonds increased by NIS 7 billion; deposits with banks, net, increased by a total of NIS 51 billion.

B. Repayment Periods

In 2020, the Bank was characterized by a high level of shekel liquidity, due to the significant increase in deposits by the public, partly due to a transition from the capital market to deposits on the back of the coronavirus crisis, and 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. We note that, due to the low interest rate environment, we see an increase in the current account balances and in its share of total deposits by the public.

About 35 percent of the Bank's assets are deposited for short terms in banks and invested in marketable securities, especially government bonds.

In 2020, 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 2020		
	NIS	Foreign currency	Total
Term to maturity:	In NIS million		
Up to one month	(109,034)	(69,243)	(178,277)
1-12 months	(5,611)	24,046	18,435
1-5 years	79,778	27,819	107,597
5-10 years	51,556	7,430	58,986
Over 10 years	56,448	13,627	70,075
Without repayment date	955	1,183	2,138
Total	74,092	4,862	78,954

	As at December 31 2019		
	NIS	Foreign currency	Total
Term to maturity:	In NIS million		
Up to one month	(99,115)	(56,425)	(155,540)
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	5,878	74,598

* 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

In 2020, the liquidity surplus levels of the banking industry in Israel grew. To absorb the surplus, the Bank of Israel conducts monetary tenders each day, week and liquidity period.

The increased liquidity surplus in the banking system stemmed mainly from aid programs offered by the government and the Bank of Israel due to the coronavirus crisis (purchases of government and corporate bonds, repo transactions with institutionals, granting long-term loans to the banking system in favor of granting loans to small businesses, increasing National Insurance allowances and aid grants to the private and business sectors). In addition, during 2020, the Bank of Israel purchased foreign currency valued approx. at USD 21.2 billion. This measure has also 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 using 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 2020, was NIS 419 billion, compared with NIS 240 billion as at the end of December 2019.

Leumi's balances (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2020 was NIS 123 billion, compared with NIS 61 billion as at the end of December 2019.

The net balance of cash and deposits with banks as at December 31 2020 was NIS 121 billion, compared with NIS 70 billion as at the end of December 2019.

In addition, the Bank has a securities portfolio valued at NIS 88 billion, which is invested primarily in Israeli government bonds, foreign government bonds and bonds of foreign-based banks, compared with a balance of NIS 81 billion as at December 31 2019.

During the reporting period, the off-balance-sheet monetary assets were up by NIS 27 billion, amounting to a total of NIS 842 billion.

The deposit balances of the three largest depositor groups totaled NIS 32,384 million as at December 31 2020.

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 banking insurance policy, a directors' insurance and officer insurance policy as well as a cyber insurance policy.

Impact of the coronavirus crisis

The coronavirus crisis is an event which disrupts business and economic activity and is accompanied by uncertainty in terms of duration and extent of impact. The ramifications of the crisis for the global and domestic economies, as well as for the Bank's business, may be substantial.

The Bank is assessing its ability to withstand adverse developments using systemic stress scenarios. In this context, the Bank applied uniform stress scenarios following the request by the Banking Supervision Department. In addition, the Bank tracks and monitors developments throughout the crisis period, applying risk management and continuously examining events and modes of operation in order to prepare in advance and adapt its activity as needed, in accordance with Proper Conduct of Banking Business Directive No. 355, "Business Continuity Management" and the Bank's policy on this matter.

Adjustments were made to the work and control procedures, which were examined by all relevant functions, including: Business Continuity, business functions, Risk Management, Information Security, Compliance and Legal Counsel.

In order to ensure that the exposure remains within the boundaries of the risk tolerance - business, work-flow and automation controls were set to mitigate the risks.

Since this dynamic work mode changes from time to time, an ongoing process is underway to examine the required changes to the work processes and their adjustments to the risk tolerance.

Corporate governance structure

In addition to information about the corporate governance structure of risk management in the Bank, which is described in the section entitled "Additional Information about Risk Exposure and Assessment Thereof", following is more information regarding operational risk management:

First line of defense - The business lines' managements, support units and Leumi Technologies are responsible for managing the operational risks in their respective purviews, both on an ongoing basis and for new projects and products.

Second line of defense - the Operational, IT and Cybersecurity Risk Department in the Risk Management Division is responsible for, and leads, the operational risk management process, while developing risk policy and tolerance recommendations, formulating methodologies, as well as professional responsibility for, guidance of and challenging of (subject to materiality) the first line of defense in the risk management process.

Third line of defense - Internal Audit - 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 guidance of management and the Board of Directors

Management and board of directors' committees - Each quarter, the committees hold a discussion on the material exposures to operational risks. The operational risk management policy is brought before the Board of Directors for discussion and approval each year.

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.

The Bank revises the operational risk map on an ongoing basis. The revision is made by the first line units, with the Risk Management Division providing guidance, challenging, and assistance. The process includes identification and (qualitative and quantitative) assessment of the risks and recommendations for minimizing the risks (risk mitigation plans). In addition, there is a system in place supporting risk reporting, documentation of controls, mitigation plans and failure events.

The Bank manages risks in material new projects and products on the basis of a methodology which includes risk identification and mitigation with the aim of complying with Leumi's business and operating goals.

Since the operational risks are cross-organizational, the Risk Management Division is taking steps to instill an advanced risk management culture, including reporting on incidents and drawing conclusions.

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 differentially, according to the business strategy, risk tolerance and emerging risks in cyber space.

The coronavirus crisis has led to a significant increase in cyber-attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains. The characteristics of the attacks are varied and include ransomware, phishing and social engineering attacks. The exposure to the probability of a cyber event materializing increases as a result of a wider use of digital channels by customers and extensive transitioning to remote work by employees and suppliers.

As part of the efforts to reinforce cyber-protection and manage the cyber risks, Leumi developed a policy, manages a cyber risk map, implements mitigating and recovery programs and conducts cyber event 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 addition, Leumi takes several steps to mitigate the risks, including: implementing preventive and detective controls, conducting information security surveys, boosting monitoring to remove fictitious websites, rendering authorization management and control processes more stringent, and increasing awareness to information security guidance among the employees.

In 2020, no cyber incidents were discovered which affected the Bank's financial statements.

Technological risk

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 technological infrastructure servicing its customers and employees will enable business and operational availability and continuity, and invests considerable resources to that end. The Bank implements a new product policy, which outlines the risk management processes involved in introducing new products, including new technological initiatives and innovation.

Leumi is preparing to build a bank of the future. In this context, the Bank has developed a business-technological (modernization) plan to achieve its business goals in the coming years.

The Bank devoted considerable management resources to the preparation and planning stages in order to ensure the plan's success and to hedge risks. Senior management and the Board of Directors are focusing on preparations for the plan, with strict corporate governance.

The project's risks are managed by Leumi Technologies Division, with the cooperation of the Risk Management Division and external consultants.

During 2020, a multi-year plan was drawn and approved by the Bank's Board of Directors.

The coronavirus crisis contributed to extensive use of digital channels. As a result, Leumi continues to take proactive steps to minimize potential exposure to business continuity risks deriving from these increased activities and to continue to provide adequate service to its customers while boosting infrastructures and implementing supportive technological solutions.

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 principles and processes in case of an emergency, including a set of responses and redundancy.
- A work framework that includes business continuity plans, business impact analysis based on risk surveys, recovery strategies and a drill methodology.
- Maintaining stability of technological infrastructures, providing recovery capabilities, including backup and recovery.

Once the coronavirus crisis broke out, and in order to provide a solution to current needs and to enable business continuity even in prolonged states of emergency, key Leumi functions transitioned to a new work mode, which combines work from home and physical split of organic units into pods. Adjustments were made to the work and control procedures, which were examined by all relevant functions. In order to ensure that the exposure remains within the boundaries of the risk tolerance - business, work-flow and automation controls were set to mitigate the risks. Telecommuting capabilities were boosted, and various technological solutions were implemented to allow service provision to Leumi's customers.

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 and anchored accordingly in policy papers and procedures.

An outsourcing policy was formulated and approved, addressing third party risk issues as part of the operational risk policy.

Embezzlement and fraud

The coronavirus crisis and economic situation, as well as the extensive use of digital channels, could increase exposure to embezzlement and fraud risks in terms of identity, money and information theft, as well as compromise functionality and cause customer information leaks and misuse of information.

Leumi invests significant resources in identifying and mitigating these risks through focused, ongoing monitoring.

A chapter was dedicated to managing fraud and embezzlement risks as part of the operational risk management policy and a special embezzlement forum was appointed to handle the issue.

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 and transferred issues and activities from one division to another. Leumi attributes great importance to maintaining a robust control environment, inter alia, through risk management processes as well as control and monitoring activities.

The purpose of these activities is to minimize risk exposure by reducing the probability of the risks materializing and/or reducing the implications resulting therefrom,

For more information about operational risk and main risk areas, please see the "Operational Risks" section in the Annual Risk Management Report as at December 31 2020.

Other 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, the emphasis had been placed mainly on guidance in the following areas:

- The coronavirus crisis
  Against the backdrop of the unfolding coronavirus event and its ramifications on the Israeli and global economies, as well as on households and businesses, the Banking Supervision Department and other regulators have set a series of regulatory measures in an effort to assist households and businesses to overcome this period, while allowing banking corporations to be more flexible in their business conduct.

  The said measures focus, among other things, on continuing to provide banking services to the public, with emphasis on transitioning to the various digital channels, providing services without the need for customers to reach the Bank's branches and making adjustments for working remotely; providing various reliefs to the banks to allow them to function property even when not fully staffed; requiring the banks to assist the economy in overcoming the crisis through debt restructuring, increasing available credit and pricing loans fairly.

  The said measures are limited to various time frames, in line with the assessments regarding the continuation of the coronavirus event, and are continuously updated in accordance with the needs of the customers and those of the Bank, as well as the economic situation in Israel. The effect of said regulatory provisions is part of the overall effect of the event on the Bank and Group.

- Promoting competition in the financial sector
  In this context, the following regulatory actions may be mentioned:

  - Reliefs for new banks, including a more lenient licensing process and establishment of an IT service bureau to serve new banks as well as for the new digital bank;
  - Reliefs for credit card companies split from banks to establish them as major players in the competition with the 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 as to allow them to optimize their value propositions to customers;
  - Providing additional entities, the option to interface with payment systems;
  - Continued regulation of licensing procedures for regulated financial service providers;
  - Recommendations for increasing competition in the securities brokerage domain; and a complementary provision of the Banking Supervision Department, according to which a banking corporation should enable a customer to submit online an application to transfer a securities portfolio to another investment entity, without requiring him/her to arrive at a branch, and that the banking corporation will not unreasonably deny a customer's request to such transfer;
  - The relief for calculating the minimum capital requirements for banks whose consolidated total assets equal or do not exceed 24 percent of the banking system's total assets.
  - Reliefs for registering beneficiaries and holders of accounts managed for credit providers and P2P platforms to remove a barrier which made it difficult for these entities to operate in the Israeli financial system and to compete within the banking system;

- The Open Banking reform is intended, inter alia, to oblige the banks to share banking information of customers who authorize them to do so, so that third party suppliers can offer customers various services, including compilation of financial information; price, cost or return comparisons; providing information to financial providers to obtain quotes for the customer for the financial services the customer wishes to consume (i.e., competing quotes) or in order to help contract with them; as well as consulting regarding financial management.
- Bill of Banking (Licensing) (Amendment No.) (Expanding Funding Sources for Non-Bank Credit Entities), 2021, which allows non-bank credit entities to expand their funding sources, inter alia, by increasing maximum par value of bonds a non-bank company may issue to the public (in addition to granting credit and subject to other terms and conditions prescribed by law) from NIS 5 billion to NIS 15 billion.
- The Israel Securities Authority published a document on portfolio management, which was aimed, among other things, at promoting competition in this area.
- The bill for Encouraging the Development of Financial Technology in Israel - which aims to create a regulatory framework for these companies in Israel, inter alia, in order to enable the use of innovative technology by the financial system, to improve access to various products and services, raise the level of service and boost competition, as well as lower costs of financial services in Israel.

- Financial crime prevention - prohibition of money laundering, bribery and corruption
  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.
- Risk management
  Operational risks - during the reporting period, emphasis was made on guidance from the operational risks domain, inter alia, due to the increase in various potential risks due to the coronavirus crisis and due to the continued uncertainty and extreme and rapid changes in economic conditions in the financial markets, business activities and mode of operation with customers.
  Environmental risks - during the reporting period, there is greater understanding that the materialization of environmental risks will adversely affect the economy and undermine the stability of the banks and financial system. Accordingly, regulators in Israel and across the world require banks to prepare to risk-manage this issue.

The abovementioned trends and changes affect, and are expected to continue to affect, the Israeli banking sector 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-bank 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 foreign offices and subsidiaries in order to monitor compliance issues as a whole and apply the Group's compliance policy. In view of the coronavirus crisis, compliance risk management has been modified, while identifying developing risks which characterize crisis periods.

a. Compliance, prohibition on money laundering and prohibition on 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 of the prohibition on money laundering and financing of terrorism. The Chief Compliance Officer also serves as the securities law enforcement officer and the officer responsible for FATCA.

The Compliance and Enforcement Department reports to the Chief Risk Officer.

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 programs 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 as well as the implementation of the Group's compliance policy.

Pursuant to global developing trends, the Bank handles a range of compliance issues, including the prohibition on money laundering and on financing terrorism and taxation aspects, including FATCA and CRS.

Among other things, the Bank focuses on risk areas in financial technology domains (such as FinTech, P2P, hedge funds, financial service providers, virtual currencies, etc.) – managing compliance risk and prohibition on money laundering risk in an evolving financial technology environment characterized by a lack of well-defined regulation on the one hand, and on the other hand, by professional complexity and lack of practices incorporated into the control processes due to the novelty of the issues at hand.

b. Administrative enforcement

The Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was designed to streamline the enforcement of legislative provisions in the securities domain. 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 by the Bank's Board of Directors. In 2019, the enforcement plan was revalidated by an external expert.

c. Foreign Account Tax Compliance Act (FATCA) - Common Reporting Standard (CRS) and the reported funds policy

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 identify 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 enforce an agreement or as a result of contingent liabilities, including in respect of claims against, and demands from, the Bank. Legal risk also includes risks arising from legislation, regulations, court rulings and directives issued by authorities, risk emanating from activity that is not covered by adequate agreements, or from activity carried out without legal advice or under faulty legal advice, as well as a result of interpretation of the rights of parties under agreements between the Bank and its customers.

Legal risks arise from five main areas:

- Legislation risks - 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 risks - 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.
- Risks attributable to legal proceedings conducted against the Bank.
- Risks 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 2020.

The Group drew up a general policy paper, applicable to all subsidiaries, domestic and foreign, for managing legal risks, according to which each subsidiary 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' boards of directors. According to the policy papers, the subsidiaries are required to seek adequate legal advice for certain issues. In addition, the subsidiaries send periodic and immediate reports to the Bank's Legal Risk Manager, as required by the policy paper. The reports were sent in a uniform format prepared by the Legal Counsel Division. In 2020, 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 formulation 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 legal exposure, which cannot be assessed or quantified, arising, inter alia, from the complexity of the services rendered 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 its consolidated companies, which are filed, inter alia, in respect of motions to approve class actions suits.

There is also legal exposure due to regulatory changes and guidance 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 according to the changing reality. All the above create an increased operating and legal exposure.

There is also a general legal 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. Currently, it is impossible to assess whether there is exposure in respect of 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.

Reputational Risk

Reputational risk is the risk of compromising the trust of various stakeholders (such as customers, bondholders, shareholders, etc.) in the Leumi Group, as a result of conduct, an act, or an 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 immediate effect on the income 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 macroeconomic, industry-specific, 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-bank 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. Additional material topics are the activation of the Central Credit Register (in April 2019), and topics which will come into force in 2021, such as easing the transfer to customers from bank to bank and the main stages in the Open Banking initiative, which will allow customers of the banks and credit card companies to share their financial information with third parties. New players, which are not necessarily banks, will be able to access customers' bank accounts, at the customers' consent, and offer them banking services tailored to their needs.

The coronavirus crisis has a substantial impact on the environment in which the Bank operates, from the macroeconomic, industry-specific, regulatory, consumer and technological aspects. Such a crisis raises the importance of a proper analysis of the implications of the crisis, making correct business and operational decisions, appropriate implementation of decisions and effective and swift reaction to changes. Bank Leumi is preparing accordingly, inter alia, by adjusting its 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 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.

The Bank's strategic plan is for three years, and has been approved by management and the Board of Directors. The strategic plan is set following an extensive process of examining trends and changes in the business environment, competitive environment, technological environment and customer preferences, in an effort to identify threats and opportunities.

In addition, the Bank conducts an annual process to identify changes and trends in banking which may affect the Israeli banking system, while weighing the need to revise and adjust the defined strategic goals. The process constitutes the basis for formulating the annual work plan and for determining the main goals and projects in the business divisions' work plan, while setting indicators for monitoring, managing and tracking the achievement of strategic goals.

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.

Under the policy, a multi-year risk-based work plan was developed to manage and mitigate model risks; the Bank continues to apply the risk mitigation work plan.

Due to the coronavirus crisis and the continuing uncertainty and rapid substantial changes in the economic conditions in financial markets, business activity and customer behavior, there is an increase in the potential risks arising from the use of the model. The Bank employs various means to identify models subject to compromise and to mitigate models risks which are on the rise in light of the coronavirus crisis.

Once the crisis was identified - in cooperation with the model owners in the various divisions - the Bank identified risk foci in key models which showed an increase in model risk requiring adjustment to the models and/or work processes based on these models.

The adjustments made to the credit risk management models were planned while attempting to strike the best balance between information limitations, the current uncertainty and considerations of fairness, flexibility and sensitivity towards the corporation's customers in the spirit of the Banking Supervision Department's guidance dated June 24 2020.[1]

The model risk unit supports and tracks the adjustments in accordance with the work plan.

Due to the current uncertainty, effectiveness testing for these adjustments is limited. More extensive testing will be conducted after minimum information about customers' activity is obtained and the uncertainty dissipates.

Environmental Risks

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 collaterals, but also if the Bank is found to be responsible for an environmental hazard, including the possibility of the Bank being required to incur the costs of removing an environmental hazard or is 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.

From a regulatory point of view, no specific requirements have been established for the banks in Israel.

In letters issued by the Banking Supervision Department to the banks in December 2020 and February 2021 regarding environmental risk management, the Banking Supervision Department emphasized that it attaches great importance to promoting this topic and regards banking corporations as important partners in transitioning to a sustainable economy.

As preparation for applying the treatment to environmental risks, the Bank of Israel seeks to collect information from the banking system, as part of the process conducted by the Banking Supervision Department to formulate and characterize an environmental risk management framework for the Israeli banking system.

The Bank is following and studying the developments in the field.

The Bank established an internal work procedure entitled "Credit Risks Management in Aspects of Enforcing Environmental Directives on Borrowers".

The procedure defines the tools for managing environmental risks from the credit aspect, in respect of the large credit portfolios, in order to identify the risks before they materialize and present them to decision makers as part of the credit risk assessment process.

As part of the process of assessing and managing 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 and in the Principles of Credit and Investment Statement.

[1] Letter of the Banks's Supervision Department to the banking system regarding customers who encounter difficulties due to the coronavirus crisis, Banking Supervision Department, June 24 2020 (Ref. LM328520).

Conduct Risk

Conduct risk is the risk that the Bank's conduct will lead to an unwanted outcome for a customer due to inadequate service, inappropriate service or unfair conduct. The risk also includes inappropriate conduct affecting market integrity (the public's trust in the banking sector). The materialization of the risk may cause the Bank losses as a result of lawsuits (including class action lawsuits), sanctions or fines imposed (due to violating conduct-related provisions) and/or reputational damage.

The consumer-focused regulation trend continues, with emphasis on conduct. In this framework, emphasis is made on adapting the various financing products to customers' needs, while providing maximum disclosure and stressing transparent and fair conduct.

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.

The Bank offered customers who encountered temporary crisis and whom the Bank believes will overcome it to adjust their loan terms and conditions in accordance with the loan deferment outlines introduced by the Bank of Israel. However, it is reasonable that while some customers will resume their contractual payments at the end of the deferment period, others will be unable to meet their obligations due to the continuation of the crisis and the financial challenges. The Bank has formulated a plan for handling customers who were approved for deferment. At the same time, the Bank continues to promote the provision of financial services using digital platforms and estimates that this measure will, among its other advantages, mitigate the conduct risk.

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.

The coronavirus outbreak in January 2020 and the substantial uncertainty regarding its various implications constitute a highly significant global macroeconomic risk which disrupts business and economic activity. It is highly difficult to assess the future economic developments, due to the substantial uncertainty regarding the duration and extent of its impact on world countries' trajectories. Therefore, the ramifications of the crisis for the global and domestic economies, as well as for the Bank's business, may be substantial. In 2020, the coronavirus crisis brought about the greatest damage to global growth since World War II, much greater than in the global financial crisis; it will leave multiple economies across the world with significant sovereign debts, a development which is liable to pose a future risk to the stability of financial markets. This constitutes severe harm to business activity of sensitive industries such as tourism, aviation, leisure, entertainment, food services, etc., as well as significant indirect impacts on a wide range of industries in the fields of commerce, services and non-residential real estate. The Bank is assessing its ability to withstand adverse developments in the macroeconomic environment using systemic stress scenarios. In this context, the Bank conducts uniform stress scenarios following a request by the Banking Supervision Department. 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 to high
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 to high
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 to high
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 to high
5.2	Technology 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 to high
11	Local systemic risk**	Risks resulting from local events which may lead to the materialization of several risks at once.	Moderate to high

* 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.

**Impact of the coronavirus crisis

The coronavirus crisis is a significant ongoing event which is disrupting business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact.

According to a subjective assessment, as a result of the crisis and lack of clarity regarding the development of morbidity, the lockdown measures in the economy and the economic policy increased the severity level of the global systemic risk and domestic systemic risk in Q1 2020 to “medium-high” and in Q2 and Q3 2020 - to “high”. During the last quarter of 2020, with the launch of the large-scale vaccination effort against the coronavirus, the severity level of the global systemic risk and local systemic risk was back to “medium-high”. Additionally, the severity level of the overall credit risk and the severity of the borrower and collateral quality risk increased beginning in the second quarter of 2020 to “moderate-high”.

The coronavirus crisis - including customers’ increased use of digital channels and employees and suppliers working remotely - has led to a significant increase in cyber-attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains.

According to a subjective assessment, as a result of the effects of crisis and due to the recent rise in cyber events in Israel and in the rest of the world, the severity level of the operational risk in the fourth quarter of 2020 increased to “moderate-high”. Accordingly, the operational risk severity level was up since the fourth quarter of 2020, to moderate-high.

The Bank’s assessments regarding the implications of the crisis on the severity of all risk factors are uncertain and may change in accordance with the development of the crisis, the vaccination process, and accordingly - its ramifications for the economy and the Bank’s business. These assessments constitute forward-looking information, as defined in the Forward-Looking Information section.

The Bank is assessing its ability to withstand adverse developments in the macroeconomic environment using systemic stress scenarios. In this context, the Bank conducts uniform stress scenarios following a request by the Banking Supervision Department. The Bank tracks and monitors market developments throughout the crisis period, applying stringent risk management and continuously examining events and modes of operation in order to prepare in advance and adapt its activity as needed.

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 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 provision due to 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 are 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”.

This assessment process to determine the collective loan loss provision rate became highly complex following the coronavirus crisis, which is a significant, ongoing event that disrupts business and economic activity. The coronavirus crisis is accompanied by substantial uncertainty in terms of its duration and impact; as a result, the Bank has increased its collective loan loss provision in 2020. The increase stems from a careful assessment, which takes into account a change in the risk characteristics of customers and various economic sectors, as well as economic assessments regarding the unemployment and rate and growth.

Due to the high level of uncertainty during this period, there may be significant deviations in estimates made to determine the outstanding loan loss provision as presented in the financial statements. These estimates will be adjusted later on, subject to economic developments and their impact on the level of risk embodied in the portfolio.

For more information regarding the process of adjusting the loan loss estimates, please see the section entitled "Effect of the Coronavirus Crisis" under "Credit Risks".
For more information on the general application of accounting principles on loan losses, please see Note 1.X.

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 the price that would have been 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 is 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-marketable 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 the 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 its 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.

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-rated 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 nominal 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 3.5 billion increase in total liabilities. A 1.0 percent decrease in pay raise will result in a NIS 672 million decrease in total liabilities. A 5.0 percent increase in the life expectancy will result in a NIS 390 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 2020, the balance of accumulated other comprehensive income for employee benefits amounted to a negative post-tax balance of NIS 3,734 million, compared to a negative post-tax reserve of NIS 3,948 million as at December 31 2019.

The outstanding balance of the liability for employee benefits as at December 31 2020, according to a discount rate based on Israeli corporate bonds ("deep market according to the Israel Securities Authority’s approach") is NIS 702 million less than the actual outstanding balance of the liability.

Liabilities for Legal Claims

The Bank’s liabilities also include provisions for various legal claims lodged against the Bank, including motions to approve class action suits. 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 exceed 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 external legal advisors are unable to assess the risk arising therefrom.

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 2013 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 2020, 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

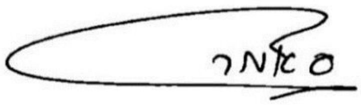
In the quarter ended December 31 2020, no material change has occurred in the Bank's internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

The Board of Directors

In 2020, Leumi's Board of Directors held 58 plenum meetings and its committees held 92 meetings.

At a meeting held on March 8 2021, the Board resolved to approve and publish the Group's condensed consolidated audited financial statements as at December 31 2020 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.



Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

March 8 2021

Certification

I, Hanan Friedman, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi Le-Israel B.M. (hereinafter: the “Bank") for 2020 (hereinafter: the “Report").

2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - 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 said companies, especially during the preparation of the Financial Statements;

   b. We have established such internal control over financial reporting or have caused such internal control 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 guidance 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 control over financial reporting that are reasonably expected to harm the Bank’s ability to record, process, calculate 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.

March 8 2021

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 Le-Israel B.M. (hereinafter: the “Bank") for 2020 (hereinafter: the “Report").
2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - 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 said companies, especially during the preparation of the Financial Statements;
    b. We have established such internal control over financial reporting or have caused such internal control 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 guidance 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 control over financial reporting that are reasonably expected to harm the Bank’s ability to record, process, calculate 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.

March 8 2021

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 Le-Israel B.M. (hereinafter: the “Bank") for 2020 (hereinafter: the “Report").
2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - 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 said companies, especially during the preparation of the Financial Statements;
    b. We have established such internal control over financial reporting or have caused such internal control 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 guidance 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 control over financial reporting that are reasonably expected to harm the Bank’s ability to record, process, calculate 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.

March 8 2021

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of the 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 le-Israel B.M. are responsible for the creation and existence of adequate internal control over financial reporting (as defined in the Reporting to the Public Directives regarding the "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 2020, 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 2020, 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 2020 was audited by the Bank's joint independent auditors - Brightman Almagor Zohar & Co. 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 2020.

March 8 2021

Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Omer Ziv
First Executive Vice President
Head of Finance Division

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of the Accounting Division

Deloitte.
Somekh Chaikin

KPMG

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 2020, based on criteria established by the 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 2020, based on criteria determined by the 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 sheet as at December 31 2020 and the consolidated income statement, consolidated comprehensive income statement and the consolidated statement of changes in shareholders' equity and the consolidated statements of cash flows for the year ended on December 31 2020 and our report dated March 8 2021 included an unqualified opinion regarding these financial statements.

Brightman Almagor Zohar A Firm in the Deloitte Global Network Certified Public Accountants	Joint Independent Auditors	**Somekh Chaikin** A registered partnership in Israel and a partner firm in the global KPMG network, which is comprised of independent firms affiliated with KPMG International Limited, a privately-owned limited liability British company Certified Public Accountants

March 8 2020

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi le-Israel B.M. - Annual Financial Statements

We have audited the attached consolidated balance sheet of Bank Leumi le-Israel B.M. and its consolidated companies (hereinafter - the "Bank") as at December 31 2020 and the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year ended December 31 2020. 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.

The financial statements of the Bank as at December 31 2019 and for each of the two years then ended were audited by Somekh Chaikin and another independent auditor, whose report as at February 26 2020 included an unqualified opinion.

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, that the said financial statements adequately represent, in all material respects, the Bank's financial position as at December 31 2020 and the financial performance and changes in shareholders' equity and cash flows of the Bank for the year ended on the same date, 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 2020, based on criteria established by the Internal Control - Integrated Framework published by COSO (Committee of Sponsoring Organizations of the Treadway Commission), and our report dated March 8 2021 included an unqualified opinion of the effectiveness of the Bank's internal control over financial reporting.

Brightman Almagor Zohar A Firm in the Deloitte Global Network Certified Public Accountants	Joint Independent Auditors	**Somekh Chaikin** A registered partnership in Israel and a partner firm in the global KPMG network, which is comprised of independent firms affiliated with KPMG International Limited, a privately-owned limited liability British company Certified Public Accountants

March 8 2021

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Income Statement
For the year ended December 31

	Note	2020	2019	2018
		In NIS million		
Interest income	2	**10,175**	11,437	11,346
Interest expenses	2	**1,452**	2,596	2,456
Interest income, net	2	**8,723**	8,841	8,890
Loan loss expenses	13, 30	**2,552**	609	519
Interest income, net after loan loss expenses		**6,171**	8,232	8,371
Noninterest income				
Noninterest finance income	3	**1,026**	1,686	682
Fees and commissions	4, 4A	**3,281**	3,225	4,121
Other income	5	**59**	170	68
Total noninterest income		**4,366**	5,081	4,871
Operating and other expenses				
Salaries and related expenses	6	**3,742**	4,325	4,544
Buildings and equipment - maintenance and depreciation	16	**1,531**	1,521	1,569
Other expenses	7	**1,773**	2,062	2,224
Total operating and other expenses		**7,046**	7,908	8,337
Net income before taxes		**3,491**	5,405	4,905
Provision for profit tax	8	**1,356**	1,830	1,619
Profit after taxes		**2,135**	3,575	3,286
The Bank's share in associates' profits (losses), net after tax	15	**(13)**	(15)	36
Net income				
Before attribution to non-controlling interests		**2,122**	3,560	3,322
Attributable to non-controlling interests		**(20)**	(38)	(65)
Attributable to the Bank's shareholders		**2,102**	3,522	3,257
Basic and diluted earnings per share (in NIS)				
Basic diluted net income attributable to the Bank's shareholders	9	**1.44**	2.37	2.15

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

Dr. **Samer Haj Yehia**
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Omer Ziv
First Executive Vice President
Head of Finance Division

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of the Accounting Division

Date on which the financial statements were approved: March 8 2021

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Comprehensive Income
For the year ended December 31

	2020	2019	2018
	In NIS million		
Net income before amount attributable to non-controlling interests	**2,122**	3,560	3,322
Less net income attributable to non-controlling interests	**20**	38	65
Net income attributable to the Bank's shareholders	**2,102**	3,522	3,257
Other comprehensive income (loss), before taxes			
Adjustments in respect of presentation of available-for-sale bonds (2018 - securities) at fair value, net	**814**	1,468	(634)
Adjustments from translation of financial statements, net,[a] after the effect of hedges[b]	**(46)**	(65)	27
Net gains (losses) for cash flow hedges	**43**	(3)	-
Adjustments of liabilities for employee benefits[c]	**336**	(3,317)	1,796
The Bank's share in other comprehensive income (loss) of associates	**(5)**	(5)	34
Other comprehensive income (loss), before taxes	**1,142**	(1,922)	1,223
Related tax effect	**(460)**	573	(330)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**682**	(1,349)	893
Less other comprehensive income (loss) attributable to non-controlling interests	**(21)**	(13)	(26)
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**703**	(1,336)	919
Comprehensive income before attribution to non-controlling interests	**2,804**	2,211	4,215
Net of other comprehensive income (loss) attributable to the Bank's non-controlling interests	**(1)**	25	39
Comprehensive income attributable to the Bank's shareholders	**2,805**	2,186	4,176

(a) Adjustments from translation of the financial statements of a foreign operation the functional currency of which is different from 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.

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 CONSOLIDATED COMPANIES
Consolidated Balance Sheet
As at December 31

	Note	2020	2019
		In NIS million	
Assets			
Cash and deposits with banks	11	136,194	76,213
Securities[(a)(b)]	12	92,297	84,949
Securities borrowed or purchased under reverse repurchase agreements		3,019	1,117[(d)]
Loans to the public	13, 30	300,631	285,806
Loan loss provision	13, 30	(5,290)	(3,328)
Loans to the public, net		295,341	282,478
Loans to governments	14	632	744
Investments in associates	15	795	765
Buildings and equipment	16	2,932	3,043
Goodwill	17	15	16
Assets in respect of derivatives	28A, 28B	15,252	10,970
Other assets	18	9,558	8,486
Total assets		556,035	468,781
Liabilities and equity			
Deposits by the public	19	447,031	373,644
Deposits by banks	20	15,143	6,176
Deposits from governments		208	315
Securities loaned or sold under repurchase agreements		605	123[(d)]
Bonds, promissory notes and subordinated bonds	21	16,303	19,958
Liabilities for derivatives	28A, 28B	17,315	11,528
Other liabilities[(a)(c)]	22, 30D	21,335	21,163
Total liabilities		517,940	432,907
Shareholders' equity	25A	37,664	35,406
Non-controlling interests		431	468
Total equity		38,095	35,874
Total liabilities and equity		556,035	468,781

(a) For additional information regarding amounts measured at fair value, please see Note 33A.
(b) For additional 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 422 million (as at December 31 2019 - NIS 386 million).
(d) 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 CONSOLIDATED COMPANIES
Statement of Changes in Equity
For the year ended December 31 2020

		Capital reserves	
	Share capital	Premium	Stock-based compensation and other transactions[a]
	In NIS million		
Balance as at January 1 2018	7,110	1,729	38
Effect of first-time application of IFRS 9 on foreign subsidiaries	-	-	-
Net income	-	-	-
Other comprehensive income, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(30)	(670)	-
Issuance of shares	1	7	(8)
Employee benefit 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[c]	-	-	-
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(28)	(672)	-
Issuance of shares	1	6	(7)
Employee benefit for stock-based compensation transactions	-	-	2
Sale of equity of a consolidated company	-	-	-
Balance as at December 31 2019	7,054	421	53
Net income	-	-	-
Other comprehensive income, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(13)	(237)	-
Employee benefit for stock-based compensation transactions	-	-	-
Balance as at December 31 2020	**7,041**	**184**	**53**

(a) Including NIS 10 million in other capital reserves.
(b) Including NIS 5.805 million that are non-distributable as dividend, of which NIS 1,650 million in respect of share buyback (2019 - NIS 5,610 million, of which NIS 1,400 million for share buyback, 2018 - NIS 2,849 million, of which NIS 700 million for share buyback). 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) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - "Financial Instruments", including updates thereof. Please see Note 1.X in the Annual Financial Statements as at December 31 2019.

The notes to the condensed consolidated interim 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 equity
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
-	**-**	**2,102**	**2,102**	**20**	**2,122**
-	**703**	**-**	**703**	**(21)**	**682**
-	**-**	**-**	**-**	**(39)**	**(39)**
-	**-**	**(297)**	**(297)**	**-**	**(297)**
(250)	**-**	**-**	**(250)**	**-**	**(250)**
-	**-**	**-**	**-**	**3**	**3**
7,278	**(2,792)**	**33,178**	**37,664**	**431**	**38,095**

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Cash Flows
For the year ended December 31

	2020	2019	2018
	In NIS million		
Cash flows from operating activities			
Net income for the year	**2,122**	3,560	3,322
Adjustments:			
Group's share in net undistributed losses of associates[(a)]	**26**	47	77
Depreciation of buildings and equipment (including impairment)	**678**	600	572
Loan loss expenses	**2,552**	609	519
Gains on sale of loan portfolios	**-**	(15)	-
Net gains on sale of available-for-sale bonds	**(410)**	(191)	(9)
Net realized and unrealized gains from fair value adjustments of held-for-trading securities	**(58)**	(151)	(60)
Losses (gains) on sale of investees' equity	**2**	(287)	(224)
Losses (gains) on disposal of buildings and equipment - net	**7**	(68)	(33)
Provision for impairment of available-for-sale bonds	**33**	2	19
Net realized and unrealized gains from fair value adjustments of not held-for-trading equity securities (2018 - available-for-sale shares)	**(283)**	(192)	(237)
Provision for impairment of not held-for-trading equity securities (2018 - available-for-sale shares)	**66**	39	82
Expenses for stock-based compensation transactions	**-**	2	28
Deferred taxes - net	**(729)**	(595)	199
Severance pay and pension – increase (decrease) in excess of provision over fund	**(980)**	(64)	134
Excess of interest received (receivable) for available-for-sale bonds and held-to-maturity bonds over interest accrued during the period	**253**	(146)	(168)
Payable (paid) interest for bonds and subordinated bonds	**(393)**	(88)	144
Effect of exchange rate differentials on cash and cash equivalent balances	**1,274**	730	(467)
Other, net	**-**	59	4
Net change in current assets:			
Assets in respect of derivatives	**(4,298)**	1,775	(3,172)
Held-for-trading securities	**(451)**	3,390	(1,197)
Other assets	**(1,917)**	1,180	592
Net change in current liabilities:			
Liabilities for derivatives	**5,684**	(718)	2,355
Other liabilities	**2,379**	3,326	(595)
Net cash provided by operating activities	**5,557**	12,804	1,885

(a) Net of dividend received.

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 CONSOLIDATED COMPANIES
Consolidated Statement of Cash Flows (cont.)
For the year ended December 31

	2020	2019	2018
	In NIS million		
Cash flows from investing activities			
Net change in deposits with banks with original maturities of more than three months	**(1,113)**	3,199	(2,532)
Net change in loans to the public[(a)]	**(16,583)**	(10,795)	(12,149)
Net change in loans to the Israeli Government	**112**	38	(67)
Net change in securities borrowed or purchased under reverse repurchase agreements	**(1,902)**	(80)[(c)]	124[(c)]
Purchase of held-to-maturity bonds	**(3,026)**	(2,048)	(4,006)
Proceeds from redemption of held-to-maturity bonds	**1,402**	647	72
Purchase of available-for-sale bonds and not held-for-trading equity securities (2018 - available for-sale securities)	**(136,675)**	(83,884)	(86,905)
Proceeds from the sale of available-for-sale bonds and equity securities not held for trading (2018 - available for-sale securities)	**99,757**	41,423	54,122
Proceeds from available-for-sale bonds and not held-for-trading equity securities (2018 - available for-sale securities)	**32,700**	31,789	40,945
Purchase of associates' equity	**(67)**	(377)	(123)
Proceeds from disposal of investment in associates	**-**	251	260
Proceeds from disposal of investment in previously-consolidated subsidiaries (Appendix B)	**-**	712	11
Proceeds from sale of loan portfolios	**-**	915	503
Purchase of buildings and equipment	**(594)**	(942)	(716)
Proceeds from disposal of buildings and equipment	**11**	107	80
Central severance pay fund	**137**	157	251
Other	**-**	-	(16)
Net cash for investing activities	**(25,841)**	(18,888)	(10,146)
Cash flow from financing activities			
Net change in deposits by banks with original maturities of more than three months	**9,012**	1,067	1,113
Net change in deposits by the public	**74,967**	5,609	398
Net change in deposits by the government	**(106)**	(367)	229
Net change in securities loaned or sold under repurchase agreements	**482**	(198)[(c)]	(237)[(c)]
Proceeds from issue of bonds and subordinated bonds	**4,986**	3,152	3,378
Redemption of bonds and subordinated bonds	**(8,248)**	(958)	(32)
Dividend paid to shareholders	**(297)**	(1,387)	(1,369)
Dividend paid to external shareholders in consolidated companies	**(39)**	(33)	(42)
Proceeds from disposal of investments in consolidated companies without loss of control	**-**	-	512
Share buyback	**(250)**	(700)	(700)
Net cash from financing activities	**80,507**	6,185	3,250
Increase (decrease) in cash and cash equivalents, including cash and cash equivalents classified as held-for-sale assets and liabilities[(b)]	**60,223**	101	(5,011)
Net of change in cash and cash equivalents classified as held-for-sale assets and liabilities[(b)]	**-**	(3)	3
Increase (decrease) in cash and cash equivalents	**60,223**	104	(5,014)
Balance of cash and cash equivalents at the beginning of the year	**73,667**	74,293	78,840
Effect of exchange rate fluctuations on cash and cash equivalent balances	**(1,274)**	(730)	467
Balance of cash and cash equivalents at the end of the year	**132,616**	73,667	74,293

(a) Including current activities from invoice factoring. Please see Note 30F.
(b) For more information, please see Note 36F to the financial statements as at December 31 2018.
(c) 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 CONSOLIDATED COMPANIES

Consolidated Statement of Cash Flows (cont.)

For the year ended December 31

Interest and taxes paid and/or received and dividends received

	2020	2019	2018
	In NIS million		
Interest received	**10,555**	11,143	10,631
Interest paid	**(2,523)**	(3,423)	(2,696)
Dividends received	**23**	64	129
Income tax paid	**(1,725)**	(2,508)(a)	(1,393)(a)
Income tax received	**237**	16(a)	309(a)

(a) Reclassified.

Appendix A - Non-Cash Investments and Financing Activities in the Reporting Period:

For the year ended December 31 2020

As of December 31 2020, a right-of-use asset and liabilities recognized for new operating leases were included as non-cash activity.

For more information, please see Note 1.N. and Note 16.G.

For the year ended December 31 2019

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.

On December 1 2019, a balance of NIS 746 million of the held-to-maturity bonds portfolio was classified to the held-for-sale bonds 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.

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

	2020	2019	2018
	In NIS million		
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 subsidiaries	-	215	7
Total proceeds from 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
Less derecognized cash	-	20	-
Inflow from disposal of investments in previously consolidated subsidiaries	-	712	11

(a) 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.

List of Notes

Note 1 - Significant Accounting Policies

a. Overview

The Group's consolidated 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 March 8 2021.

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 bank 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.

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).

Note 1 - Significant Accounting Policies (cont.)

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 (W) below.

2. Functional currency and presentation currency

Unless otherwise stated, the consolidated 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 the 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 held-for-sale assets.
- 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 2003. As of January 1 2004, the Bank prepares its financial statements using reported amounts.

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.

Note 1 - Significant Accounting Policies (cont.)

Change 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.

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 the 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 2020, exchange rate differentials for 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.
- 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 for 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".

Note 1 - Significant Accounting Policies (cont.)

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		
	2020	2019	2018	**2020**	2019	2018
	(In NIS)			(%)		
Exchange rate of:						
US dollar	3.215	3.456	**3.748**	(6.97)	(7.79)	8.10
Euro	3.944	3.878	**4.292**	1.70	(9.65)	3.35
Pound sterling	4.392	4.560	**4.793**	(3.68)	(4.86)	2.37
Swiss franc	3.650	3.575	**3.807**	2.10	(6.09)	7.09
Consumer Price Index:	(Points)	(Points)	**(Points)**			
November – known CPI	**100.2**	**100.8**	**100.5**	(0.6)	0.3	1.2

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. When testing for control, potential voting rights are not taken into account, except if the probability of disposal or conversion is high. 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.

Note 1 - Significant Accounting Policies (cont.)

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.

Investments 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.

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 investments in associates; please see Section (V.4) below.

Note 1 - Significant Accounting Policies (cont.)

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 recognized over the term of the loan as an adjustment of the return, except in cases of troubled debt restructuring, where the fees and commissions are recognized immediately in profit and loss.
- Early repayment fees - fees charged in respect of early repayment are recognized immediately in interest income, except such fees and commissions that are included as part of the net investment in the new loan and recognized as return adjustment.
- 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. Changes to the terms of the debt instrument are not minor when the present value of the cash flows of the new loan is at least 10 percent different than the present value of the cash flows according to the original loan terms. 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.
- 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.

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.

Note 1 - Significant Accounting Policies (cont.)

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

FASB Accounting Standard Codification Topic 820 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 additional 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"

Securities

The fair value of held-for-trading securities 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.

Note 1 - Significant Accounting Policies (cont.)

Derivatives

The fair value of derivatives 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 estimated 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.

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.

The Directive is applied to all outstanding 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 outstanding receivable. Regarding other receivable balances for which there are specific rules regarding measurement and recognition of an impairment provision (such as bonds), the Bank continues to apply the same measurement rules.

Recorded outstanding debt – Debt balance after deducting accounting write-offs but before deducting loan loss provision in respect of that debt. Recorded outstanding debt does not include unrecognized accrued interest.

Loan loss provision

The Bank has set procedures 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 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).

Note 1 - Significant Accounting Policies (cont.)

Collective loan loss provision

Balance sheet credit – 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 according to 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, are allocated between troubled debt and non-troubled debt for the period ranging from 2011 to the quarter preceding the reporting date, while examining significant changes which occurred during the current quarter. 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.

According to the Banking Supervision Department's directives, for 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 which are not troubled. The credit risk deriving from receivables in respect of banking credit cards without interest charges were excluded from the aforesaid.

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 – the provision 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. According to the Banking Supervision Department's directives, 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 debts

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.
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.

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. Loans tested on a collective basis will be classified as special mention when in arrears of 70 to 89 days.

Note 1 - Significant Accounting Policies (cont.)

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.
A debt shall be classified as impaired non-performing whenever the principal or interest has been in arrears 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 loan loss provision was made before and after the restructuring according to the extent of arrears method.

Restructured troubled debts

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 at the 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 outstanding contractual debt 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.

Note 1 - Significant Accounting Policies (cont.)

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 and assessed on a specific basis in order to calculate the loan loss provision or accounting write-off. 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.

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. Such a debt which has undergone subsequent restructuring and for which the impaired non-performing classification has been removed, will be assessed on a collective basis in order to quantify the loan loss provision.

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 and the following terms and conditions:

A debt repaid through monthly principal and interest payments - paid regularly for at least six consecutive months from the date of restructuring.

A debt that is not repaid through monthly principal and interest payments - paid regularly for at least six consecutive months from the date of restructuring and for which there were also repayments which materially reduced (by at least 20 percent) the recorded outstanding debt subsequent to the restructuring.

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 debt, 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 nonaccrual 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 additional information regarding revenue recognition on a cash basis in respect of debts that were classified as impaired non-performing, please see Section (F) above.

Note 1 - Significant Accounting Policies (cont.)

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.

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.
- Troubled debts the provision for which is measured on a collective basis and the extent of arrears is 150 days or more, except in case of debts under restructuring, for which the need for immediate write-off is examined. In addition, troubled debts 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.

For more information regarding the accounting treatment due to the coronavirus, see Section W.5.

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 not classified as held-to-maturity or held-for-trading. Available-for-sale bonds are stated in the balance sheet at fair value as at the 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.

Note 1 - Significant Accounting Policies (cont.)

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 securities whose international credit rating is at least AA.

4. Fair value

   For additional 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 and the provisions of FSP 115-2 - “Recognition and Presentation of Other-Than-Temporary Impairments”. The criteria for determining whether the impairment is other-than-temporary are based on the following considerations and tests:

   - The Bank intends to sell the security.
   - It is more probably than not that the Bank will be required to sell the security before recovering the cost base.
   - 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 impairment as other-than-temporary 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 at the end of the reporting period and close to the date of the publication of the report is at least 15 percent 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

Note 1 - Significant Accounting Policies (cont.)

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.

When other-than-temporary impairment occurs, the value of the bond is written-down to its fair value, which serves as its new cost basis. No distinction will be made between impairment attributed to credit risk and impairment attributed to other risks, such as market risk; impairment loss that is other-than-temporary is fully stated in profit and loss. 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.

For equity securities not held for trading for which there is no available fair value, the Bank makes a qualitative assessment in order to test the equity securities for impairment, and if needed - assesses the fair value of the investment to determine total impairment loss.

J. Derivatives 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

As part of the Bank's overall strategy for managing the above risk exposures, the Bank designates certain financial instruments as fair value hedges, cash flow hedges and foreign currency hedges. 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 on a current basis and presented in the same item as effects of the hedged item. 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.

2. Cash flow hedges

   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 hedges are carried to the other comprehensive income.

   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.

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

Derivatives which do not serve for hedging purposes, are measured at fair value with the changes in the fair value of these derivatives carried immediately to profit and loss.

Note 1 - Significant Accounting Policies (cont.)

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.

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 additional 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 transfer meets the criteria for accounting for it as a sale, the transferred financial assets are derecognized from the Bank's balance sheet. The difference between the proceeds and the value of the derecognized asset will be recognized in the income statement. If the transfer does not meet the conditions for accounting as a sale, it shall be accounted for as a secured debt. The financial assets shall continue to be stated in the Bank’s balance sheet, without change to their value, and the proceeds of the sale are recognized as a liability of the Bank.

Securities lending transactions

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.

Note 1 - Significant Accounting Policies (cont.)

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:

a. Unsecured lending of the Bank's available-for-sale bonds or held-for-trading equity securities – 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 finance income if the relevant securities are held-for-trading securities and not held-for-trading equity securities or as other comprehensive income if the relevant securities are available-for-sale bonds. 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

Retirement 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.

Note 1 - Significant Accounting Policies (cont.)

- 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.
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 can be reasonably estimated.

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.

Note 1 - Significant Accounting Policies (cont.)

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.

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 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 in the income statement 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.

Note 1 - Significant Accounting Policies (cont.)

Current maintenance costs of property, plant and equipment items are carried to profit and loss as incurred.

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.

Note 1 - Significant Accounting Policies (cont.)

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 additional 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

Contracts, including lease rights of land from the Israel Land Authority or other third parties, which provide the Bank with control over the use of the assets under a lease for a period of time in return for consideration, are accounted for as leases. Upon initial recognition, the liability is recognized at the present value amount of the future lease payments during the lease term (these payments do not include variable lease payments) and at the same time, the right-of-use asset is recognized at the amount of the lease liability, with the addition of initial costs and lease prepayments, less incentives received. For operating leases, a liability and right-of-use asset shall be recorded if the lease term is greater than 12 months.

Subsequent to initial recognition, a liability for an (operating and finance) lease is measured at amortized cost according to the effective interest method. In addition, the Bank is testing a right-of-use asset (for an operating and finance lease) for impairment according to the provisions of Topic 360-10-35 of the FASB Accounting Standards Codification, Impairment Testing of Long-Lived Assets.

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, if it is reasonably certain that the lessee will exercise the option.
The Bank chose the practical relief of not separating non-lease components, such as services or maintenance, but rather treating them as a single lease component.

Lease fees

Lease payments made in advance to the Israel Land Authority in respect of operating leases are stated in the income statement on a straight-line basis over the lease term. Fixed and variable rent payments are carried to profit and loss in the period for which they were paid.

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.

Note 1 - Significant Accounting Policies (cont.)

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, as well as on the opinions of their legal counsel.

Contingent liabilities are accounted for in accordance with the directives of the Banking Supervision Department, classifying the claims files so far against the Bank into three groups, according to the probability of the risk exposures materializing, 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 in this risk group; the claims are disclosed according to materiality.
- Possible risk – the probability that the risk will materialize ranges from 20 percent to 70 percent. Provisions are included in the financial statements for legal claims in this risk group; the claims are disclosed according to materiality.
- 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 accordance with the materiality.

There may be 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 - and therefore no provision or disclosure is made in the financial statements.

The Group is also exposed to legal claims that have not yet been put forward/filed or that it had been informed of. 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. The actual result may be different than the assessment made prior to the filing of the claim.

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.

In Note 26, Contingent Liabilities and Special Commitments, a disclosure was made in respect of claims against the Bank and consolidated companies the amount claimed in which is material. The materiality threshold is the higher of: 0.5 percent of the Bank's shareholders' equity or 5 percent of the Bank's annual net income.

In addition, disclosure was made to the additional exposure amount 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.

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 in respect of the guarantee is recognized in the books at fair value even if no payments are expected to be made. In cases where the Bank is required to recognize a provision for a contingent loss in respect of the guarantee, the liability for the guarantee will be measured at the higher of the fair value and the provision amount, in accordance with the provisions of Topic 450 of the FASB Accounting Standards Codification. The liability is derecognized on the date in which the Bank is released from the risk.

Note 1 - Significant Accounting Policies (cont.)

S. Income Tax

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". The financial statements include current taxes and deferred taxes.

Current taxes

Current taxes are the amounts of taxes which are expected to be payable (or recoverable) in respect of the taxable income for the year calculated at the applicable tax rates under tax laws that have been enacted or substantively enacted until the end of the reporting period. 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 carried forward 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.

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.

Note 1 - Significant Accounting Policies (cont.)

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. Controlling Shareholders 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 excluding 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 book value constitutes a new cost basis. The recognized loss shall not be reversed in subsequent periods, unless an appreciation occurs.

2. Impairment of goodwill
   The Bank tests for impairment once every certain period or if events or changes in circumstances indicate such a need. Goodwill impairment should be recognized as the difference between the fair value of the reported unit and its book value. The impairment loss may not exceed the goodwill amount attributed to the reporting unit.

3. 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;

   e. It is no longer probable that the development of the software will be completed and that the software will be placed in service.

Note 1 - Significant Accounting Policies (cont.)

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.

4. 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.

5. Non-current held-for-sale assets

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. An impairment loss recognized upon initial classification of an asset as held-for-sale and subsequent gains or losses resulting from the remeasurement are stated in profit and loss. Appreciation gains up to total amount of impairment losses recorded since the asset was classified as held-for-sale.

A depreciable asset classified as held-for-sale 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 2020, the Bank applies the following accounting standards and directives:

1. Reporting by banking corporations and credit card companies pursuant to US GAAP on 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 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 shall be recorded in the balance sheet which reflects the Bank's right to use the leased asset against an obligation to pay the lease.
c. Transactions in which a banking corporation sells an asset and leases it back may be considered, under certain circumstances, as accounting sales transactions.
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.

Under the new provisions, for agreements in which the Bank is the lessee, upon initial recognition, the Bank recognized a liability in the amount equal to the present value of the future lease payments during the lease term (these payments do not include variable lease payments that do not depend on the CPI or the interest rate) and, at the same time, recognized the right-of-use asset in the amount of the lease liability, adjusted for advance or accrued lease payments less lease incentives, plus direct costs incurred for the lease.

Note 1 - Significant Accounting Policies (cont.)

In addition, as permitted by the standard's provisions, the Bank has decided to apply the following reliefs:

- Preserve the valuations regarding identifying a lease and its classifications as an operating lease or finance lease upon first-time application.
- Using the practical relief of not separating non-lease components, such as services or maintenance, from lease components, but treating them as a single lease component.
- Using the practical relief whereby short-term leases of up to one year are treated such that lease payments are charged to profit and loss according to the straight-line method, throughout the lease term, without recognizing the right-of-use asset and/or liability for a lease in the statement of financial position.
- To apply the standard's provisions to a portfolio of leases with similar characteristics (in terms of size and composition), for which the Bank reasonably expects that the application of the lease model to the portfolio will not be materially different from the application of the model separately for each lease contained in the portfolio.

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 new directives were applied as at January 1 2020 by way of retroactive application, i.e., the first-time application date is the standard's effective date.

The effect of the application of the directives on the balance sheet was an increase of approx. NIS 1.2 billion in the balance of right-of-use assets and the outstanding liability for this lease. The application of the directives had no material effect on the profit and loss.

In addition, the implementation of the new directives brought about a decrease in the Common Equity Tier 1 capital ratio and total capital ratio at a rate of approx. 0.04 percent and 0.07 percent, respectively, as at January 1 2020, as a result of including the risk-weighted assets for the right-of-use assets which arise from operating leases recognized in the balance sheet at a rate of a 100 percent of adjustment to the related deferred tax balances.

2. ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.

On August 29 2018, the FASB issued ASU 2018-15, which updates Subtopic 350-40 regarding internal use software.

In accordance with 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 assets.

The ASU was applied prospectively as at January 1 2020.

The application of the ASU had no material effect on the financial statements.

3. 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".

In accordance with 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 carrying amount. Goodwill impairment should be recognized as the difference between the fair value of the reported unit

Note 1 - Significant Accounting Policies (cont.)

and its book value. However, the impairment loss may not exceed the goodwill amount attributed to the reporting unit.

The ASU was applied prospectively as at January 1 2020.

The application of the ASU had no material effect on the financial statements.

4. ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting".

Following the Benchmark Interest Reform, interbank interest rates - LIBOR - will be discontinued and substituted with alternative observable benchmark interest rates or actual transaction-based interest rates that will be less susceptible to manipulation, starting at the end of 2021, excluding the USD LIBOR interest, which will continue to be published until June 2023.

In this context, on October 2018, the FASB published ASU 2018-16, "Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate in the Benchmark Interest Rate for Hedge Accounting Purposes".

On March 22 2020, the FASB published ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting", which updates Topic 848, "Benchmark Interest Reform".

ASU 2020-04, which updates Topic 848 on the Benchmark Interest Reform, allows:

- To address the contract modifications that affect the amount and timing of contractual cash flows arising from discontinuation of the use of reference rates as a result of the reform, as a continuation of the existing contracts without further analysis, in lieu of applying modification accounting.
- Failure to reconsider embedded derivatives which were defined as clearly and closely related to the economic characteristics and the risks of the hosting contract.
- To change the critical conditions of the designated hedging instrument without cancelling the designated hedge ratios.
- A one-time choice to sell and/or reclassify bonds which were classified as held-to-maturity prior to January 1 2020 and which are related to interest rates affected by the Reference Rate Reform, to the available-for-sale portfolio or held-for-trading portfolio.

On October 23 2020, the International Swaps and Derivatives Association (ISDA) published a procedure and appendix defining parameters for revising the base interest rate and making adjustments once the LIBOR is no longer published for derivatives (whether OTC or central clearing). The two documents allow, subject to ratification of the procedure or bilateral application of the appendix by both parties to the transaction, enabling its application both to transactions made from that date onward and to OTC derivative transactions which will be effective as of that date. The Bank signed the procedure in order to apply its provisions on relevant transactions.

The aforementioned discontinuation of the use of the LIBOR and the transition to alternative benchmark interest rates may have various accounting effects in a number of areas, including:

- Hedge accounting - the Bank examined the implications of the change for existing hedging relationships, the documentation performed thereof and its expansion for the purpose of integrating the changes made.
- Debt modification agreements - debt agreements which do not include references to fallbacks may require these agreements to be modified The Bank is required to examine whether these amendments will be treated as a derecognition of the existing contracts and initial recognition of the new contracts, while the difference will be recognized in the income statement or, alternatively, as a continuation of the existing contracts by updating the effective interest rate.

Note 1 - Significant Accounting Policies (cont.)

- Discount rates - transitioning to alternative benchmark interest rates might bring about changes in the discount rates and forward curves used as inputs in various valuation models of various assets and liabilities, such as: Financial instruments, leases, derivatives, impairment of non-financial assets. The Bank revised the discount rates for centrally-settled transactions. The effect of the change in fair value due to the discount rate update is immaterial.
- The fair value hierarchy - some of the relatively new alternative benchmark rates (such as the SOFR) are relatively new. Therefore, it is expected that contracts underlying these benchmark interest rates will be classified to Level 2 or 3 in the fair value hierarchy.

The Bank has mapped out relevant exposures and products, and evaluated the changes needed in the infrastructure systems. The Bank continues to prepare for the change.

5. Regulatory emphases regarding accounting treatment of debts and reporting to the public due to the coronavirus crisis

On April 21 2020, the Bank of Israel published a letter entitled “The coronavirus event - regulatory emphases for handling debt and reporting to the public”, which adopts guidelines and reliefs set by US regulators, as follows:

Changes in loan terms and conditions

Stabilizing borrowers who are not delinquent on their existing loans and are experiencing financial or operational difficulties in the short-term due to the coronavirus event by changing the terms and conditions of their debts, such as: Deferral of repayments, waiving interest for delay and extending repayment periods will not cause these debts to be classified as troubled debts under restructuring, subject to the following terms and conditions:

- The change was made due to the coronavirus event;
- The borrower was not delinquent on the date in which the plan to change the terms and conditions was implemented;
- The change is for a short period (up to 6 months)

In this regard, it has been clarified that borrowers are considered non-delinquent if they are in arrears of less than 30 days on the contractual terms and conditions at the time of the implementation of the change plan. Housing loans that are treated according to the extent of arrears method, where such short-term deferral was made to a debt which was not a troubled debt before the delay date, are not required, as a rule, to be classified as debt under restructuring.

Determining the extent of arrears

The Bank is not required to classify debts that were not previously delinquent, and whose repayment has been deferred due to the coronavirus event, as debts in arrears due to that postponement. Regarding debts for which repayments were deferred due to the coronavirus event and which were delinquent prior to the postponement, a freeze should be placed on the delinquency period for the duration of the repayment postponement period.

Classification of troubled debts, including non-accrual impaired non-performing debt and accounting write-offs

During the period in which short-term arrangements were made, these loans will, as a rule, be reported as accruing loans, except for debts for which new information was collected indicating a decline in repayment prospects, for which the Bank acted in accordance with the Reporting to the Public Directives on the classification of troubled debts and accounting write-offs.

On July 13 2020, the Bank of Israel published a press release entitled Expansion of Comprehensive Framework for Deferring Loan Payments, as follows:

Consumer credit, business credit and mortgages - the deadline for submitting the application for deferring the loan repayments will be extended to October 30 2020.

Note 1 - Significant Accounting Policies (cont.)

Mortgages - customers who have already received approval for deferral of their mortgage payments can defer the payments until the end 2020 even if the deferral is longer than six months. Customers who have yet to defer the mortgage payments will defer the payments for a period of six months.

Consumer credit of up to NIS 100 thousand - customers can defer payments for these loans for a period of up to six months without the Bank's exercising discretion, contrary to the previous outline, in which the deferral was for a period of three months.

On October 11 2020, the Banking Supervision Department published a letter entitled "The Coronavirus Event - Regulatory Emphases for Additional Changes in Loan Terms and Conditions", following the extension of the scheme for deferment of loan repayments.

As aforesaid, the payments deferment of a loan made until December 31 2020 - as part of the extensive repayment deferment scheme - which was not in arrears of 30 days or more at the time of implementing the deferment, shall not require the loan to be classified as restructuring of a troubled debt.

Nevertheless, even under these circumstances, the Bank is required to ensure it adequately identifies and classifies the loans in accordance with the risk embodied therein, as required by the Reporting to the Public directives. To this end, since the credit quality may deteriorate, the Bank is required to assess whether subsequent changes made in the loans' terms and conditions constitute restructuring of the debts in accordance with the Reporting to the Public directives and the Bank's internal accounting policies. Small debts do not require reassessment at the individual loan level, but may rather be reassessed as part of their class of debts with similar risk characteristics.

In addition, according to the Banking Supervision Department's letters of December 2020, a banking corporation is entitled not to classify troubled debt as restructured troubled debt - housing loans, other loans to individuals and loans to small businesses which were not in arrears of 30 days or more as of the payments deferment date, which were deferred, for which were performed till the 31th day. until March 2021 under the additional outlines, if total deferment was more than 6 months.

Disclosure in public reports

According to a letter by the Banking Supervision Department dated December 3 2020, "The Coronavirus Crisis - Emphases in respect of the Additional Outline for Payments Deferment", a banking corporation which chose not to classify as troubled debt under restructuring loans which were not in arrears of 30 days or more as of the deferment date, for which deferment was made until March 31 2021 under the additional outline, are required to include in their 2021 quarterly and annual reports to the public a pro forma disclosure presenting the main effects of applying this choice to the financial statements.

In the course of addressing the coronavirus crisis, and following the above, the Bank made changes in the terms and conditions of debts, including deferment of repayment dates and extensions of terms to maturity, which were not classified as restructured troubled debts due to the deferment, in accordance with the Bank of Israel's outline.

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
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 provisions of the Banking Supervision Department adopt 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 above is based on existing methods and processes. The main points 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. • 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, including housing loans, held-to-maturity bonds and certain off-balance sheet credit exposures. On December 1 2020, the Banking Supervision Department published two circulars: • "Regulatory capital - Effect of Applying Accounting Principles to Expected Loan	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 application on its financial statements and prepare to apply the new rules; thus, it is impossible to reliably estimate their expected effect at this point. The Bank is in the midst of preparations thereto, which include mapping out the requirements, establishing a methodology for calculating the estimated loan loss provision, and examining the changes needed to adjust the methods for evaluating loan losses, as well as implementing the provisions of the disclosure, although the measurement methods are expected to undergo revision. The new rules do not alter the risk embodied in the Bank's loan portfolio.

Note 1 - Significant Accounting Policies (cont.)

Publication's topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	Losses" The circular sets transitional provisions for first-time adoption of new rules on expected loan losses in order to mitigate the effects of the adoption on the regulatory capital. • "Expected Loan Losses from Financial Instruments". The circular reversed, among other things, the requirement to calculate a minimum collective provision of 0.35 percent for housing loans and the requirement to calculate a minimum provision according to the extent of arrears method. In addition, it requires to deduct from CET1 capital amounts for housing loans classified as non-accrual over time.		
Standard update 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.	The adoption of the amendment has no effect on the financial statements other than changing the presentation in the Balances and Fair Value Estimates of Financial Instruments note.

Note 1 - Significant Accounting Policies (cont.)

Publication's topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
ASU 2018-14 "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: a. The requirement to present an estimate of the amounts included in 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.	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.
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		
	2020	2019	2018
	In NIS million		
a. Interest income[(a)]			
From loans to the public	**8,969**	9,826	10,085
From loans to governments	**24**	32	33
From deposits with banks	**85**	177	133
From deposits with central banks and cash	**93**	136	78
From securities borrowed or purchased under reverse repurchase agreements	**6**	4	2
From bonds[(b)]	**998**	1,262	1,015
Total interest income	**10,175**	11,437	11,346
b. Interest expense[(a)]			
For deposits by the public	**(1,053)**	(2,026)	(1,847)
For deposits by governments	**(3)**	(3)	(4)
For deposits by the Bank of Israel	**(3)**	(1)	-
For deposits by banks	**(11)**	(26)	(29)
For securities loaned or sold under repurchase agreements	**(8)**	(3)	(2)
For bonds, promissory notes and subordinated bonds	**(374)**	(537)	(574)
Total interest expense	**(1,452)**	(2,596)	(2,456)
Total interest income, net	**8,723**	8,841	8,890
C. Details on the net effect of hedging derivatives[(c)]			
From interest income	**(50)**	(13)	7
d. Details on interest income from bonds, on accrual basis			
Available-for-sale	**806**	1,068	890
Held-for-trading	**25**	32	40
Held to maturity	**167**	162	85
Total included in interest income	**998**	1,262	1,015

(a) Including the effect of hedge ratios (2018 - including effective component in hedge ratios).
(b) Including interest in respect of mortgage-backed bonds (MBS) totaling NIS 219 million (2019 – NIS 237 million, 2018 – NIS 203 million).
(c) Additional information about the effect of hedging derivatives on subsections a. and b.

Note 3 - Noninterest Finance Income

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
a. Non-interest finance income (expenses) for non-trading activities			
a.1. From derivatives activity[a]			
Net income (expenses) in respect of ALM derivatives [b]	(1,787)	(1,260)	2,338
Total from derivatives activity	(1,787)	(1,260)	2,338
a.2. From investment in bonds			
Gains on sale of available-for-sale bonds[g]	414	208	61
Losses on sale of available-for-sale bonds[g]	(4)	(17)	(52)
Provision for impairment of available-for-sale bonds[g]	(33)	(2)[k]	(19)
Total from investment in bonds	377	189	(10)
a.3. Exchange rate differentials, net	1,786	1,971[k]	(2,246)
a.4. Gains (losses) on investment in shares			
Gains on sale of not held-for-trading equity securities (2018 - available-for-sale shares)	224	152	239
Provision for impairment of not held-for-trading equity securities (2018 - available-for-sale shares)	(66)	(39)	(82)
Losses on sale of not held-for-trading equity securities (2018 - available-for-sale shares)	(55)	(16)	(2)
Dividend from not held-for-trading equity securities (2018 - available-for-sale shares)	10	32	16
Unrealized gains, net from not held-for-trading equity securities (2018 - available-for-sale shares) [j]	114	56	-
Gains on sale of investees' equity securities[c]	-	386	224
Losses on sale of investees' equity[d]	(2)	(99)	(1)
Total from investment in equity securities	225	472	394
a.5. Gains on sold loans, net	-	15	-
Total noninterest finance income for non-trading activities	601	1,387	476
b. Noninterest finance income (expenses) for trading activities			
Income in respect of held-for-trading derivatives, net	367	148	146
Realized and unrealized gains (losses) from fair value adjustments of held-for-trading bonds, net[e][i]	51	148	(25)
Realized and unrealized gains from fair value adjustments of held-for-trading equity securities, net [f][i]	7	3	85
Total from trading activities[h]	425	299	206
Details of noninterest finance income (expenses) due to trading activities, by risk exposure:			
Interest rate exposure	(117)	27	(45)
Foreign exchange exposure	501	233	231
Equity exposure	37	35	19
Exposure to commodities and other contracts	4	4	1
Total	425	299	206
Total noninterest finance income	1,026	1,686	682

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) In 2020, there were not gains on the sale of equity securities of investees (2019 - gain on the sale of Leumi Card equity in the amount of NIS 314 million; For more information, please see Note 36F to 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) In 2019, loss on sale of Leumi Romania in the amount of NIS 99 million.
(e) Of which the share of gains (losses) totaling NIS 40 million (2019 – NIS 33 million, 2018 – NIS (25) million) associated with unrealized held-for-trading bonds still held as of the balance sheet date.
(f) In 2020, there were no gains (losses) in respect of held-for-trading equity securities still held as at the balance sheet date (2019 and 2018 - there were no gains (losses) in respect of held-for-trading equity securities still held as at the balance sheet date).
(g) Reclassified from accumulated other comprehensive income.
(h) For interest income from investments in held-for-trading bonds, please see Note 2.
(i) Including exchange rate differentials from trading activities.
(j) 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.
(k) Reclassified.

Note 4 - Fees and Commissions

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Account management	**642**	690	716
Credit cards	**327**	310	1,129
Activity in securities and certain derivatives[(a)]	**727**	637	638
Fees and commissions for financial product distribution[(b)]	**215**	238	260
Management, operating and trust services provided to institutional entities[(c)]	**80**	72	85
Handling of credit	**173**	197	186
Exchange rate differentials	**392**	361	361
Foreign trade activity	**114**	119	121
Net income from loan portfolio servicing	**9**	11	12
Management fees and commissions on life and home insurance	**53**	58	56
Loan fees and commissions	**442**	431	454
Other fees and commissions	**107**	101	103
Total operating fees and commissions	**3,281**	3,225	4,121

(a) Including fees and commissions from underwriting activity.
(b) Primarily mutual funds' distribution fees.
(c) Primarily operation of provident funds.

Note 4A - Revenue from Contracts with Customers[(a)]

	For the year ended December 31 2020											
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - total	Middle-market	Corpo-rate	Real estate	Capital mar-kets	Other	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS million											
Account management	300	152	-	452	75	21	5	24	-	-	65	642
Credit cards	258	51	-	309	11	1	-	-	-	-	6	327
Activity in securities and certain derivatives	422	52	-	474	20	5	3	147	-	30	48	727
Fees and commissions for financial product distribution	179	14	-	193	4	-	-	-	-	-	18	215
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	80	-	80
Handling of credit	5	27	13	45	45	23	58	-	-	-	2	173
Exchange rate differentials	130	82	-	212	90	15	3	72	-	-	-	392
Foreign trade activity	2	27	-	29	61	14	1	7	-	-	2	114
Management fees and commissions on life and home insurance	-	-	3	3	-	-	-	-	-	45	5	53
Net income from loan portfolio servicing	1	-	8	9	-	-	-	-	-	-	-	9
Fees and commissions from loans and other	12	36	-	48	80	115	235	21	21	-	29	549
Total fees and commissions from main services	1,309	441	24	1,774	386	194	305	271	21	155	175	3,281

	For the year ended December 31 2019											
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - total	Middle-market	Corpo-rate	Real estate	Capital mar-kets	Other	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS million											
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
Fees and commissions from loans and other	-	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

(a) The revenue was classified pursuant to the operating segments according to management approach.

Note 5 - Other Income

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Capital gains on sale of buildings and equipment	**1**	93	45
Capital loss on sale of buildings and equipment	**(11)**	(4)	(5)
Gains on main severance pay funds, net	**9**	22	8
Other, net	**60**	59	20
Total other income	**59**	170	68

Note 6 - Salaries and Related Expenses

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Salaries	**2,551**	3,025	3,221
Expense arising from stock-based compensation transactions[(b)]	**(7)**	8	40
Other related expenses, including study fund, paid leave and sick leave	**228**	249	250
Long-term benefits	**-**	(5)	(5)
National Insurance fees and payroll tax	**602**	691	690
Pension-related expenses (including severance pay and pension):[(a)]			
Defined benefit	**175**	149	145
Defined contribution	**181**	170	200
Other retirement benefits and non-pension retirement benefits[(a)(c)]	**12**	37	3
Expenses for other employee benefits[(a)]	**-**	1	-
Total salaries and related expenses	**3,742**	4,325	4,544
Of which: Salaries and related expenses payable abroad	**449**	467	523

(a) For additional information regarding employee benefits, please see Note 23.
(b) Please see Note 23I in the Financial Statements dated December 31 2019, under stock-based compensation transactions.
(c) Of which: Service cost in respect of other retirement benefits and non-pension retirement benefits for 2020, 2019 and 2018 is NIS 11 million, NIS 9 million and NIS 10 million, respectively.

Note 7 - Other Expenses

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Pension expenses - Defined benefit and other post-employment benefits, excluding service cost	**691**	706	671
Marketing and advertising	**130**	222	314
Professional fees: Legal fees, audit fees	**218**	252	290
Communication: Postage, telephone, couriers, etc.	**119**	130	160
IT[(a)]	**125**	101	120
Office supplies	**43**	49	53
Insurance	**29**	17	17
Training and courses	**6**	12	17
Fees and commissions	**118**	109	222
Loss on assets received for loans extinguishment	**-**	3	2
Fines paid to the Bank of Israel	**-**	-	2
Other[(b)]	**294**	461	356
Total other expenses	**1,773**	2,062	2,224

(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 additional 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		
	2020	2019	2018
	In NIS million		
Current taxes			
For the reporting year	**2,053**	2,403	1,491
For previous years	**32**	22	(71)
Current taxes - total	**2,085**	2,425	1,420
Including (excluding) changes in deferred taxes:			
For the reporting year	**(729)**	(595)	199
Total changes in deferred taxes	**(729)**	(595)	199
Provision for income taxes	**1,356**	1,830	1,619
Of which: Provision for taxes abroad	**35**	70	91

Note 8 - Provision for Profit Tax (cont.)

a. Composition of the Item (cont.):

The composition of deferred tax expenses (income) allocated to continuing operations is as follows

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Deferred tax expenses (income) before the effect of the following items:	**(729)**	(598)	202
Decrease (increase) in deductions carried forward for tax purposes	**-**	3	(3)
Total deferred tax expenses (income)	**(729)**	(595)	199

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 up by a total of NIS 467 million in 2020, down by NIS 565 million in 2019 and up by NIS 319 million in 2018.

b. Reconciliation of the Theoretical Tax Expense and the Provision for Taxes

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Statutory tax rate applicable to the Bank	**34.2%**	34.2%	34.2%
Tax amount based on the statutory tax rate	**1,194**	1,848	1,677
Tax (tax saving) in respect of:			
Income of foreign consolidated companies	**19**	16	(44)
Tax-exempt income and income subject to reduced tax rates	**(1)**	(3)	(2)
Differences in depreciation, depreciation adjustments and capital gain	**2**	(22)	(23)
Other non-deductible expenses	**12**	9	33
Losses and timing differences in respect of which deferred taxes were not recorded	**25**	(107)	(29)
Change in deferred taxes due to changes in tax rates	**-**	-	-
Tax for previous years	**32**	22	(71)
Changes in the balance of the provision for deferred tax asset	**-**	-	-
Other	**73**	67	78
Provision for income taxes	**1,356**	1,830	1,619

c. Tax Assessments

The Bank has final tax assessments up to and including the 2014 tax year. In 2015, the Bank was issued a best judgment. The Bank's management believes that the financial statements reflect adequate provisions.
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 2019	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	Other	Balance on December 31 2020	Average tax rates in 2020 (in %)
	In NIS million							
Deferred tax assets								
From loan loss provision	1,276	-	481	-	(5)	-	1,752	34%
From provision for paid leave and bonuses	234	-	(32)	-	(2)	-	200	32%
From excess of employee benefits liability over plan assets	4,506	-	74	(122)	(1)	-	4,457	34%
From interest not recognized in current year's income	16	-	(2)	-	(1)	-	13	28%
Tax credit and losses carried forward for tax purposes	156	-	2	-	-	-	158	18%
From securities	30	-	259	(275)	2	3	19	17%
Property, plant and equipment and leases	2	-	1	-	-	-	3	20%
Other from monetary items	1	-	(1)	-	-	-	-	-
Other from non-monetary items	69	-	-	-	(1)	-	68	17%
Balance of deferred tax assets, gross	6,290	-	782	(397)	(8)	3	6,670	
Provision for deferred tax asset	(124)	-	(6)	-	-	-	(130)	
Balance of deferred tax assets less deferred tax provision	6,166	-	776	(397)	(8)	3	6,540	
Offsettable balances[(a)]	(227)	-	-	-	-	-	(282)	
Outstanding deferred taxes less provision	5,939	-	-	-	-	-	6,258	
Deferred tax liability								
For investments in investees	(166)	-	(40)	2	-	-	(204)	12%
Adjustment of depreciable non-monetary assets	(131)	-	(10)	-	1	-	(140)	26%
Other from monetary items	(2)	-	3	(15)	-	-	(14)	29%
Other from non-monetary items	(10)	-	-	-	-	-	(10)	17%
Outstanding deferred tax liabilities, gross	(309)	-	(47)	(13)	1	-	(368)	
Offsettable balances[(a)]	(227)	-	-	-	-	-	(282)	
Outstanding deferred tax liabilities	(82)	-	-	-	-	-	(86)	
Outstanding deferred taxes, net	5,857	-	729	(410)	(7)	3	6,172	

(a) Outstanding deferred taxes 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.

Note 8 - Provision for Profit Tax (cont.)

T. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items (cont.)

	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 applica-tion of US GAAP[(b)]	Balance as at December 31 2019	Average tax rates in 2019 (in %)
	In NIS million							
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 non-monetary items	-	-	1	-	-	-	1	24%
Other from 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 asset less deferred tax provision	5,032	(73)	569	632	(10)	16	6,166	
Offsettable balances[(a)]	(174)	-	-	-	-	-	(227)	
Outstanding deferred taxes less provision	4,858	-	-	-	-	-	5,939	
Deferred tax liability								
For investments 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)	
Outstanding deferred taxes, net	4,695[(c)]	(73)	595	632	(8)	16	5,857	

(a) Outstanding deferred taxes 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 in the financial statements as at December 31 2019.

(c) Including outstanding deferred taxes 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. Carried Forward Tax Losses and Tax Credits

	For the year ended December 31 2020				
	Deferred tax assets	Provision for deferred tax assets	Deferred tax assets, net	Accumulated loss	First expiry year
	In NIS million				
Losses for tax purposes					
Subsidiaries in Israel	10	(10)	-	29	-
Foreign subsidiaries	7	(7)	-	22	-
Tax credits					
The Bank	141	(113)	28	-	-

	For the year ended December 31 2019				
	Deferred tax assets	Provision for deferred tax assets	Deferred tax assets, net	Accumulated loss	First expiry year
	In NIS million				
Losses for tax purposes					
Subsidiaries in Israel	7	(6)	1	20	-
Foreign subsidiaries	3	(3)	-	9	-
Tax credits					
The Bank	146	(115)	31	-	-

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 Banking Supervision 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 debts recorded beginning on January 1 2011 (the previous agreement applies to doubtful debts recorded until December 31 2010). The agreement in principle is effective through the 2022 tax year, inclusive.

Following are the main points of the agreement:

Specifically assessed large impaired non-performing 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 outstanding 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.

Note 8 - Provision for Profit Tax (cont.)

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 2020 is USD 13 million (as at December 31 2019 - approx. USD 13 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 Years), 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.

Tax rate

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 from 2018 onwards:

- Profit tax rate - 17.00 percent.
- Corporate tax rate - 23.00 percent.
- Total tax rate - 34.19 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

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		
	2020	2019	2018
Basic earnings			
Net income attributable to the Bank's shareholders (in NIS millions)	**2,102**	3,522	3,257
Weighted average of the number of shares (in thousands of shares)			
Balance as at beginning of period	**1,466,191**	1,493,609	1,523,516
Weighted effect of exercised PSUs and RSUs and the issuance of shares	**163**	414	417
Weighted effect for share buyback	**(10,582)**	(9,956)	(10,931)
Weighted average of number of shares	**1,455,772**	1,484,067	1,513,002
Basic earnings per share (in NIS)	**1.44**	2.37	2.15

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		
	2020	2019	2018
Diluted earnings			
Net income attributable to the Bank's shareholders (in NIS millions)	**2,102**	3,522	3,257
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	**1,455,772**	1,484,067	1,513,002
Weighted effect of yet unexercised PSUs and RSUs	**30**	284	788
Weighted average of the number of shares, fully diluted	**1,455,802**	1,484,351	1,513,790
Diluted earnings per share (in NIS)	**1.44**	2.37	2.15

c. Share Capital

As at December 31 2020, the Bank's issued and paid up share capital less the Bank's share buyback plan during 2018 to 2020 is 1,452,896,006 ordinary shares of NIS 1 p.v. each.

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 at December 31 2018, the Bank's issued and paid up share capital less the Bank's share buyback plan in 2018 is 1,493,608,816 ordinary shares of NIS 1 p.v. each.

Note 10 - Accumulated Other Comprehensive Income (Loss)

a. Changes in Accumulated Other Comprehensive Income (Loss) After Tax Effect

	For the year ended December 31 2020							
	Other comprehensive income before attribution to non-controlling interests							
	Adjust-ments in respect of presen-tation of available-for-sale bonds (2018 – securities) at fair value	Net translation adjust-ments,[a] after the effect of hedges[b]	Net gains (losses) for cash flow hedges	The Bank's share in other compre-hensive income of investees, equity-accounted	Adjust-ments in respect of employee benefits[c]	Total	Other compre-hensive income (loss) attribu-table to non-controlling interests	Other compre-hensive income (loss) attribu-table to the Bank's share-holders
	In NIS million							
Balance as at January 1 2018	104	(170)	-	(39)	(2,950)	(3,055)	(4)	(3,051)
Net change during the year[d]	(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[e]	(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)
Net change during the year	**539**	**(96)**	**28**	**(3)**	**214**	**682**	**(21)**	**703**
Balance as at December 31 2020	**1,163**	**(295)**	**26**	**(16)**	**(3,734)**	**(2,856)**	**(64)**	**(2,792)**

(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 and include executed voluntary retirement plans.
(d) Including balances classified as held-for-sale assets. For more information, please see Note 36F to the financial statements as at December 31 2018.
(e) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - “Financial Instruments”, including updates thereof. Please see Note 1.X in the Annual Financial Statements as at December 31 2019.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

a. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect

	For the year ended December 31								
	2020			2019			2018		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	In NIS million								
Changes in other comprehensive profit (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	**1,191**	**(404)**	**787**	1,657	(565)	1,092	(489)	163	(326)
Gains (losses) in respect of available-for-sale bonds (2018 - securities) reclassified to the income statement[a]	**(377)**	**129**	**(248)**	(189)[g]	65	(124)	(145)	50	(95)
Net change during the year	**814**	**(275)**	**539**	1,468	(500)	968	(634)	213	(421)
Translation adjustments:[b]									
Adjustments from translation of financial statements	**(193)**	**-**	**(193)**	(243)	-	(243)	229	-	229
Hedges[c]	**147**	**(50)**	**97**	178	(61)	117	(182)	63	(119)
Sale of equity of a consolidated company to non-controlling interests	**-**	**-**	**-**	-	-	-	(20)	7	(13)
Net change during the year	**(46)**	**(50)**	**(96)**	(65)	(61)	(126)	27	70	97
Net gains (losses) for cash flow hedges	**43**	**(15)**	**28**	(3)	1	(2)	-	-	-
The Bank's share in other comprehensive income (loss) of associates accounted for using the equity method	**(5)**	**2**	**(3)**	(5)	1	(4)	34	(4)	30
Employee benefits:[e][f]									
Net actuarial gain (loss) for the year	**(134)**	**39**	**(95)**	(3,746)	1,276	(2,470)	1,434	(485)	949
Net gains (losses) reclassified to the income statement[d]	**470**	**(161)**	**309**	398	(136)	262	362	(124)	238
Sale of equity of a consolidated company	**-**	**-**	**-**	31	(8)	23	-	-	-
Net change during the year	**336**	**(122)**	**214**	(3,317)	1,132	(2,185)	1,796	(609)	1,187
Total change during the year, net	**1,142**	**(460)**	**682**	(1,922)	573	(1,349)	1,223	(330)	893
Less changes in other comprehensive income (loss) components attributable to non-controlling interests									
Total change during the year, net	**(17)**	**(4)**	**(21)**	(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	**1,159**	**(456)**	**703**	(1,920)	584	(1,336)	1,247	(328)	919

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 the expenses for employee benefits item. For additional 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	
	2020	2019
	In NIS million	
Cash and deposits with central banks	**126,765**	64,661
Deposits with commercial banks[(a)]	**9,429**	11,552
Total[(b)]	**136,194**	76,213
Of which: Cash, deposits with banks and deposits with central banks with original maturities of up to three months	**132,616**	73,667

(a) Less loan loss provision.
(b) Of which: Pledged cash amounting to NIS 1.951 million (December 31 2019 – NIS 743 million).

Comment: For information on pledges, please see Note 27.

Note 12 - Securities

	December 31									
	2020					2019				
	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 million									
Held-to-maturity bonds:[(g)]										
Of the Israeli Government	**3,919**	**3,919**	**557**	**(1)**	**4,475**	3,080	3,080	420	-	3,500
Mortgage-backed (MBS)	**2,265**	**2,265**	**40**	**(8)**	**2,297**	1,543	1,543	12	(4)	1,551
Of other foreign entities	**818**	**818**	**68**	**-**	**886**	822	822	31	(2)	851
Total held-to-maturity bonds	**7,002**	**7,002**	**665**	**(9)**	**7,658**	5,445	5,445	463	(6)	5,902

Please see comments below.

Note 12 - Securities (cont.)

	December 31									
	2020					2019				
			Accumulated other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Balance sheet value	Amor-tized cost	Gains	Losses	Fair value (a)	Balance sheet value	Amor-tized cost	Gains	Losses	Fair value (a)
	In NIS million									
Available-for-sale bonds:(g)										
Of the Israeli Government	34,821	33,592	1,233	(4)	34,821	33,132	32,393	739	-	33,132
Of foreign governments	19,893	19,794	112	(13)	19,893	18.121	18,069	64	(12)	18.121
Of Israeli financial institutions	69	64	5	-	69	-	-	-	-	-
Of foreign financial institutions	8,861	8,590	271	-	8,861	9,597	9,476	124	(3)	9,597
Asset-backed (ABS) or mortgage-backed (MBS)	6,996	6,932	87	(23)	6,996	7,748	7,716	45	(13)	7,748
Of other Israeli entities	220	209	11	-	220	140	142	1	(3)	140
Of other foreign entities	6,067	5,684	387	(4)	6,067	3.530	3,382	150	(2)	3.530
Total available-for-sale bonds(f)	76,927	74,865	2,106(c)	(44)(c)	76,927	72,268	71,178	1,123(c)	(33)(c)	72,268

	December 31									
	2020					2019				
	Balance sheet value	Cost	Unrealized profits from fair value adjust-ments(d)	Unrealized losses from fair value adjust-ments(d)	Fair value(a)	Balance sheet value	Cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value(a)
	In NIS million									
Investment in not held for-trading equity securities and funds:										
Equity securities and funds	**4,335**	**4,148**	**230**	**(43)**	**4,335**	3,712	3,656	100	(44)	3,712
Of which: equity securities and funds for which there is no available fair value(b)	**1,566**	**1,566**			**1,566**	1,317	1,317	-	-	1,317
Total equity securities and funds not held-for-trading	**4,335**	**4,148**	**230(d)**	**(43)(d)**	**4,335**	3,712	3,656	100(d)	(44)(d)	3,712
Total not held for-trading securities	**88,264**	**86,015**	**3,001**	**(96)**	**88,920**	81,425	80,279	1,686	(83)	81,882

Please see comments below.

Note 12 - Securities (cont.)

	December 31									
	2020					2019				
	Balance sheet value	Amor-tized cost (in equity securi-ties - cost)	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[a]	Balance sheet value	Amor-tized cost (in equity securi-ties - cost)	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value [a]
	In NIS million									
Held-for-trading securities: Bonds -										
Of the Israeli Government	**3,144**	**3,135**	**9**	**-**	**3,144**	2,715	2,699	16	-	2,715
Of foreign governments	**223**	**192**	**31**	**-**	**223**	213	214	1	(2)	213
Of Israeli financial institutions	**323**	**319**	**4**	**-**	**323**	101	100	1	-	101
Of foreign financial institutions	**98**	**96**	**3**	**(1)**	**98**	201	194	7	-	201
Asset-backed (ABS) or mortgage-backed (MBS)	**80**	**85**	**-**	**(5)**	**80**	154	153	1	-	154
Of other Israeli entities	**58**	**56**	**2**	**-**	**58**	53	52	1	-	53
Of other foreign entities	**46**	**43**	**3**	**-**	**46**	87	87	1	(1)	87
Total bonds	**3,972**	**3,926**	**52**	**(6)**	**3,972**	3,524	3,499	28	(3)	3,524
Equity securities and funds	**61**	**55**	**7**	**(1)**	**61**	-	-	-	-	-
Total held-for-trading securities	**4,033**	**3,981**	**59[d]**	**(7)[d]**	**4,033**	3,524	3,499	28[d]	(3)[d]	3,524
Total securities[e]	**92,297**	**89,996**	**3,060**	**(103)**	**92,953**	84,949	83,778	1,714	(86)	85,406

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) Shares 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.

(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) Carried to the income statement but as yet unrealized.

(e) There were no non-performing bonds as at December 31 2020 (December 31 2019 - NIS 5 million).

(f) Total of NIS 9.0 billion out of total foreign currency securities are rated SSA (Supranationals, Sovereign and Agencies) (December 31 2019 – NIS 8.3 billion).

(g) During December 2019, 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 to the financial statements as at December 31 2019).

General comments:

Loaned securities in the amount of NIS 95 million (December 31 2019 - NIS 127 million) are presented under the loans to the public item.

Pledged securities totaled NIS 14,419 million (December 31 2019 - NIS 4,521 million).

For additional 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 2020									
	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[e]35 %	Total	Amor-tized cost	0-[c]20%	20%[d]-35%	Over[e]35 %	Total
	In NIS million									
Bonds										
Of the Israeli Government	31	1	-	-	1	-	-	-	-	-
Mortgage-backed (MBS)	252	5	-	-	5	117	3	-	-	3
Of other foreign entities	273	-[f]	-	-	-	-	-	-	-	-
Total held-to-maturity bonds	556	6	-	-	6	117	3	-	-	3

	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[e]35 %	Total	Amortize d cost	0-[c]20%	20%[d]-35%	Over[e]35 %	Total
	In NIS million									
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

(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.

Note 12 - Securities (cont.)

More Information on Fair Value and Unrealized Losses, by Duration and Impairment Percentage, of Available-for-Sale Bonds in an Unrealized Loss Position

	December 31 2020									
	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[e]35%	Total	Fair value	0-[c]20%	20%[d]-35%	Over[e]35%	Total
	In NIS million									
Bonds										
Of the Israeli Government	1,490	4	-	-	4	-	-	-	-	-
Of foreign governments	4,073	13	-	-	13	-	-	-	-	-
Of foreign financial institutions	363	-[f]	-	-	-	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS)	926	10	-	-	10	1,018	13	-	-	13
Of other Israeli entities	5	-[f]	-	-	-	-	-	-	-	-
Of other foreign entities	568	4	-	-	4	-	-	-	-	-
Total available-for-sale bonds	7,425	31	-	-	31	1,018	13	-	-	13

	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[e]35%	Total	Fair value	0-[c]20%	20%[d]-35%	Over[e]35%	Total
	In NIS million									
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

(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.)

More information on mortgage-backed and asset-backed available-for-sale bonds in an unrealized loss position

	December 31 2020					
	Less than 12 months[b]		12 months or more[c]		Total	
	Fair value	Unrealized losses from fair value adjust-ments[a]	Fair value	Unrealized losses from fair value adjust-ments[a]	Fair value	Unrealized losses from fair value adjust-ments[a]
	In NIS million					
Mortgage-backed bonds (MBS)	108	(1)	40	(1)	148	(2)
Other mortgage-backed bonds (including CMO, REMIC and stripped MBS)	576	(7)	77	(2)	653	(9)
Asset-backed bonds (ABS)	242	(2)	901	(10)	1,143	(12)
Total	**926**	**(10)**	**1,018**	**(13)**	**1,944**	**(23)**

	December 31 2019					
	Less than 12 months[b]		12 months or more[c]		Total	
	Fair value	Unrealized losses from fair value adjust-ments[a]	Fair value	Unrealized losses from fair value adjust-ments[a]	Fair value	Unrealized losses from fair value adjust-ments[a]
	In NIS million					
Mortgage-backed bonds (MBS)	112	-[d]	103	(3)	215	(3)
Other mortgage-backed bonds (including CMO, REMIC and stripped MBS)	889	(5)	1,194	(2)	2,083	(7)
Asset-backed bonds (ABS)	210	(1)	1,097	(2)	1,307	(3)
Total	1,211	(6)	2,394	(7)	3,605	(13)

(a) Amounts charged to the capital reserve as part of other comprehensive income, net, after tax effect.
(b) Investments in a continuous unrealized loss position for a period of less than 12 months.
(c) Investments in a continuous unrealized loss position for a period of 12 months or more.
(d) Losses of less than NIS 1 million.

Note 12 - Securities (cont.)

More Information on Held-to-Maturity Mortgage-Backed Bonds

	December 31							
	2020				2019			
	Amor-tized cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value	Amor-tized cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value
	In NIS million							
Mortgage-backed bonds (MBS)								
Pass-through held-to-maturity bonds	**2,102**	**40**	**(4)**	**2,138**	1,538	12	(4)	1,546
Of which: GNMA-guaranteed securities	**1,114**	**19**	**(4)**	**1,129**	877	5	(4)	878
Securities issued by FNMA or FHLMC	**988**	**21**	**-**	**1,009**	661	7	-	668
Other mortgage-backed bonds (including CMOs and stripped MBS)	**163**	**-**	**(4)**	**159**	5	-	-	5
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**163**	**-**	**(4)**	**159**	5	-	-	5
Total mortgage-backed bonds (MBS)	**2,265**	**40**	**(8)**	**2,297**	1,543	12	(4)	1,551
Total mortgage-backed held-to-maturity bonds	**2,265**	**40**	**(8)**	**2,297**	1,543	12	(4)	1,551

Note 12 - Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Available-for-Sale Bonds

	December 31							
	2020				2019			
		Accumulated other comprehensive income (loss)[a]				Accumulated other comprehensive income (loss)[a]		
	Amortized cost	Gains	Losses	Fair value	Amortized cost	Gains	Losses	Fair value
	In NIS million							
Mortgage-backed bonds (MBS)								
Pass-through bonds	**2,513**	**36**	**(2)**	**2,547**	2,627	21	(3)	2,645
Of which: GNMA-backed bonds	**735**	**9**	**(1)**	**743**	538	3	(1)	540
Bonds issued by FNMA or FHLMC	**1,778**	**27**	**(1)**	**1,804**	2,089	18	(2)	2,105
Other mortgage-backed bonds (including CMOs and stripped MBS)	**2,494**	**41**	**(9)**	**2,526**	3,425	20	(7)	3,438
Of which: bonds issued or guaranteed by GNMA, FNMA, or FHLMC	**2,159**	**33**	**(8)**	**2,184**	3,036	14	(6)	3,044
Total mortgage-backed bonds (MBS)	**5,007**	**77**	**(11)**	**5,073**	6,052	41	(10)	6,083
Asset-backed bonds (ABS)	**1,925**	**10**	**(12)**	**1,923**	1,664	4	(3)	1,665
Of which: Loans to non-private individuals - CLO-type bonds	**1,509**	**9**	**(5)**	**1,513**	1,152	3	(2)	1,153
Loans to non-individuals - SBA-guaranteed securities	**330**	**-**	**(7)**	**323**	438	-	(1)	437
Total available-for-sale mortgage-backed and asset-backed bonds	**6,932**	**87**	**(23)**	**6,996**	7,716	45	(13)	7,748

(a) Amounts carried to the capital reserve as part of other comprehensive income, net, after tax effect.

Note 12 - Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Held-for-Trading Securities

	December 31							
	2020				2019			
	Amor-tized cost	Unrealized gains from adjust-ments to fair value[a]	Unrealized losses from adjust-ments to fair value[a]	Fair value	Amor-tized cost	Unrealized gains from adjust-ments to fair value[a]	Unrealized losses from adjust-ments to fair value[a]	Fair value
	In NIS million							
Mortgage-backed securities (MBS)								
Pass-through securities	**2**	**-**	**-**	**2**	3	-	-	3
Of which: Securities issued by FNMA or FHLMC	**2**	**-**	**-**	**2**	3	-	-	3
Other mortgage-backed securities (including CMO and Stripped MBS)	**37**	**-**	**(3)**	**34**	40	-	-	40
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**36**	**-**	**(3)**	**33**	-	-	-	-
Total mortgage-backed securities (MBS)	**39**	**-**	**(3)**	**36**	43	-	-	43
Total asset-backed securities (ABS)	**46**	**-**	**(2)**	**44**	110	1	-	111
Total mortgage-backed and asset-backed held-for-trading securities	**85**	**-**	**(5)**	**80**	153	1	-	154

(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 Balance of Loan Loss Provision

	December 31 2020					
	Loans to the public					
	Middle-market	Housing	Private individuals - Other	Total - public	Banks and govern-ments	Total
	In NIS million					
Recorded outstanding debt:[a]						
Examined on a specific basis	143,317	24	786	144,127	10,879	155,006
Examined on a collective basis[1]	40,741	90,365	25,398	156,504	158	156,662
[1]Of which: By extent of arrears	624[c]	90,237	-	90,861	-	90,861
Total debt[a]2	184,058	90,389	26,184	300,631	11,037	311,668
[2]Of which:						
Restructured debts	2,324	-	317	2,641	-	2,641
Other impaired non-performing debts	1,308	50	20	1,378	15	1,393
Total impaired debts	3,632	50	337	4,019	15	4,034
Debts in arrears of 90 days or more	56	720	38	814	-	814
Other troubled debts	3,525	2	266	3,793	-	3,793
Total troubled debts	7,213	772	641	8,626	15	8,641
Balance of loan loss provision in respect of debts:[a]						
Examined on a specific basis	3,103	1	228	3,332	3	3,335
Examined on collective basis[3]	779	635	544	1,958	-	1,958
[3]Of which: by extent of arrears	-[d]	634[b]	-	634	-	634
Total loan loss provision[4]	3,882	636	772	5,290	3	5,293
[4]Of which: For impaired non-performing debts	875	7	212	1,094	-	1,094

(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 460 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 Balance of Loan Loss Provision (cont.)

	December 31 2019					
	Loans to the public					
	Middle-market[(f)]	Housing	Indivi-duals - other[(f)]	Total - public	Banks and govern-ments	Total
	In NIS million					
Recorded outstanding debt:[(a)]						
Examined on a 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:						
Restructured debts	729	-	290	1,019	-	1,019
Other impaired non-performing debts	1,491	-	21	1,512	-	1,512
Total impaired debts	2,220	-	311	2,531	-	2,531
Debts in arrears of 90 days or more	92[(e)]	830	58	980	-	980
Other troubled debts	1,858[(e)]	-	244	2,102	-	2,102
Total troubled debts	4,170	830	613	5,613	-	5,613
Balance of loan loss provision in respect of debts:[(a)]						
Examined on a 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) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.

(d) Balances of less than NIS 1 million.

(e) 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 2020					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - Other	Total - public	Banks and govern-ments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	2,590	467	657	3,714	2	3,716
Loan loss expenses	2,105	175	271	2,551	1	2,552
Accounting write-offs	(816)	(6)	(383)	1,205	-	1,205
Collection of debts written off in previous years	429	-	247	676	-	676
Net accounting write-offs	(387)	(6)	(136)	(529)	-	(529)
Adjustments from translation of financial statements	(24)	-	-	(24)	-	(24)
Balance of loan loss provision as at year end[1]	4,284	636	792	5,712	3	5,715
[1]Of which: in respect of off-balance-sheet credit instruments	402	-	20	422	-	422

	For the year ended December 31 2019					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - Other	Total - public	Banks and govern-ments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	2,700	479	634	3,813	3	3,816
Expenses (income) in respect of loan losses	454	22	134	610	(1)	609
Accounting write-offs	(967)[(a)]	(29)	(385)[(a)]	(1,381)	-	(1,381)
Collection of debts written off in previous years	439[(a)]	-	275[(a)]	714	-	714
Net accounting write-offs	(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)
Balance of loan loss provision as at year end[1]	2,590	467	657	3,714	2	3,716
[1]Of which: in respect of off-balance-sheet credit instruments	366	-	20	386	-	386

(a) 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 2018					
	Loan loss provision					
	Loans to the public					
	Commer-cial	Housing	Private individuals - Other	Total - public	Banks and govern-ments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	2,506	450	741	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	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
Net accounting write-offs	(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)
Balance of loan loss provision as at year end[1]	2,700	479	634	3,813	3	3,816
[1]Of which: in respect of 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: Balance of 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.

Note 14 - Loans to Governments

	December 31	
	2020	2019
	In NIS million	
Loans to the Israeli Government	**9**	11
Loans to foreign governments	**623**	733
Total loans to governments	**632**	744

Note 15 - Investments in Investees and Details Thereof

A. Composition of Associates

	December 31	
	2020	2019
	Associates	
	In NIS million	
Total investments in equity securities accounted for by the equity method (including goodwill)	**795**	765
Of which – Gains accrued since the acquisition date	**152**	184
Items accrued in equity since the acquisition date:		
Adjustments for associates	**(23)**	(18)
Information regarding goodwill:		
Net original amount	**197**[(a)]	135[(a)]
Carrying value	**135**	131

B. Group's Share in Associates' Profits or Losses

	For the year ended December 31		
	2020	2019	2018[(b)]
	In NIS million		
Group's share in associates' profits (losses)	**(19)**	(19)	39
Provision for deferred taxes	**6**	4	(3)
Group’s share in associates’ profits (losses) after tax effect	**(13)**	(15)	36

(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			
		2020	2019	**2020**	2019
		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 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

(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 190 million in controlling shareholders' loans (2019 – NIS 176 million).

(d) The Bank's share in a capital reserve in respect of a benefit arising from NIS 82 million in controlling shareholders' loans (2019 – 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.

2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Investment in equity securities accounted for according to 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	
In NIS million									
3,587	1,915	222	1,192	100	121	2	11	696	637
1,024	1,019	-	-	3	5	2	-	-	5
33	30	-	-	3	(1)	-	-	-	-
82	45	-	-	(2)	(5)	(5)	1	-	-
2,224	2,481	-	-	113	215	(114)	(104)	-	7
940	1,019	235	244	(85)	(9)	(14)	(5)	-	-
50	51	-	-	(1)	(14)	-	-	-	-

Note 16 - Buildings and Equipment

A. Composition

	Buildings and land[a]	Equipment, furniture and vehicles	Software costs	Total
	In NIS million			
Cost of assets				
Balance as at December 31 2018	2,912[c]	3,503[c]	4,375[c]	10,790
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	2,948	3,513	3,857	10,318
Additions	**64**	**104**	**426**	**594**
Derecognitions	**(21)**	**(82)**	**(90)**	**(193)**
Adjustments from translation of financial statements	**(22)**	**(14)**	**(16)**	**(52)**
Balance as at December 31 2020	**2,969**	**3,521**	**4,177**	**10,667**
Depreciation and impairment losses				
Balance as at December 31 2018	1,644[c]	2,657[c]	3,636[c]	7,937
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	1,599	2,699	2,977	7,275
Depreciation for the year	**63**	**118**	**497**	**678**
Derecognitions	**(16)**	**(80)**	**(79)**	**(175)**
Adjustments from translation of financial statements	**(16)**	**(15)**	**(12)**	**(43)**
Balance as at December 31 2020	**1,630**	**2,722**	**3,383**	**7,735**
Book value as at December 31 2018	1,268	846	739	2,853
Book value as at December 31 2019	1,349	814	880	3,043
Book value as at December 31 2020[b]	**1,339**	**799**	**794**	**2,932**

(a) Including installations and leasehold improvements.
(b) Including expenses capitalized in connection with costs of development of internally-used software totaling NIS 581 million as of December 31 2020 (2019 – NIS 531 million).
(c) Restated.

B. Average Depreciation Rate

	December 31	
	2020	2019
Buildings and land	**2.35%**	2.36%
Equipment, furniture and vehicles	**12.78%**	14.90%
Software costs	**22.84%**	22.26%

Note 16 - Buildings and Equipment (cont.)

C. Buildings and land not used by the Group, mainly leased buildings, are stated in the balance sheet at NIS 32 million (December 31 2019 – NIS 20 million).

D. Assets amounting to NIS 49 million (December 31 2019 – NIS 49 million) have not been registered in the Bank's name with the Land Registry Office, the main reasons 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.

E. The book balance of held-for-sale buildings and equipment as of December 31 2020 is NIS 61 million (December 31 2019 – NIS 4 million). No loss is expected from disposal of available-for-sale buildings and equipment in excess of the provisions made in respect thereof.

F. The book balance of property, plant & equipment under construction totaled as at December 31 NIS 143 million (December 31 2019 - NIS 102 million).

G. The buildings and equipment item includes leasehold improvements and lease rights, including payments in respect of some of the buildings on leased land.

H. Information on Leases

1. Expenses for leases

	December 31
	2020
	In NIS million
Expenses for operating leases	169
Expenses short-term leases	1
Expenses for variable lease payments	2
Total expenses for leases	172

2. Additional Information on Leases

	December 31
	2020
	In NIS million
Cash paid for balances included in measurement of lease liabilities:	
Cash flow for operating activities for operating leases	170
Right of use assets recognized for new operating leases	42
Remaining weighted average term (in years):	
For operating leases	4.5
Weighted average discount rate (in %):	
For operating leases	1.00

Note 16 - Buildings and Equipment (cont.)

3. Undiscounted cash flows and liabilities for operating leases by repayment term

	December 31	
	2020	
	Undiscounted cash flows	Lease liability
Up to one year	150	148
Over one year and up to two years	126	124
Over 2 years and up to 3 years	96	94
Over 3 years and up to 4 years	84	81
Over 4 years and up to 5 years	80	77
Over 5 years	443	407
Total	979	931

Note 17 - Goodwill

A. Change in goodwill

	Goodwill - total
	In NIS million
Cost	
As at December 31 2018	17
Adjustments from translation of financial statements	(1)
As at December 31 2019	16
Adjustments from translation of financial statements	**(1)**
As at December 31 2020	**15**
Amortization and impairment losses	
As at December 31 2018	-
Amortization for the year	-
As at December 31 2019	-
Amortization for the year	**-**
As at December 31 2020	**-**
Amortized balance as at December 31 2020	**15**
Book value	
As at December 31 2018	17
As at December 31 2019	16
As at December 31 2020	**15**

Note 17 - Goodwill (cont.)

B. Changes in goodwill by regulatory operating segments and management approach

	Foreign operations
	Other
	In NIS million
As at December 31 2018	17
Translation differences	(1)
As at December 31 2019	16
Translation differences	**(1)**
As at December 31 2020	**15**

Note 18 - Other Assets

	December 31	
	2020	2019
	In NIS million	
Deferred tax receivable, net – please see Note 8(D)	**6,258**	5,939
Excess of advance tax payments over current provisions	**42**	21
Central severance pay fund	**110**	238
Assets received for repaid loans	**6**	2
Balance of amortizable issuance expenses of bonds, promissory notes and subordinated bonds	**51**	41
Assets for activity in the MAOF Clearing House[(a)]	**37**	46
Value of insurance policy for foreign office	**369**	397
Prepaid expenses	**202**	204
Receivables	**169**	192
Other receivables and debt balances	**1,385**	1,406
Right of use assets for operating lease[(b)]	**929**	-
Total other assets	**9,558**	8,486

(a) Stated at fair value.
(b) As of January 1 2020, following the application of Topic 842 to the FASB Accounting Standards Codification, the Bank first applied a right-of-use asset in the amount of the lease liability plus initial costs and lease prepayments, less incentives received. For information regarding leases please see Note 1.N.

Note 19 - Deposits by the Public

A. Types of Deposits by Location and Type of Depositor

	December 31	
	2020	2019
	In NIS million	
In Israel		
Demand deposits		
Noninterest bearing deposits	**116,042**	86,908
Interest-bearing deposits	**176,276**	135,846
Total demand deposits	**292,318**	222,754
Fixed deposits	**132,325**	128,526
Total deposits in Israel[1]	**424,643**	351,280
Outside Israel		
Demand deposits		
Noninterest bearing deposits	**11,363**	8,118
Interest-bearing deposits	**6,713**	6,287
Total demand deposits	**18,076**	14,405
Fixed deposits	**4,312**	7,959
Total deposits outside Israel	**22,388**	22,364
Total deposits by the public	**447,031**	373,644
[1]Of which:		
Deposits by private individuals	**147,228**	130,513
Deposits by institutional entities	**80,499**	68,329
Deposits by corporations and others	**196,916**	152,438

B. Deposits by the Public by Amount

	December 31	
	2020	2019
Maximum deposit	In NIS million	
Up to 1	**117,472**	103,709
Over 1 and up to 10	**108,612**	92,249
Over 10 and up to 100	**77,759**	66,169
Over 100 and up to 500	**54,650**	36,318
Over 500	**88,538**	75,199
Total	**447,031**	373,644

Note 20 - Deposits by Banks

	December 31	
	2020	2019
	In NIS million	
In Israel		
Commercial banks:		
Demand deposits	**5,744**	5,517
Acceptances	**331**	391
Central banks:		
Demand deposits	**135**	133
Fixed deposits	**8,777**	-
Outside Israel		
Commercial banks:		
Demand deposits	**2**	4
Fixed deposits	**89**	7
Acceptances	**15**	67
Central banks:		
Demand deposits	**50**	57
Fixed deposits	**-**	-
Total deposits by banks	**15,143**	6,176

Note 21 - Bonds, Promissory Notes and Subordinated Bonds[(a)]

	Average duration[(b)]	Internal rate of return[(c)]	December 31	
			2020	2019[(f)]
	Years	In %	In NIS million	
Non-convertible bonds, promissory notes and capital notes in NIS:				
In Israeli currency unlinked to the CPI	**2.8**	**2.4**	**3,688**	4,695
CPI-linked	**3.3**	**1.4**	**5,719**	10,784
Total[1]			**9,407**	15,479
[1]Of which: held-for-trading	**-**	**-**	**8,847**	14,907
Convertible bonds:				
In Israeli currency unlinked to the CPI	**0.1**[(d)]	**3.2**	**926**	926
CPI-linked	**3.3**[(d)]	**2.1**	**3,525**	3,553
In US dollars	**4.7**[(d)]	**3.3**	**2,445**	-
Total bonds, promissory notes and subordinated bonds			**16,303**	19,958
Of which subordinated bonds included in Tier 2 capital[(e)]			**8,438**	8,812

(a) 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.
(b) Average duration is the average of the payments periods weighted by the projected cash flows discounted at the internal rate of return.
(c) Internal Rate of Return is an interest rate that discounts the projected payments flow to the balance-sheet balance stated in the financial statements.
(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 - 0.1 years, in linked subordinated bonds - 3.5 years, in USD - 4.5 years (as at December 31 2019 - unlinked - 1 year, linked and CPI - 2.5 years).
(e) Tier 2 capital according to Basel III's Transition Provisions.
(f) Restated.

Comment:
For more information, please see Note 25A.

Note 22 - Other Liabilities

	December 31	
	2020	2019
	In NIS million	
Deferred tax reserve, net – please see Note 8(D)	**86**	82
Excess of current provisions for income tax over advances paid	**1,271**	625
Excess of liabilities for employee benefits over plan assets – please see Note 23I	**11,546**	12,856
Prepaid income	**339**	333
Payables for credit card activities	**4,274**	4,349
Accrued expenses for salaries and related expenses	**545**	766
Market value of securities sold short	**220**	68
Loan loss provision for off-balance sheet items	**422**	386
Accrued expenses	**260**	305
Other provisions for employee benefits	**428**	426
Provision for paid leave	**232**	215
Accrued jubilee vacation leave	**36**	36
Liabilities for activity in the MAOF Clearing House[(a)]	**37**	32
Other payables and credit balances	**708**	684
Other liabilities for operating leases[(b)]	**931**	-
Total other liabilities	**21,335**	21,163

(a) Stated at fair value.
(b) As at January 1 2020 following the application of Topic 842, "Leases", no information regarding rental contracts was provided under Other liabilities. For information regarding leases, please see Note 1.N. For information on liabilities for operating leases by repayment terms, please see Note 16.H.

Note 23 - Employee Benefits

A. 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 B. 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.

The pension reserves are based on an actuarial calculation that factors in the retirement age pursuant to studies and based on past experience. 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 percent. 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 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 nominal 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 (discount 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.

Note 23 - Employee Benefits (cont.)

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, eligible "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 2020 for expected costs in respect of the above benefits payable after the employment period totals NIS 332 million (December 31 2019 – NIS 320 million).

B. 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, personal mission bonus, and special bonus for special events. Key employees who are not officers may be entitled to additional bonuses such as retention 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, employees with personal contracts at 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

Note 23 - Employee Benefits (cont.)

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 137 million (including salary tax payable on pension) (2019 – NIS 153 million). The decrease is due to changes in assumptions regarding the date and likelihood of termination.

2. 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 to 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

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.

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.

4. **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 were updated, 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 percent [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 a bonus in the amount of the adaptation bonus allocated to him in the Bank's books immediately prior to the Effective Date.[6]

5. **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.

6. **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.

7. **Paid leave, convalescence pay and sick leave** – as normally paid to the Bank's senior officers according to Bank's procedures.

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[3] Including all components in respect of which severance pay is payable by law.

[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.)

8. **Related benefits** - The President and CEO is entitled to benefits as is customary for senior executives of the Bank.

9. **Provisions regarding annual bonuses -** The President and CEO will not be entitled to an annual variable bonus as of the Commencement Date.

3. The Bank's 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.

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[7], 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.[8] 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. 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[9] 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

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7 It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

8 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.

9 Including disability insurance.

Note 23 - Employee Benefits (cont.)

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[10] 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.

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 [11] 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, convalescence 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.

B. 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 232 million (December 31 2019 – NIS 215 million).

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10 Including all components in respect of which severance pay is payable by law.

11 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.)

B. 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.

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 pension or a 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.

C. 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 in force 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 the 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 Board members, 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 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 variable annual bonus, after obtaining the approval of the Compensation 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.

Note 23 - Employee Benefits (cont.)

The Compensation Policy includes various mechanisms and arrangements designed to allow the Compensation 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 when, in the opinion of the Remuneration Committee and the Board of Directors, they are justified under the circumstances on revision date.

Thus, for example, according to the Compensation Policy, the Compensation 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 officeholders such that the total compensation amount to officeholders (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 may increase according to a decision by the Compensation 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.

D. Compensation Policy for Key Employees

A revised compensation policy for "key employees" at the Bank who are not officers was approved by the Audit Committee and the Board of Directors during 2020 and shall apply starting in 2021. The policy sets out a compensation framework for 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.

E. Compensation Policy for All Employees

The revised compensation policy for all employees (who are not key employees) - which was approved by the Audit Committee and the Board of Directors during 2020 - 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.

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits

1. Employee benefits

	As at December 31		
	2020	2019	2018
	In NIS million		
Retirement benefits - pension and severance pay			
Liability amount	**20,491**	20,470	15,867
Fair value of plan assets	**8,945**	7,614	6,235
Excess liability over plan assets (included in “Other liabilities”)	**11,546**	12,856	9,632
Accrued jubilee vacation leave			
Liability amount	**36**	36	41
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in “Other liabilities”)	**36**	36	41
Other benefits			
Liability amount	**639**	635	533
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in “Other liabilities”)	**639**	635	533
Total[1]			
Amount by which the liability for employee benefits exceeds the plan assets included in “Other liabilities”	**12,221**	13,527	10,206
[1]Of which: for employee benefits abroad	**84**	61	64

2. Defined benefit plan

A. Obligation and Funding Status

1. Change in the Obligation for expected benefit

	As at December 31		
	2020	2019	2018
	In NIS million		
Obligation for expected benefit as at the beginning of the year	**20,470**	15,867	17,995
Service cost	**175**	149	145
Interest cost	**573**	640	653
Contributions by planholders	**33**	39	39
Actuarial loss (gain)	**555**	4,526	(1,801)
Changes in foreign exchange rates	**(19)**	(22)	20
Paid benefits[(a)]	**(1,296)**	(698)	(1,184)
Other	**-**	(31)	-
Obligation for expected benefit as at the end of the year	**20,491**	20,470	15,867
Obligation for cumulative benefit as at the end of the year	**18,817**	18,902	15,063

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.

Note 23 - Employee Benefits (cont.)

H. 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		
	2020	2019	2018
	In NIS million		
Fair value of plan assets as at the beginning of the year	**7,614**	6,235	6,708
Actual return on plan assets[b]	**743**	1,143	(60)
Plan contributions by the banking corporation	**1,272**	403	110
Contributions by planholders	**33**	39	39
Changes in foreign exchange rates	**(31)**	(24)	3
Paid benefits[a]	**(732)**	(182)	(572)
Other	**46**	-	7
Fair value of plan assets as at the end of the year	**8,945**	7,614	6,235
Funding status - Net liability recognized at the end of the year	**11,546**	12,856	9,632

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.
(b) Including the effect of the transition to a paying fund in respect of the retirees. Please see Section D in this note.

3. Amounts recognized in the consolidated balance sheet

	As at December 31		
	2020	2019	2018
	In NIS million		
Amounts recognized in the "Other assets" item	**-**	-	-
Amounts recognized in the "Other liabilities" item	**11,546**	12,856	9,632
Net liability recognized at the end of the year	**11,546**	12,856	9,632

4. Amounts recognized in accumulated other comprehensive income before the tax effect

	As at December 31		
	2020	2019	2018
	In NIS million		
Net actuarial loss	**5,564**	5,908	2,668
Net liability for transition	**-**	-	-
Closing balance of accumulated other comprehensive income	**5,564**	5,908	2,668

Note 23 - Employee Benefits (cont.)

H. 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		
	2020	2019	2018
	In NIS million		
Service cost	**175**	149	145
Interest cost	**573**	640	653
Expected return on plan assets	**(365)**	(364)	(356)
Amortization of unrecognized amounts - net actuarial loss (profit)	**470**	401	356
Other	**-**	31	-
Total benefit cost, net	**853**	857	798
Total expense for defined contribution pension plan	**181**	170	200
Total expenses included in profit and loss	**1,034**	1,027	998

2. Changes in plan assets and obligation for benefit recognized in other comprehensive income before tax effect

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Net actuarial loss (gain) for the year	**177**	3,678[(a)]	(1,385)
Amortization of unrealized amounts - net actuarial loss	**(470)**	(401)	(356)
Other incl. restructuring	**(46)**	(31)	(7)
Changes in foreign exchange rates	**(5)**	(6)	8
Total recognized in other comprehensive income	**(344)**	3,240	(1,740)
Total benefit cost, net	**853**	857	798
Total recognized in net benefit cost for the period and in other comprehensive income	**509**	4,097	(942)

(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 2021, before the tax effect

	In NIS million
Net actuarial loss	**521**
Total expected to be deducted from other comprehensive income	**521**

Note 23 - Employee Benefits (cont.)

H. 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		
	2020	2019	2018
	In %		
Discount rate	**1.00**	1.22	2.74
Rate of increase in the CPI	**1.63**	1.42	1.59
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		
	2020	2019	2018
	In %		
Discount rate	**1.62**	2.16	2.22
Expected return on long-term plan assets	**4.59**	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		
	2020	2019	2018	**2020**	2019	2018
	In NIS million					
Discount rate	**(2,846)**	(2,760)	(1,993)	**3,549**	3,435	2,457
Rate of increase in the CPI	**(681)**	(635)	-	**766**	714	-
Departure rate	**320**	233	200	**(309)**	(202)	(179)
Rate of compensation increase	**755**	714	571	**(672)**	(635)	(499)

(a) The assumptions are only in respect of the Bank's data.

The employee benefits liability amount is affected by several key variables, which include market variables (discount 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.)

A. Composition of Benefits (cont.)

4. Plan assets

A. Composition of fair value of plan assets

	As at December 31 2020			
	Level 1	Level 2	Level 3	Total
	In NIS million			
Cash and deposits with banks	246	-	-	246
Shares	1,581	51	101	1,733
Government bonds	409	124	-	533
Corporate bonds	965	32	-	997
Other[(a)]	15	106	5,315	5,436
Total	3,216	313	5,416	8,945

	As at December 31 2019			
	Level 1	Level 2	Level 3	Total
	In NIS million			
Cash and deposits with banks	323	-	-	323
Shares	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

(a) Including deposits in a paying provident fund and insurance policies purchased for retired employees. Please see Section D in this note.

B. Fair value of plan assets by type of asset and allocation target for 2021

	Allocation target	Percentage of plan assets	
		December 31	
	2021	2020	2019
	In %		
Cash and deposits with banks	3	3	4
Shares	19	19	27
Government bonds	6	6	12
Corporate bonds	11	11	17
Other	61	61	40
Total	100	100	100

Note 23 - Employee Benefits (cont.)

H. 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 2020					
		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 million					
Shares	**106**	**-**	**4**	**(9)**	**-**	**101**
Other	**2,779**	**(2)**	**534**	**989**	**1,015**	**5,315**
Total	**2,885**	**(2)**	**538**	**980**	**1,015**	**5,416**

	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 million					
Shares	101	4	(11)	12	-	106
Other	601	(1)	460	490	1,229	2,779
Total	702	3	449	502	1,229	2,885

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

5. Cash flows

A. Contributions

	Forecast[a]	Actual contributions For the year ended		
	2021	**2020**	2019	2018
	In NIS million			
Contributions	**117**	**1,305**	442	149

(א) The estimated contributions the Bank expects to pay for the defined benefit plan during 2021.

B. Benefits the Bank expects to pay in the future[a]

Year	In NIS million
2021	767
2022	736
2023	757
2024	803
2025	833
2026-2030	4,851
2031 and onwards	13,917
Total	22,664

(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 additional information, please see Note 25A.E.

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 additional information, please see Note 25A.E.

B. Details Regarding Equity-Settled Stock-based Compensation Transactions

	Number of units as of December 31 2020									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restricted	Contin-gent	Restricted	Contin-gent	Restricted	Contin-gent	Restricted	Contin-gent	Restricted	Contin-gent
Outstanding at beginning of year	-	3,091	-	12,773	-	8,017	-	-	-	169,117
Awarded during the year	-	-	-	-	-	-	-	-	-	-
Vested during the year	-	(3,091)	-	(12,773)	-	(8,017)	-	-	-	(169,117)
Retired managers	-	-	-	-	-	-	-	-	-	-
Appointed managers	-	-	-	-	-	-	-	-	-	-
Outstanding as at year-end	-	-	-	-	-	-	-	-	-	-

	Number of units as of December 31 2019									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restricted	Contin-gent	Restricted	Contin-gent	Restricted	Contin-gent	Restricted	Contin-gent	Restricted	Contin-gent
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

Note 25A - Equity

A. Share Capital

	December 31 2020		December 31 2019	
	Authorized	Issued and paid up[(a)]	Authorized	Issued and paid up[(a)]
	NIS			
Ordinary shares of NIS 1.0 each	**3,215,000,000**	**1,524,720,264**	3,215,000,000	1,524,527,267

(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 subordinated bonds (Series 400) which were issued by the Bank on January 21 2016, and which were convertible under their terms and certain circumstances to ordinary shares of the Bank, were redeemed under early redemption on January 21 2021. For more information, please see Section G to this note.

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 60,316,730 and 20,547,781 ordinary shares of the Bank, respectively, as at December 31 2020.

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 131,240,516 ordinary shares of the Bank, as at December 31 2020.

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 103,454,891 ordinary shares of the Bank, as at December 31 2020.

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

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 took place through an external, independent member of the TASE, which acted under an irrevocable power of appointment, in accordance with the safe harbor mechanism published by the Israel Securities Authority. The buyback plan included three stages, each of which was irreversible, in accordance with the safe harbor mechanism. On March 1 2020, Stage A was launched and concluded on April 2 2020, during which 13,488,021 shares in the amount of NIS 250 million were purchased.

As outlined below, pursuant to the letter of the Banking Supervision Department dated March 29 2020, in which all the banks were asked to reconsider their dividend distribution policy and share buyback plan in light of the coronavirus crisis, and pursuant to the circular published by the Bank of Israel on March 31 2020 entitled Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) (Proper Conduct of Banking Business Directive No. 250), the Bank's Board of Directors decided on April 16 2020 to discontinue, at this stage, the share buyback plan. For more information, please see section entitled "Update of Common Equity Tier 1 capital target, discontinuation of the share buyback plan" below.

As of the reporting date, the Bank owns 71,824,258 treasury shares.

Note 25A - Equity (cont.)

C. Circular on Adjustments to Proper Conduct of Banking Business Directive, Dealing with the Coronavirus Crisis (Temporary Order) - Proper Conduct of Banking Business Directive No. 250

On March 29 2020 the Banking Supervision Department issued a letter entitled “Profit Distribution Following the Coronavirus Crisis” (hereinafter: the “Banking Supervision Department’ letter of March 29 2020”). The Banking Supervision Department announced in the letter the reduction of the minimum regulatory capital requirements applicable to the banks, following the coronavirus crisis and as part of a range of measures taken by the Bank of Israel due to the crisis. Also, all the banks were asked to re-examine their dividend distribution policy and their share buyback plan, on the back of the coronavirus crisis and the uncertainty, out of the expectation that the capital sources released as a result of the relief won’t be used for dividend distribution or share buyback execution.

On March 31 2020 the Bank of Israel published a circular entitled Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) (Directive No. 250) (hereinafter - the “Temporary Order”), on the back of the developing coronavirus event and its implications for the global and the Israeli economies. Among other things, the circular’s provisions amend Proper Conduct of Banking Business Directive No. 201, “Measurement and Capital Adequacy” such that a banking corporation whose consolidated total assets equal or exceed 24 percent of the banking system’s total assets shall maintain a Common Equity Tier 1 capital ratio to risk-weighted assets that shall not fall below 9 percent and a ratio of total capital to risk-weighted assets that shall not fall below 12.5 percent (in lieu of 10 percent and 13.5 percent, respectively, prior to the circular’s publication date). The directive is applicable to Leumi.

The Temporary Order was originally valid through September 30 2020. On September 16 2020, the Bank of Israel published a circular extending the validity of the Temporary Order until March 31 2021 (upon which it shall expire). The capital targets easement shall be in effect for 24 months from the directive’s expiry date, provided that the banking corporation’s capital ratio shall be no less than the capital ratios upon the directive’s expiration or the minimum capital ratios applicable to the corporation prior to the temporary order, whichever the lower.

On March 7 2021, the Bank of Israel published a draft circular amending the temporary order. The draft circular suggests to extend the temporary order until September 30 2021. In addition, according to the draft circular, in the six-month period after the expiry of the temporary order, a decrease of up to 0.3 percentage points in the capital ratios shall not be deemed as deviating from the required capital ratios, subject to strict, conservative capital planning and reporting to the Banking Supervision Department. On March 7, the Bank of Israel published a notice, according to which. in addition to the proposition to extend the temporary order and the capital expedients as of September 30 2021, the Banking Supervision Department expects the Banking system to refrain from using any capital surplus for the purpose of dividend distribution at least until the temporary order expires.

On April 27 2020, the Bank of Israel published a circular outlining further amendments to Proper Conduct of Banking Business Directives for Handling the Coronavirus crisis (Temporary Order) (Directive No. 250). According to the circular, and in order to help mitigate the effects of the crisis on mortgage borrowers, the Temporary Order determined that for housing loans that will be extended in the crisis period, (starting on March 19 2020 and until the directive’s validity), the additional capital requirement of 1 percent of the outstanding loan will not be applied, as set out in Section 14A. To Proper Conduct of Banking Business Directive No. 329, “Restrictions on Granting Housing loans”. The temporary order was extended through March 31 2021, as part of the circular dated September 16 2020 extending the temporary order.

According to the temporary order, and the additional capital requirement for outstanding housing loans, the minimum capital requirements applicable to the Bank as at December 31 2020 are 9.23 percent for Common Equity Tier 1 capital ratio and 12.73 percent for total capital ratio.

On November 15 2020, the Bank of Israel published a circular outlining further amendments to Proper Conduct of Banking Business Directives for Handling the Coronavirus (Temporary Order) (Directive No. 250). The circular adjusts the Directive to Proper Conduct of Banking Business Directive No. 218, “Leverage ratio”, such that a banking corporation shall have a leverage ratio of no less than 4.5 percent on a consolidated basis (in lieu of 5

Note 25A - Equity (cont.)

percent prior to the circular's publication date). A banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking sector's total assets shall have a consolidated leverage ratio of no less than 5.5 percent (in lieu of 6 percent prior to the circular's publication date). According to the circular, Leumi shall be required to meet a minimum leverage ratio of 5.5 percent. Upon the expiry of the Temporary Order, the easement shall apply for another 24 months, provided that the leverage ratio shall be no less than the leverage ratio on the Order's expiry or the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order, the lower of the two. The directive is applicable to Leumi as of the circular's publication date.

D. Update of Common Equity Tier 1 capital target, discontinuation of the share buyback plan

According to the Banking Supervision Department's letter of March 29 2020, the banks' boards of directors are required to reconsider their dividend distribution policy and share buyback plans against the backdrop of the crisis and uncertainty.

In view of the content of this letter and the temporary order, and in accordance with the reduction of the minimum regulatory requirements applicable to banks following the coronavirus crisis, as detailed above, the Bank's Board of Directors decided on April 16 2020 as follows:

a. To establish that the internal Common Equity Tier 1 capital ratio threshold will be 9.5 percent in lieu of the previous 10.5 percent.

b. To discontinue, at this stage, the dividend distribution and the Bank's share buyback plan.

E. 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 the 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 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.

The vesting of the 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 2017 PSUs are non-marketable. 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 2017 PSUs is carried out in three equal tranches and is contingent upon the Bank's performance 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 Private Offering Report published by the Bank on March 30 2017, while 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**".) As of December 31 2020, 578,969 2017 PSUs vested into ordinary shares, with no 2017 PSUs still unvested.

F. 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 Bank officers as part of the approval of the performance-based annual bonus for half of the 2017 annual bonus (hereinafter: The "**2017 PSUs**") for shares, have been met; therefore, the third and last of the 2017 PSUs have vested. As a result, on February 26 2020, the Bank's officers were allotted 192,997 shares, according to the number of 2017 PSUs vested as of that date.

Under the compensation policy, the shares allotted following the vesting of the said 2017 PSUs were deposited with the trustee of the compensation plan, ESOP Management and Trust Services Ltd. (hereinafter: The "**Plan Trustee**").

For more information, please see Note 25A to the 2019 Annual Financial Statements.

G. 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. On May 18 2020, the Israel Securities Authority approved the application to extend the issuance period under the Bank's shelf prospectus to May 24 2021.

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 bear 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 rate shall be equal to the sum of the 5-year treasury bond 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 exchange 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.

Subordinated Notes Series Leumi $ 2031 are eligible for inclusion in Tier 2 capital as of the issue date.

Note 25A - Equity (cont.)

According to a shelf prospectus dated June 2 2020, the Bank issued, on June 4 2020, a total of NIS 2.4 billion in bonds Series 181. The bonds are payable in one lump sum on September 5 2023 and bear an annual interest rate of 1 percent, are linked to the Consumer Price Index, and are payable annually on September 5 of each year from 2020 to 2023, inclusive. The Series 181 Bonds are not recognized for regulatory capital purposes.

On June 30 2020, NIS 5.3 billion par value in Series 177 Bonds of the Bank were repaid. These bonds did not form part of the Bank's regulatory capital.

On November 10 2020, Subordinated Bonds Series N in the amount of NIS 0.9 billion were redeemed. According to the Bank of Israel's guidance, these Subordinated Bonds were included in the regulatory capital subject to the transitional provisions of Proper Conduct of Banking Business Directive No. 299, and subject to an equal decrease in the five years preceding their redemption. Accordingly, in the last year prior to their redemption, the Subordinated Bonds Series N were not included in the Bank's regulatory capital.

For additional information, please see Section A above.

H. Early Redemption of Subordinated Capital Notes

On July 8 2020, the Bank's Board of Directors decided on full early redemption of Capital Notes Series 300 and 301, which were issued to the public in August 2009. Accordingly, on August 10 2020, NIS 2.1 billion in capital notes were redeemed (including linkage differences for Series 300).

On December 30 2020, the Board of Directors decided to redeem, by way of full early redemption, Subordinated Bonds Series 400, which were issued to the public in January 2016. Accordingly, on January 21 2021, NIS 0.9 billion in Subordinated Bonds Series 400 was redeemed. Following the full early redemption decision, published on December 30 2020, Subordinated Bonds Series 400 were not recognized in the Bank's regulatory capital as at December 31 2020.

On December 30 2020, the Bank's Board of Directors decided on full early redemption of Capital Notes Series 200 and 201, which were issued to the public in February 2010. Accordingly, on February 4 2021, NIS 2.3 billion in Capital Notes Series 200 and 201 was redeemed. The capital notes were included in the Bank's regulatory capital as at December 31 2020, in accordance with the transitional provisions of Proper Conduct of Banking Business Directive No. 299.

I. 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.

As aforesaid, in the Banking Supervision Department's letter of March 29 2020, the banks' boards of directors were asked to reconsider their dividend distribution policy and share buyback plan against the backdrop of the coronavirus crisis. Further to the letter, and in view of the temporary order published on March 31 2020, the Bank's board of directors decided on April 16 2020 to discontinue, at this stage, the dividend distribution.

For more information, please see section entitled "Update of Common Equity Tier 1 capital target, discontinuation of the share buyback plan" above.

Note 25A - Equity (cont.)

Details of paid dividend

Declaration date	Payment date	Dividend per share	Paid cash dividend
		In agorot	In NIS million
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
February 26 2020	March 23 2020	20.29	297

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 2020, the maximum instrument amount qualifying as regulatory capital is 20 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 discounted interest rate.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

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.

For regulatory capital purposes, the pension liability amounts to NIS 18,675 million and the Common Equity Tier 1 capital - to NIS 39,262 million, compared with a book value of NIS 20,945 million for the pension liability and Common Equity Tier 1 capital of NIS 35,317 million.

Following is an analysis of the effects of the changes on Common Equity Tier 1 capital as at December 31 2020:

- Change in the volume of risk-weighted assets – risk-weighted assets amounted to NIS 330.9 billion at the end of December 2020. Every 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio and total capital ratio by 0.04 percent.
- Change in Common Equity Tier 1 capital - Common Equity Tier 1 capital was NIS 39.3 billion as of December 31 2020. A decrease of NIS 100 million in the Common Equity Tier 1 capital will reduce the CET1 capital ratio and total capital ratio by approx. 0.03 percent.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2020	2019
	In NIS million	
a. Data		
Capital for capital ratio calculation purposes		
CET1 capital, after regulatory capital adjustments and deductions[(b)]	**39,262**	37,603
Tier 2 capital, after deductions	**12,297**	11,987
Total capital	**51,559**	49,590
Balance of risk-weighted assets		
Credit risk[(b)]	**303,356**	288,340
Market risks	**5,313**	5,008
Operational risk	**22,182**	23,116
Total balance of risk-weighted assets	**330,851**	316,464
Ratio of capital to risk-weighted assets		
Ratio of CET1 capital to risk-weighted **assets**[(d)]	**11.87%**	11.88%
Ratio of total capital to risk-weighted **assets**[(d)]	**15.58%**	15.67%
Minimum CET1 capital ratio set by the Banking Supervision Department[(a)]	**9.23%**	10.27%
Minimum total capital ratio set by the Banking Supervision Department[(a)]	**12.73%**	13.77%
b. Major subsidiaries		
Bank Leumi USA (BLUSA)		
Ratio of CET1 capital to risk-weighted **assets**	**13.82%**	14.04%
Ratio of total capital to risk-weighted **assets**	**15.07%**	14.91%
Minimum CET1 capital ratio set by the local authorities[(c)]	**7.00%**	7.00%
Minimum total capital ratio set by the local authorities[(c)]	**10.50%**	10.50%

(a) The minimum Tier 1 capital ratio required and the minimum total capital ratio required from March 31 2020 are 10 percent and 13.5 percent, respectively. On March 31 2020, the Banking Supervision Department published a temporary order following the coronavirus crisis, according to which the minimum Common Equity Tier 1 capital and minimum total capital ratio are 9 percent and 12.5 percent respectively. In addition to the above ratios, there is a capital requirement of 1 percent of the outstanding housing loans, excluding housing loans granted during the temporary order term. For more information about the temporary order following the coronavirus crisis, please see Section a. above.

(b) These data include adjustments for the efficiency plans prescribed in the Banking Supervision Department's letter entitled Operational Efficiency of the Banking System in Israel. The adjustments are deducted gradually until June 30 2021, June 30 2022 and September 30 2024. On December 31 2020, a total of NIS 1 million was added to the balance of risk-weighted assets in respect of the adjustments to the efficiency plans (NIS 283 million was deducted as at December 31 2019). For more information regarding the adjustments for the efficiency plans, please see Section D.

(c) The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required under local regulation 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 2020.

(d) On January 1 2020 the Bank began to implement the new directives on leases. The implementation of the new directives brought about a 0.03 decrease in the Common Equity Tier 1 capital ratio and 0.05 percent in total capital ratio, as a result of including the risk-weighted assets for the right of use assets which arise from operating leases recognized in the balance sheet at a rate of a 100 percent of adjustment to the related deferred tax balances.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

C. Capital Components for the Calculation of Capital Ratios

	December 31	
	2020	2019
	In NIS million	
1. CET1 capital		
Shareholders' equity	**37,664**	35,406
Differences between shareholders' equity and Common Equity Tier 1 capital - Non-controlling interests	**295**	266
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)]	**1,368**	1,687
Total CET1 capital before regulatory adjustments and deductions	**39,327**	37,359
Regulatory adjustments and deductions:		
Goodwill and intangible assets	**(150)**	(148)
Deferred tax receivable	**(188)**	-
Regulatory adjustments and other deductions - CET1 capital	**(13)**	(11)
Total regulatory adjustments and deductions - CET1 capital	**(351)**	(159)
Total adjustments for the efficiency plan	**286**	403
Total CET1 capital, after regulatory adjustments and deductions	**39,262**	37,603
2. Tier 2 capital		
Tier 2 capital: Instruments before deductions	**8,505**	8,897
Tier 2 capital: Provisions before deductions	**3,792**	3,090
Total Tier 2 capital before deductions	**12,297**	11,987
Deductions:		
Total deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**12,297**	11,987
Total capital	**51,559**	49,590

(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.

D. Effect of the Adjustments for the Efficiency Plan on the CET1 Capital Ratio

	December 31	
	2020	2019
	In %	
Ratio of capital to risk-weighted assets		
Ratio of CET1 capital to risk-weighted components before the effect of the transitional provisions and adjustments for the efficiency plan[(a)]	**11.78%**	11.74%
Effect of adjustments for the efficiency plan[(b)]	**0.09%**	0.14%
Ratio of CET1 capital to risk-weighted **assets**	**11.87%**	11.88%

(a) Including the effect of adopting US GAAP on employee benefits.
(b) On January 12 2016, the Banking Supervision Department published a letter entitled 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 additional information, please see Note 23.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

E. 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 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 collaterals, 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 24 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.

On November 15 2020, the Bank of Israel published a circular outlining further amendments to Proper Conduct of Banking Business Directives for Handling the Coronavirus (Temporary Order) (Directive No. 250). The circular adjusts the Directive to Proper Conduct of Banking Business Directive No. 218, "Leverage ratio", such that a banking corporation shall have a leverage ratio of no less than 4.5 percent on a consolidated basis (in lieu of 5 percent prior to the circular). A banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking sector's total assets shall have a consolidated leverage ratio of no less than 5.5 percent (in lieu of 6 percent prior to the circular). Accordingly, Leumi is required to meet a minimum leverage ratio of 5.5 percent. Upon the expiry of the Temporary Order, the easement shall apply for another 24 months, provided that the leverage ratio shall be no less than the leverage ratio on the Order's expiry or the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order, the lower of the two.

	December 31	
	2020	2019
	In NIS million	
a. Consolidated data[a]		
Tier 1 capital	**39,262**	37,603
Total exposures	**597,538**	511,820
Leverage ratio		
Leverage ratio[b]	**6.57%**	7.35%
Minimum total leverage ratio set by the Banking Supervision Department	**5.50%**	6.00%
b. Major subsidiaries		
Bank Leumi USA (BLUSA)		
Leverage ratio	**11.41%**	12.46%
Minimum leverage ratio set by the local authorities	**5.00%**	5.00%

(a) The data include adjustments in respect of the efficiency plan in accordance with the directives of the Banking Supervision Department. The effect of the relief granted in respect of the efficiency plans on the leverage ratio, estimated at 0.05 percent as at December 31 2020 is charged over a 5-year period on a straight line basis as of their effective date. (0.08 percent as at December 31 2019); for more information regarding the effect of the transitional provisions and Adjustments for the Efficiency Plan, 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) On January 1 2020 the Bank began to implement the new directives on leases. The application of the new directives resulted in a 0.01 percent decrease in the leverage ratio.

F. 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.

As from January 1 2017, the required minimum liquidity coverage ratio is 100 percent. However, in a period of financial pressure, a banking corporation may fall below these minimum requirements.

	December 31	
	2020	2019
	In %	
a. Consolidated data		
Liquidity coverage ratio	**137**	123
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
B. Banking corporation data		
Liquidity coverage ratio	**136**	121
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

Comment: Bank Leumi USA is not subject to the 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	
	2020	2019
	In NIS million	
Unlinked NIS	**254**	295
CPI-linked NIS	**1,101**	1,197
Total	**1,355**	1,492

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	Over one year and up to three years	Over three years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total for 2020	Total for 2019
	In NIS million							
In the CPI-linked segment[(c)]								
Future cash flows	**6**	**8**	**5**	**5**	**3**	**1**	**28**	37
Projected future cash flows after management's estimate of early repayments	**6**	**8**	**5**	**6**	**3**	**-**	**28**	36
Discounted projected cash flows after management's estimate of early repayments[(d)]	**6**	**8**	**5**	**5**	**2**	**-**	**26**	32
Unlinked NIS segment								
Future cash flows	**-**	**1**	**-**	**-**	**-**	**-**	**1**	2
Projected future cash flows after management's estimate of early repayments	**-**	**1**	**-**	**-**	**-**	**-**	**1**	2
Discounted projected cash flows after management's estimate of early repayments[(d)]	**-**	**1**	**-**	**-**	**-**	**-**	**1**	2

(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 and commissions (instead of interest margins).
(b) Non-recourse loans and government deposits extended at the total amount of NIS 159 million (2019 – NIS 118 million) were not included in this table.
(c) Including foreign currency segment.
(d) Capitalization was carried out at a rate of 2.26 percent (2019 – at a rate of 2.31 percent).

Note 26 - Contingent Liabilities and Special Commitments (cont.)

Information regarding loans extended over the year by mortgage banks

	2020	2019
	In NIS million	
Information regarding loans extended over the year by mortgage banks:		
Loans out of deposits according to the extent of collection	**105**	118
Non-recourse loans	**45**	27

Note 26 - Contingent Liabilities and Special Commitments (cont.)

B. Contingent liabilities and other special commitments

	As at December 31	
	2020	2019
	In NIS million	
(1) Long-term leases - rent for buildings, equipment and motor vehicles, and maintenance fees due to commitments to pay over the coming years relevant only for 2019[(a)]		
In first year		244
In second year		182
In third year		152
In fourth year		113
In fifth year		102
Over 5 years		657
Total long-term leases		1,450
(2) Commitments to purchase securities	**669**	692
(3) Commitments to invest in, and purchase of, buildings and equipment	**24**	30

(a) As at January 1 2020 following the application of Topic 842, "Leases", no information regarding rental contracts was provided under Other liabilities. For information regarding leases for the year of 2020, please see Note 1G.H.

C. 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 approx. NIS 240 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 January 21 2020, a motion for class certification was filed in the Tel Aviv District Court 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 and commissions in accordance with Chapter 5 of the Foreign Currency price list. The plaintiffs value the damage incurred by all members of the group they purport to represent at tens of millions of shekels.

b. On May 10 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against two other banks. According to the plaintiffs, the banks are compromising their customers' privacy and are violating their duty of secrecy by transferring identifying information to companies such as Facebook and Google. It was also claimed that the banks use third party tools in order to surveil their customers while they perform activities on the banking websites and applications for the purpose of conducting advertising campaigns. The claimants assess the personal damages caused to them in the amount of NIS 1,000 and are not stating a damages amount for the class.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

c. On November 16 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank, claiming that the Bank is violating the provision of the law when charging its customers third party expenses in amounts that are not listed in Part 11 of the price list. According to the motion, the violation is for each of the 22 components/topics listed in Part 11 of the price list, and for which customers are charged third-party expenses. The specific claim relating to the applicant is for charging a delivery fee using a courier when ordering check books (despite giving it full proper disclosure). The plaintiffs note that the damage caused to the plaintiff is NIS 125.74 and do not note the damage assessment for the class.

d. On November 24 2020, a motion for class certification was filed in the Jerusalem District Court against the Bank and against six other banks. According to the lawsuit, the banks have violated the Credit Information Service Law, 2016 and the regulations thereunder, claiming that the banks reported to the Central Credit Register legal proceedings against customers, contrary to the provisions of the law and in a manner that has damaged the customers' ability to obtain credit and has hurt their reputation. The plaintiffs do not name a class damage amount and claim a monetary damage that varies among class members, as well as non-monetary damage.

e. On March 2 2021, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against two additional banks. According to the lawsuit, the banks are not entitled to charge large corporate customers a transaction recording fee ("line fee") in addition to the specific fees charged for various services. The plaintiff notes that the damage caused to the plaintiff is NIS 101.65 and does not note the damage assessment for the class.

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 was NIS 2.3 billion (later reduced to NIS 1.5 billion). According to the applicant, the Bank allegedly 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. On April 1 2020 the District Court issued a ruling which dismissed the motion for class certification and required the applicant to pay the Bank's legal expenses. On June 24 2020, the applicant appealed the ruling with the Supreme Court.

c. 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.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

d. 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.

e. 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 granted a motion to dismiss the legal claim in limine. On September 8 2017, the plaintiffs appealed the ruling and on February 19 2019, the court accepted the plaintiffs' appeal and overturned the in limine decision. On June 8 2020, the court granted the plaintiffs' request to dismiss the lawsuit against the Bank and some of the defendants. Therefore, the Bank is not a defendant in the case. The legal procedure will continue against the other respondents, including Bank Leumi USA.

f. On March 29 2017, a motion to approve a class action was filed against the Bank and similar legal claims were 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.

g. 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 Deposits), 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.

h. 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.

i. 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 plaintiff 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. On June 21 2020, the Tel Aviv District Court rejected in limine the motion for class certification and required the petitioners to pay the plaintiffs' legal expenses. On July 6 2020, the applicant appealed the ruling with the Supreme Court.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

1.3 legal claims resolved during and after the reporting period

a. 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 customers or their next of kin without being purportedly revalued to real terms. On February 11 2021, the District Court issued a ruling dismissing the motion for class action certification.

b. On May 22 2016, a motion for class certification was filed against the Bank and other banks. The lawsuit claims that when a teller conducts a cash transaction for the defendant banks, he/she charges a fee according to a price list, without taking into account benefits which, according to the plaintiffs, should apply to certain population groups, or taking into account such benefits when calculating the minimum fee they charge customers' accounts. The applicants have not estimated the exact amount allegedly collected from all the class members. On September 20 2018, the Tel Aviv District Court handed down a ruling dismissing the motion for class certification and on November 12 2018, the applicants appealed the ruling. On November 12 2020, the Supreme Court dismissed the appeal. The lawsuit filed against the Bank was thus concluded.

c. 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. On August 23 2020, the court approved a settlement agreement in this procedure. The legal procedure was thus concluded.

1.4 As at the publication date of the financial statements, there are no pending material legal claims against the Bank's subsidiaries, excluding that which is outlined in Section 2.1.f.

D. Contingent Liabilities and Miscellaneous Commitments

In 2018, NGO Financial Justice filed a petition with the Supreme Court against then Supervisor of Banks and the Attorney General (amended in 2019 to include the Israel Police) (hereinafter: the "Petition"). The petition asked for remedies designed to prevent the continued tenure and appointment in other banking corporations of anyone investigated in Israeli in relation to the "American customers case". In addition, the petition asked for the Attorney General, the Government and the Police to explain why the investigation is not being exhausted and why charges are not being filed. The Bank is not a party to the petition.

In a response to the Petition filed by the State Attorney's Office on October 19 2020, it was noted that in August 2017, the Attorney General ordered a criminal investigation to begin and established that the case would be transferred for handling by the Police. On December 20 2020, the State filed a notice as part of a motion in which it reported the State Attorney's Office decision to close the investigation and claimed that the Petition has been exhausted and should be dismissed. On January 26 2021, the High Court of Justice directed to dismiss the Petition in its current form.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

E. 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 2020, for a total of NIS 1,506 million in nominal values. As of December 31 2020, the value of the above funds' assets amounted to NIS 3,734 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.

I. 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 an 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.

   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.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

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 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.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

8. 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.

Note 27 - Pledges and Restrictions

As of December 31 2020 and December 31 2019, 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 2,360 million (December 31 2019 – NIS 2,810 million). Total liabilities in respect of which liens were placed on assets is NIS 670 million (December 31 2019 – NIS 1,987 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 line 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 175 million (December 31 2019 – NIS 171 million). The total amount of assets pledged by the Bank in favor of the Stock Exchange’s Clearing House is NIS 344 million (December 31 2019 – NIS 180 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

Note 27 - Pledges and Restrictions (cont.)

The Bank provides collateral in favor of the MAOF Clearing House to secure payment of 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 162 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 Fund as of December 31 2020 is NIS 903 million (December 31 2019 – NIS 822 million).

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 2020, the Bank's pro rata share in MASAV and in the checks clearing system is 17.1 percent and 21.61 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 Banking Supervision 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 derivatives 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 2020, the Group made available to the above counterparties deposits totaling USD 1.363 million (December 31 2019 - USD 753 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 2020, the Group deposited with the above counterparties USD 913 million (December 31 2019 - USD 693 million). In addition, to limit the exposure, the Group transferred as a transfer to hedge exposure totaling USD 795 million and EUR 315 million and CAD 50 million (2019 - USD 565 million and EUR 315 million). It should be noted that the majority of the collateral transferred in respect of customers' activity in connection with these transactions were customer funds in accordance with the hedge exposure agreements they signed with the Bank.

The Bank signed a bond on which 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 abroad are also subject to a first floating lien in favor of the Bank of Israel. On February 25 2021, the Bank signed a bond, according to which it pledged to the Bank of Israel, as a first degree pledge and by collateral assignment, in an unlimited amount, all of these assets and all of its interests for and in relation to a portion of the housing loan portfolio secured by real

Note 27 - Pledges and Restrictions (cont.)

estate interests, as well as a first degree floating charge for all pledged assets in the Euroclear Bank account or another account managed under a clearinghouse outside Israel.

The purpose of this pledges 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.

This year, the Bank of Israel supplied the banking system with long-term loans in an effort to increase the banking credit supply to small and micro businesses, against collateral, as is the case in any monetary loan provided by the Bank of Israel. Under these programs, the Bank received, during 2020, credit in the amount of NIS 8.8 billion, secured by said pledges.

On May 21 2008, the Bank signed a bond on which 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.

	December 31	
	2020	2019
	In NIS million	
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	**3,019**	1,117[a]
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	**605**	123[a]

(a) Reclassified.

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 collateral with Leumi USA (monetary deposits or government bonds) 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 collateral are deposited as part of a designated deposit agreement signed in May 2018, which replaced a deed of pledge from September 2010. As of December 31 2020, the amount of collateral deposited was USD 160 million in US government bonds (December 31 2019 - USD 265 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. Customer collaterals 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 derivatives transactions constitute a part of the total market risks of the financial instruments. Derivatives activities are carried out within the limits set by the 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.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates

A. Volume of Consolidated Activity

	December 31 2020		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS million		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	2,309	21,497	23,806
Written options	1,350	6,732	8,082
Purchased options	-	3,899	3,899
Swaps[(a)]	22,330	187,068	209,398
Total[(b)]	25,989	219,196	245,185
Of which: Hedging derivatives[(c)]	5,973	-	5,973
b) Foreign currency contracts			
Futures and forwards[(d)]	42,487	189,234	231,721
Written options	844	15,469	16,313
Purchased options	844	16,511	17,355
Swaps[(a)]	711	18,541	19,252
Total	44,886	239,755	284,641
Of which: Hedging derivatives[(c)]	-	-	-
c) Stock contracts			
Futures and forwards	462	134,763	135,225
Written options	824	22,340	23,164
Purchased options[(e)]	730	22,341	23,071
Swaps	73	75,894	75,967
Total	2,089	255,338	257,427
d) Commodities and other contracts			
Futures and forwards	-	2,778	2,778
Written options	-	254	254
Purchased options	-	254	254
Swaps	-	157	157
Total	-	3,443	3,443
e) Credit contracts			
Where the Bank is a guarantor	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	72,964	717,732	790,696

(a) Of which: swaps for which the banking corporation pays a fixed interest of NIS 103,343 million.
(b) Of which: NIS-CPI swaps totaling NIS 12,553 million.
(c) Mainly including hedging transactions and interest rate swaps (IRS).
(d) Of which: foreign exchange spots totaling NIS 12,852 million.
(e) Of which a total of NIS 22,272 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 2019		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS million		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	1,081	24,316	25,397
Written options	1,382[f]	16,688[f]	18,070
Purchased options	-	16,227	16,227
Swaps[a]	37,085	275,579	312,664
Total[b]	39,548	332,810	372,358
Of which: Hedging derivatives[c]	5,064[f]	-	5,064
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			
Where the Bank is a guarantor	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	78,171	903,816	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) Mainly including hedging transactions and 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.
(f) Reclassified.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2020					
	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 million					
(2) Gross fair value of derivatives						
a) Interest rate contracts	263	4,926	5,189	633	5,070	5,703
Of which: Hedging derivatives	94	-	94	384	-	384
b) Foreign currency contracts	33	4,829	4,862	354	6,117	6,471
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	34	4,998	5,032	25	4,969	4,994
d) Commodities and other contracts	-	172	172	-	171	171
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives, gross[(a)]	330	14,925	15,255	1,012	16,327	17,339
Amounts netted on the balance sheet	-	-	-	-	-	-
Carrying amount	330	14,925	15,255	1,012	16,327	17,339
Of which: not subject to a master netting- or similar arrangement	41	322	363	26	439	465

(a) Of which: NIS 3 million in gross fair value of assets in respect of embedded derivatives, NIS 24 million in gross fair value of liabilities in respect of embedded derivatives.

	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 million					
(2) Gross fair value of derivatives						
a) Interest rate contracts	130	4,527	4,657	254	4,492	4,746
Of which: Hedging derivatives	10	-	10	171[(b)]	-	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 in respect of derivatives, gross[(a)]	384	10,586	10,970	516	11,062	11,578
Amounts netted on the balance sheet	-	-	-	-	-	-
Carrying amount	384	10,586	10,970	516	11,062	11,578
Of which: not subject to a master netting- or similar arrangement	-	173	173	14	347	361

(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.

(b) Reclassified.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting Hedges

1. Effect of hedge accounting of cash flows on accumulated other comprehensive income (loss)

	For the year ended December 31			
	2020		2019	
	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified to accumulated other comprehensive profit (loss)[(a)]	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified to accumulated other comprehensive profit (loss)[(a)]
	In NIS million			
a. Derivatives used for cash flows hedges[(b)]				
Interest rate contracts[(c)]	**43**	**-**	(3)	-

(a) Profit (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) line item or in the noninterest finance income (expense) line item according to the line item in which the effect of the hedged item is presented.
(b) Represents amounts included in the hedge effectiveness assessment.
(c) The Bank designates certain derivatives as hedging instruments of cash flows - derivatives hedging an exposure to changes in cash flows from given loans. The effect of hedges is expected to significantly lower the exposure to the given loans.

2. Effect of fair value hedge accounting on profit (loss)

	For the year ended December 31	
	2020	2019
	In NIS million	
Total interest income (expense) recognized in the income statement		
Profit or loss	**(50)**	(13)
Effect of fair value hedges:		
a. Gain (loss) from fair value hedges		
Interest rate contracts		
Hedged items	**166**	176
Hedging derivatives	**(216)**	(189)

3. Items hedged at fair value hedges

	For the year ended December 31					
	2020			2019		
		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	Discon-tinued hedge relation-ships	Book value of hedged item	Existing hedge ratios	Discon-tinued hedge relation-ships
	In NIS million					
Securities - debt instruments classified as available-for-sale securities	**5,465**	**303**	**14**	4,024	127	-

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			
	2020		2019	
	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from Accumulated other comprehensive income (loss)[a]	Amounts carried to other comprehensive profit (loss)	Profit (loss) reclassified from Accumulated other comprehensive income (loss)[a]
	In NIS million			
Deposits serving as investment hedges, net				
Foreign currency deposits	**147**	**-**	178	-

(a) Other comprehensive income (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) line item or in the noninterest finance income (expense) line item.

5. Effect of derivatives not designated as hedging instruments on the income statement

	For the year ended December 31	
	2020	2019
	Gain (loss) recognized in income (expenses) from derivatives activity[a]	Gain (loss) recognized in income (expenses) from derivatives activity[a]
	In NIS millions	
Derivatives not designated as hedging instruments		
Interest rate contracts	**(535)**	(154)
Foreign currency contracts	**(1,071)**	(1,145)
Stock contracts	**182**	183
Commodity- and other contracts	**4**	4
Total	**(1,420)**	(1,112)

(a) Included in the noninterest finance income (expenses) item.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Credit Risk for Derivatives by Contract Counterparty

	December 31 2020					
	Stock exchanges	Banks	Dealers/ brokers	Govern-ments and central banks	Other	Total
	In NIS million					
Book balance of assets in respect of derivatives[(a)(b)]	228	8,871	2,764	166	3,226	15,255
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	6,204	1,409	28	1,714	9,355
Credit risk mitigation in respect of cash collateral received	-	2,304	1,020	135	325	3,784
Net amount of assets in respect of derivatives	228	363	335	3	1,187	2,116
Off-balance sheet credit risk for derivatives[(d)(e)]	352	6,720	4,061	91	8,222	19,446
Mitigation of off-balance-sheet credit risk	-	2,230	912	9	4,431	7,582
Net off-balance-sheet credit risk for derivatives	352	4,490	3,149	82	3,791	11,864
Total credit risk for derivatives	580	4,853	3,484	85	4,978	13,980
Book balance of liabilities in respect of derivatives[(a)(c)]	191	7,525	1,562	28	8,033	17,339
Gross amounts not netted on the balance sheet:						
Financial instruments	-	6,204	1,409	28	1,714	9,355
Pledged cash collateral	-	1,025	148	-	4,321	5,494
Net amount of liabilities in respect of derivatives	191	296	5	-	1,998	2,490

	December 31 2019					
	Stock exchanges	Banks	Dealers/ brokers	Govern-ments and central banks	Other	Total
	In NIS million					
Book balance of assets in respect of derivatives[(a)(b)]	175	6,386	2,039	141	2,229	10,970
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	4,165	1,352	-	1,303	6,820
Credit risk mitigation in respect of cash collateral received	-	2,090	617	133	474	3,314
Net amount of assets in respect of 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 in respect of 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 in respect of derivatives	154	134	8	-	1,127	1,423

(a) The Bank did not apply netting agreements.
(b) Of which book balances of assets in respect of standalone derivatives totaling NIS 15,252 million (December 31 2019 - NIS 10,970 million).
(c) Of which book balances of liabilities in respect of standalone derivatives totaling NIS 17,315 million (December 31 2019 - NIS 11,528 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.

Comment:
No loan losses were recognized in respect of derivatives in 2020 and 2019.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

D. Breakdown of Settlement Dates - Par Value: Balances

	December 31 2020				
	Up to three months	Over three months and up to one year	Over one year and up to five years	Over five years	Total
	In NIS million				
Interest rate contracts:					
NIS-CPI	1,422	2,005	6,881	2,245	12,553
Other	30,397	36,429	101,365	64,441	232,632
Foreign currency contracts	173,175	87,725	18,982	4,759	284,641
Stock contracts	204,914	51,825	688	-	257,427
Commodity- and other contracts	965	2,478	-	-	3,443
Total	410,873	180,462	127,916	71,445	790,696

	December 31 2019				
	Up to three months	Over three months and up to one year	Over one year and up to five years	Over five years	Total
	In NIS million				
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 currency 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

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity

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. Institutionals segment - includes institutional clients as defined by the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, including provident funds, pension funds, study funds, mutual funds, exchange-traded notes (ETNs), insurers, members of the TASE managing customers' money.
8. Financial management segment – includes the following activities:
   a. Trading activities - investment in tradable securities, market-making activity involving securities and derivatives, 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.
9. 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.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

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 line, 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 million - into the corporate 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 of Activity (cont.)

C. Information on Regulatory Operating Segments

	For the year ended December 31 2020			
	Activity in Israel			
	House-holds	Private banking	Small- and micro-businesses	Mid-sized businesses
	In NIS million			
Interest income from external	3,362	4	1,950	825
Interest expense for external	178	107	128	156
Interest income, net:				
From external	3,184	(103)	1,822	669
Inter-segmental	(690)	160	(20)	55
Total interest income, net	2,494	57	1,802	724
Total noninterest income	984	151	773	290
Total income	3,478	208	2,575	1,014
Expenses (income) in respect of loan losses	445	-	569	285
Operating and other expenses:				
For external	2,567	83	1,531	421
Inter-segmental	21	-	-	-
Total operating and other expenses	2,588	83	1,531	421
Profit (loss) before taxes	445	125	475	308
Provision for profit tax (benefit)	163	47	177	117
Profit (loss) after taxes	282	78	298	191
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before attribution to non-controlling interests	282	78	298	191
Net income (loss) attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	282	78	298	191
Average balance of assets[(a)]	111,951	314	49,304	27,875
Of which: Investments in associates[(a)]	-	-	-	-
Average outstanding loans to the public[(a)]	112,629	307	49,873	28,197
Outstanding loans to the public as at the end of the reporting period	116,345	320	50,658	29,502
Outstanding impaired non-performing debt	362	-	821	448
Outstanding debt in arrears of over 90 days	758	-	38	-
Average outstanding liabilities[(a)]	117,069	25,653	70,842	43,406
Of which: Average balance of deposits by the public[(a)]	116,986	25,650	70,749	43,319
Balance of deposits by the public as at the end of the reporting period	121,146	26,082	77,259	47,145
Average balance of risk-weighted assets[(a)(b)]	77,577	1,349	48,452	31,374
Balance of risk-weighted assets as at the end of the reporting period[(b)]	78,967	695	49,136	32,806
Average balance of assets under management[(a)(c)]	61,996	41,741	59,238	23,901
Breakdown of interest income, net:				
Spread from granting loans to the public	2,207	2	1,678	662
Spread from taking deposits by the public	287	55	124	62
Other	-	-	-	-
Total interest income, net	2,494	57	1,802	724

(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, study funds, mutual funds and securities.

					Foreign operations				
Corpora-tions	Institu-tional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign opera-tions - total	Total
1,868	18	1,091	-	9,118	40	902	115	1,057	10,175
198	196	376	-	1,339	48	58	7	113	1,452
1,670	(178)	715	-	7,779	(8)	844	108	944	8,723
(229)	251	487	(6)	8	(49)	56	(15)	(8)	-
1,441	73	1,202	(6)	7,787	(57)	900	93	936	8,723
549	207	1,127	22	4,103	76	98	89	263	4,366
1,990	280	2,329	16	11,890	19	998	182	1,199	13,089
1,001	(1)	(29)	-	2,270	1	281	-	282	2,552
376	214	359	717	6,268	191	470	117	778	7,046
-	17	(38)	-	-	-	-	-	-	-
376	231	321	717	6,268	191	470	117	778	7,046
613	50	2,037	(701)	3,352	(173)	247	65	139	3,491
219	19	804	(229)	1,317	(46)	74	11	39	1,356
394	31	1,233	(472)	2,035	(127)	173	54	100	2,135
-	-	(13)	-	(13)	-	-	-	-	(13)
394	31	1,220	(472)	2,022	(127)	173	54	100	2,122
-	-	-	-	-	(19)	32	7	20	20
394	31	1,220	(472)	2,022	(108)	141	47	80	2,102
71,631	4,030	207,738	9,225	482,068	1,967	21,710	7,623	31,300	513,368
-	-	743	-	743	-	-	-	-	743
72,320	4,033	-	-	267,359	554	23,102	-	23,656	291,015
77,154	4,386	-	-	278,365	532	21,734	-	22,266	300,631
1,758	1	-	-	3,390	25	604	-	629	4,019
4	-	-	-	800	-	14	-	14	814
62,972	72,039	47,376	11,487	450,844	7,398	16,432	1,499	25,329	476,173
59,951	71,482	-	-	388,137	7,187	16,194	712	24,093	412,230
72,512	80,499	-	-	424,643	6,555	15,100	733	22,388	447,031
88,399	919	27,515	18,396	293,981	421	27,484	2,819	30,724	324,705
94,872	753	26,802	18,505	302,536	144	25,114	3,057	28,315	330,851
62,860	794,455	40,228	-	1,084,419	15,689	1,588	-	17,277	1,101,696
1,386	14	2,090	(7)	8,032	(2)	530	409	937	8,969
55	59	(1,583)	-	(941)	(55)	370	(427)	(112)	(1,053)
-	-	695	1	696	-	-	111	111	807
1,441	73	1,202	(6)	7,787	(57)	900	93	936	8,723

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2019[d]			
	Activity in Israel			
	House-holds	Private banking	Small- and micro-businesses	Mid-sized businesses
	In NIS million			
Interest income from external	3,392	4	2,404	842
Interest expense for external	300	176	189	262
Interest income, net:				
From external	3,092	(172)	2,215	580
Inter-segmental	(521)	287	(17)	283
Total interest income, net	2,571	115	2,198	863
Total noninterest income	952	145	760	306
Total income	3,523	260	2,958	1,169
Expenses (income) in respect of loan losses	157	-	372	31
Operating and other expenses:				
For external	3,063	100	1,581	502
Inter-segmental	27	-	-	-
Total operating and other expenses	3,090	100	1,581	502
Profit (loss) before taxes	276	160	1,005	636
Provision for profit tax (benefit)	86	57	359	229
Profit (loss) after taxes	190	103	646	407
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	190	103	646	407
Net income (loss) attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	190	103	646	407
Average balance of assets[a]	109,612	332	50,239	27,771
Of which: Investments in associates[a]	-	-	-	-
Average outstanding loans to the public[a]	110,266	328	50,700	28,020
Outstanding loans to the public as at the end of the reporting period	112,273	346	50,605	28,879
Outstanding impaired non-performing debt	310	-	762	259
Outstanding debt in arrears of 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]	75,945	730	47,876	29,940
Balance of risk-weighted assets as at the end of the reporting period[b]	77,731	742	48,528	31,321
Average balance of assets under management[a][c]	67,701	43,681	51,617	26,111
Breakdown of interest income, net:				
Spread from granting loans to the public	2,156	2	1,940	651
Spread from taking deposits by the public	415	113	258	212
Other	-	-	-	-
Total interest income, net	2,571	115	2,198	863

(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, study funds, mutual funds and securities.
(d) Reclassified.

					Foreign operations				
Corpora-tions	Institu-tional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign opera-tions - total	Total
1,973	33	1,449	-	10,097	72	1,106	162	1,340	11,437
353	490	536	-	2,306	103	172	15	290	2,596
1,620	(457)	913	-	7,791	(31)	934	147	1,050	8,841
(163)	631	(467)	6	39	135	(199)	25	(39)	-
1,457	174	446	6	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	1,987	375	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	22	(43)	-	7	-	-	(7)	(7)	-
497	274	226	813	7,083	211	483	131	825	7,908
1,492	76	1,791	(438)	4,998	(20)	306	121	407	5,405
536	28	677	(214)	1,758	(6)	77	1	72	1,830
956	48	1,114	(224)	3,240	(14)	229	120	335	3,575
-	-	(15)	-	(15)	-	-	-	-	(15)
956	48	1,099	(224)	3,225	(14)	229	120	335	3,560
-	-	-	-	-	(3)	29	12	38	38
956	48	1,099	(224)	3,225	(11)	200	108	297	3,522
64,446	2,137	163,559	10,207	428,303	1,237	23,386	7,573	32,196	460,499
-	-	625	-	625	-	-	-	-	625
64,767	2,142	-	-	256,223	856	23,476	1	24,333	280,556
67,085	3,399	-	-	262,587	552	22,667	-	23,219	285,806
699	-	-	-	2,030	1	500	-	501	2,531
17	-	-	-	977	-	3	-	3	980
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
81,678	988	25,378	18,104	280,639	562	28,770	3,092	32,424	313,063
83,973	1,014	24,953	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	2,590	6	8,647	10	440	729	1,179	9,826
156	172	(3,065)	(1)	(1,740)	94	295	(675)	(286)	(2,026)
-	1	921	1	923	-	-	118	118	1,041
1,457	174	446	6	7,830	104	735	172	1,011	8,841

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2018[f]			
	Activity in Israel			
	House-holds	Private banking	Small- and micro-businesses	Mid-sized businesses
	In NIS million			
Interest income from external	4,112	5	2,113	806
Interest expense for external	388	170	142	163
Interest income, net:				
From external	3,724	(165)	1,971	643
Inter-segmental	(895)	273	115	145
Total interest income, net	2,829	108	2,086	788
Total noninterest income	1,604	145	856	338
Total income	4,433	253	2,942	1,126
Expenses (income) in respect of loan losses	266	-	276	(174)
Operating and other expenses:				
For external	3,516	104	1,598	533
Inter-segmental	3	-	-	-
Total operating and other expenses	3,519	104	1,598	533
Profit (loss) before taxes	648	149	1,068	767
Provision for profit tax (benefit)	216	51	369	269
Profit (loss) after taxes	432	98	699	498
The Bank's share in associates' profits, after tax effect	-	-	-	-
Net income (loss) before attribution to non-controlling interests	432	98	699	498
Net income (loss) attributable to non-controlling interests	46	-	3	2
Net income (loss) attributable to the Bank's shareholders	386	98	696	496
Average balance of assets[a]	113,257	325	50,351	25,473
Of which: Investments in associates[a]	-	-	-	-
Average outstanding loans to the public[a][d]	113,968	320	50,790	25,686
Outstanding loans to the public as at the end of the reporting period	116,376	325	50,785	26,789
Outstanding impaired non-performing debt	382	-	771	116
Outstanding debt in arrears of 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][e]	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]	82,072	753	48,401	28,614
Balance of risk-weighted assets as at the end of the reporting period[b]	82,357	702	49,258	28,886
Average balance of assets under management[a][c]	69,951	41,283	50,531	25,942
Breakdown of interest income, net:				
Spread from granting loans to the public	2,476	3	1,870	626
Spread from taking deposits by the public	353	105	216	162
Other	-	-	-	-
Total interest income, net	2,829	108	2,086	788

(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, study funds, mutual funds and securities.
(d) Including an average balance of assets classified as held-for-sale in the amount of NIS 8,461 million.
(e) Including an average outstanding liabilities classified as held-for-sale in the amount of NIS 77 million.
(f) Reclassified.

					Foreign operations				
Corpora-tions	Institutional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
1,824	26	1,080	-	9,966	45	1,154	181	1,380	11,346
321	522	487	-	2,193	32	219	12	263	2,456
1,503	(496)	593	-	7,773	13	935	169	1,117	8,890
(179)	661	(86)	3	37	118	(199)	44	(37)	-
1,324	165	507	3	7,810	131	736	213	1,080	8,890
623	213	713	79	4,571	74	124	102	300	4,871
1,947	378	1,220	82	12,381	205	860	315	1,380	13,761
35	4	21	(1)	427	(1)	93	-	92	519
488	268	275	665	7,447	248	554	88	890	8,337
-	1	(15)	8	(3)	-	-	3	3	-
488	269	260	673	7,444	248	554	91	893	8,337
1,424	105	939	(590)	4,510	(42)	213	224	395	4,905
495	37	316	(226)	1,527	(12)	52	52	92	1,619
929	68	623	(364)	2,983	(30)	161	172	303	3,286
-	-	36	-	36	-	-	-	-	36
929	68	659	(364)	3,019	(30)	161	172	303	3,322
3	(1)	(3)	(4)	46	(3)	9	13	19	65
926	69	662	(360)	2,973	(27)	152	159	284	3,257
58,869	1,307	161,288	7,594	418,464	1,042	23,916	8,276	33,234	451,698
-	-	758	-	758	-	-	-	-	758
58,755	1,280	-	-	250,799	1,053	23,472	5	24,530	275,329
63,460	676	-	-	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
78,761	784	23,646	16,312	279,343	532	21,832	2,454	24,818	304,161
79,231	1,116	25,898	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
1,199	12	2,698	3	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
1,324	165	507	3	7,810	131	736	213	1,080	8,890

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

Private individuals – Households and private banking

	For the year ended December 31 2020								
	Households segment				Private banking segment				Private individuals - total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS million								
Interest income from external	2,038	59	1,265	3,362	2	-	2	4	3,366
Interest expense from external	-	-	178	178	-	-	107	107	285
Interest income, net:									
From external	2,038	59	1,087	3,184	2	-	(105)	(103)	3,081
Inter-segmental	(1,043)	(3)	356	(690)	(1)	-	161	160	(530)
Total interest income, net	995	56	1,443	2,494	1	-	56	57	2,551
Total noninterest income	61	226	697	984	-	3	148	151	1,135
Total income	1,056	282	2,140	3,478	1	3	204	208	3,686
Expenses (income) in respect of loan losses	174	(1)	272	445	-	-	-	-	445
Operating and other expenses:									
For external	243	211	2,113	2,567	-	3	80	83	2,650
Inter-segmental	-	-	21	21	-	-	-	-	21
Total operating and other expenses	243	211	2,134	2,588	-	3	80	83	2,671
Profit (loss) before taxes	639	72	(266)	445	1	-	124	125	570
Provision for profit tax (benefit)	236	28	(101)	163	-	-	47	47	210
Profit (loss) after taxes	403	44	(165)	282	1	-	77	78	360
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income (loss) before attribution to non-controlling interests	403	44	(165)	282	1	-	77	78	360
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	403	44	(165)	282	1	-	77	78	360
Average balance of assets[a]	86,354	3,728	21,869	111,951	102	69	143	314	112,265
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	86,766	3,767	22,096	112,629	102	69	136	307	112,936
Outstanding loans to the public as at the end of the reporting period	90,133	4,007	22,205	116,345	103	76	141	320	116,665
Outstanding impaired non-performing debt	26	1	335	362	-	-	-	-	362
Outstanding debt in arrears of over 90 days	720	-	38	758	-	-	-	-	758
Average outstanding liabilities[a]	20	8	117,041	117,069	-	-	25,653	25,653	142,722
Of which: Average balance of deposits by the public[a]	1	-	116,986	116,986	-	-	25,650	25,650	142,636
Balance of deposits by the public as at the end of the reporting period	1	-	121,146	121,146	-	-	26,082	26,082	147,228
Average balance of risk-weighted assets[a][b]	54,266	3,730	19,581	77,577	629	143	577	1,349	78,926
Balance of risk-weighted assets as at the end of the reporting period[b]	56,335	3,799	18,833	78,967	141	216	338	695	79,662
Average balance of assets under management[a][c]	-	-	61,996	61,996	-	-	41,741	41,741	103,737
Breakdown of interest income, net:									
Spread from granting loans to the public	995	56	1,156	2,207	1	-	1	2	2,209
Spread from taking deposits by the public	-	-	287	287	-	-	55	55	342
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	995	56	1,443	2,494	1	-	56	57	2,551

(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, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

Private individuals – households and private banking (cont.)

	For the year ended December 31 2019[d]								
	Households segment				Private banking segment				Private individuals - total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS million								
Interest income from external	1,918	71	1,403	3,392	2	-	2	4	3,396
Interest expense from external	(19)	-	319	300	-	-	176	176	476
Interest income, net:									
From external	1,937	71	1,084	3,092	2	-	(174)	(172)	2,920
Inter-segmental	(1,088)	-	567	(521)	(1)	-	288	287	(234)
Total interest income, net	849	71	1,651	2,571	1	-	114	115	2,686
Total noninterest income	43	204	705	952	-	1	144	145	1,097
Total income	892	275	2,356	3,523	1	1	258	260	3,783
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	-	26	27	-	-	-	-	27
Total operating and other expenses	242	224	2,624	3,090	-	3	97	100	3,190
Profit (loss) before taxes	637	49	(410)	276	1	(2)	161	160	436
Provision for profit tax (benefit)	227	18	(159)	86	-	(1)	58	57	143
Profit (loss) after taxes	410	31	(251)	190	1	(1)	103	103	293
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income (loss) before attribution to non-controlling interests	410	31	(251)	190	1	(1)	103	103	293
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	410	31	(251)	190	1	(1)	103	103	293
Average balance of assets[a]	81,422	4,205	23,985	109,612	91	90	151	332	109,944
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	81,752	4,245	24,269	110,266	91	91	146	328	110,594
Outstanding loans to the public as at the end of the reporting period	84,114	4,176	23,983	112,273	107	94	145	346	112,619
Outstanding impaired non-performing debt	-	-	310	310	-	-	-	-	310
Outstanding debt 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]	51,431	4,087	20,427	75,945	136	243	351	730	76,675
Balance of risk-weighted assets as at the end of the reporting period	53,402	4,016	20,313	77,731	157	242	343	742	78,473
Average balance of assets under management[a][c]	-	-	67,701	67,701	-	-	43,681	43,681	111,382
Breakdown of interest income, net:									
Spread from granting loans to the public	849	71	1,236	2,156	1	-	1	2	2,158
Spread from taking deposits by the public	-	-	415	415	-	-	113	113	528
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	849	71	1,651	2,571	1	-	114	115	2,686

(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, study funds, mutual funds and securities.
(d) Reclassified.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

Small-, micro- and mid-sized businesses and corporations

	For the year ended December 31 2020									
	Small- and micro-business segment			Mid-sized business segment			Corporate segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	In NIS million									
Interest income from external	668	1,282	1,950	313	512	825	839	1,029	1,868	4,643
Interest expense from external	21	107	128	8	148	156	15	183	198	482
Interest income, net:										
From external	647	1,175	1,822	305	364	669	824	846	1,670	4,161
Inter-segmental	(75)	55	(20)	(48)	103	55	(121)	(108)	(229)	(194)
Total interest income, net	572	1,230	1,802	257	467	724	703	738	1,441	3,967
Total noninterest income	138	635	773	64	226	290	328	221	549	1,612
Of which: Income from credit cards	13	68	81	1	7	8	-	2	2	91
Total income	710	1,865	2,575	321	693	1,014	1,031	959	1,990	5,579
Loan loss expenses	55	514	569	24	261	285	217	784	1,001	1,855
Operating and other expenses:										
For external	302	1,229	1,531	82	339	421	126	250	376	2,328
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	302	1,229	1,531	82	339	421	126	250	376	2,328
Profit (loss) before taxes	353	122	475	215	93	308	688	(75)	613	1,396
Provision for profit tax (benefit)	134	43	177	81	36	117	249	(30)	219	513
Profit (loss) after taxes	219	79	298	134	57	191	439	(45)	394	883
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	219	79	298	134	57	191	439	(45)	394	883
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	219	79	298	134	57	191	439	(45)	394	883
Average balance of assets(a)	18,714	30,590	49,304	9,812	18,063	27,875	26,634	44,997	71,631	148,810
Of which: Investments in associates(a)	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public(a)	18,840	31,033	49,873	9,872	18,325	28,197	26,745	45,575	72,320	150,390
Outstanding loans to the public as at the end of the reporting period	19,431	31,227	50,658	11,355	18,147	29,502	29,605	47,549	77,154	157,314
Outstanding impaired non-performing debt	231	590	821	75	373	448	280	1,478	1,758	3,027
Outstanding debt in arrears of over 90 days	9	29	38	-	-	-	3	1	4	42
Average outstanding liabilities(a)	14,008	56,834	70,842	5,580	37,826	43,406	11,295	51,677	62,972	177,220
Of which: Average balance of deposits by the public(a)	13,978	56,771	70,749	5,545	37,774	43,319	10,812	49,139	59,951	174,019
Balance of deposits by the public as at the end of the reporting period	14,927	62,332	77,259	6,311	40,834	47,145	13,272	59,240	72,512	196,916
Average balance of risk-weighted assets(a)(b)	19,839	28,613	48,452	11,633	19,741	31,374	45,732	42,667	88,399	168,225
Balance of risk-weighted assets as at the end of the reporting period(b)	20,665	28,471	49,136	13,300	19,506	32,806	50,504	44,368	94,872	176,814
Average balance of assets under management(a)(c)	10,901	48,337	59,238	3,213	20,688	23,901	15,814	47,046	62,860	145,999
Breakdown of interest income, net:										
Spread from granting loans to the public	549	1,129	1,678	250	412	662	691	695	1,386	3,726
Spread from taking deposits by the public	23	101	124	7	55	62	12	43	55	241
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	572	1,230	1,802	257	467	724	703	738	1,441	3,967

(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, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

Small-, micro- and mid-sized businesses and corporations (cont.)

	For the year ended December 31 2019[d]									
	Small- and micro-business segment			Mid-sized business segment			Corporate segment			
	Construc-tion and real estate	Other	Total	Construc-tion and real estate	Other	Total	Construc-tion and real estate	Other	Total	Total
	In NIS million									
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)	52	(17)	(29)	312	283	(153)	(10)	(163)	103
Total interest income, net	644	1,554	2,198	248	615	863	656	801	1,457	4,518
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	2,181	2,958	310	859	1,169	969	1,047	2,016	6,143
Expenses (income) in respect of loan losses	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
Net income before taxes	481	524	1,005	244	392	636	729	763	1,492	3,133
Provision for profit tax	171	188	359	89	140	229	252	284	536	1,124
Profit after taxes	310	336	646	155	252	407	477	479	956	2,009
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	310	336	646	155	252	407	477	479	956	2,009
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	310	336	646	155	252	407	477	479	956	2,009
Average balance of assets[a]	17,589	32,650	50,239	9,089	18,682	27,771	23,954	40,492	64,446	142,456
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	17,719	32,981	50,700	9,283	18,737	28,020	23,991	40,776	64,767	143,487
Outstanding loans to the public as at the end of the reporting period	18,162	32,443	50,605	9,658	19,221	28,879	25,523	41,562	67,085	146,569
Outstanding impaired non-performing debt	232	530	762	14	245	259	354	345	699	1,720
Outstanding debt in arrears of 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]	18,762	29,114	47,876	10,784	19,156	29,940	41,272	40,406	81,678	159,494
Balance of risk-weighted assets as at the end of the reporting period[b]	19,539	28,989	48,528	11,225	20,096	31,321	44,500	39,473	83,973	163,822
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:										
Spread from granting loans to the public	601	1,339	1,940	230	421	651	634	667	1,301	3,892
Spread from taking deposits by the public	43	215	258	18	194	212	22	134	156	626
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	644	1,554	2,198	248	615	863	656	801	1,457	4,518

(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, study funds, mutual funds and securities.
(d) Reclassified.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

Financial management

	For the year ended December 31 2020				
	Trading activity	Assets and liabilities management activity	Non-financial investment activity	Other	Total
	In NIS million				
Interest income from external	34	1,058	5	(6)	1,091
Interest expense from external	9	367	-	-	376
Interest income, net:					
From external	25	691	5	(6)	715
Inter-segmental	22	479	2	(16)	487
Total interest income, net	47[e]	1,170	7	(22)	1,202
Total noninterest income	500[f]	227	326	74	1,127
Total income	547	1,397	333	52	2,329
(Income) due to loan losses	-	(5)	-	(24)	(29)
Operating and other expenses:					
For external	189	49	16	105	359
Inter-segmental	-	(43)	3	2	(38)
Total operating and other expenses	189	6	19	107	321
Net income before taxes	358	1,396	314	(31)	2,037
Provision for profit tax	136	538	131	(1)	804
Profit after taxes	222	858	183	(30)	1,233
The Bank's share in associates' profits, after tax effect	-	-	(13)	-	(13)
Net income before amount attributable to non-controlling interests	222	858	170	(30)	1,220
Net income attributable to non-controlling interests	-	-	-	-	-
Net income attributable to the Bank's shareholders	222	858	170	(30)	1,220
Average balance of assets[a]	25,411	177,519	4,497	311	207,738
Of which: Investments in associates[a]	-	-	743	-	743
Average outstanding liabilities[a]	20,310	27,020	45	1	47,376
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]	9,300	15,446	2,769	-	27,515
Balance of risk-weighted assets as at the end of the reporting period[b]	9,172	14,565	3,065	-	26,802
Average balance of managed assets[c]	-	-	-	40,228	40,228
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[d]	488	(21)	-	-	-
Exchange rate differentials, CPI[d]	28	(87)	-	-	-
Net interest exposures[d]	(181)	638	-	-	-
Net exposures to shares[d]	45	-	-	-	-
Interest spreads attributed to financial management	-	632	-	-	-
Total net interest income and noninterest income on accrual basis	380	1,162	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	329	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	(100)	-	-	-
Other noninterest income	167	6	-	-	-
Total net interest income and noninterest finance income	547	1,397	-	-	-

(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, 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 22 million.
(f) Noninterest finance income from trading activities in Note 3 does not include fees and commissions and other income in the amount of NIS 63 million and inter-segmental balances in the amount NIS 20 million and do include noninterest income for foreign activities in the amount of NIS 8 million.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

C. Information on Regulatory Operating Segments (cont.)

Financial Management (cont.)

	For the year ended December 31 2019				
	Trading activity	Assets and liabilities management activity	Non-financial investment activity	Other	Total
	In NIS million				
Interest income from external	35	1,410	1	3	1,449
Interest expense from external	3	533	-	-	536
Interest income, net:					
From external	32	877	1	3	913
Inter-segmental	(66)	(435)	(7)	41	(467)
Total interest income, net	(34)[e]	442	(6)	44	446
Total noninterest income	397[f]	725	331	88	1,541
Total income	363	1,167	325	132	1,987
Loan loss expenses	-	(7)	-	(23)	(30)
Operating and other expenses:					
For external	165	(5)	18	91	269
Inter-segmental	-	(48)	4	1	(43)
Total operating and other expenses (income)	165	(53)	22	92	226
Profit (loss) before taxes	198	1,227	303	63	1,791
Provision for profit tax (benefit)	71	481	113	12	677
Profit (loss) after taxes	127	746	190	51	1,114
The Bank's share in associates' profits, after tax effect	-	-	(15)	-	(15)
Net income (loss) before attribution to non-controlling interests	127	746	175	51	1,099
Net income attributable to non-controlling interests	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	127	746	175	51	1,099
Average balance of assets[a]	17,548	143,791	1,941	279	163,559
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]	5,866	16,888	2,624	-	25,378
Balance of risk-weighted assets as at the end of the reporting period[b]	8,575	13,518	2,860	-	24,953
Average balance of assets under management[b]	-	-	-	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	-	-	-
Net interest exposures[d]	(134)	1,450	-	-	-
Net exposures to shares[d]	38	-	-	-	-
Interest spreads attributed to financial management	-	(611)	-	-	-
Total net interest income and noninterest income on accrual basis	136	907	-	-	-
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	227	(9)	-	-	-
Total net interest income and noninterest finance income	363	1,167	-	-	-

(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, 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 (66) million.
(f) Noninterest finance income from trading activities in Note 3 does not include fees and commissions and other income 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 of Activity (cont.)

D. Information on Activity by Geographical Area[a]

	December 31 2020						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS million						
Total income[b]	**11,992**	**1,028**	**68**	**-**	**1**	**1,097**	**13,089**
Net income (loss) attributable to the Bank's shareholders	**2,120**	**121**	**(142)**	**-**	**3**	**(18)**	**2,102**
Total assets	**526,844**	**23,484**	**5,684**	**-**	**23**	**29,191**	**556,035**

	December 31 2019						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS million						
Total income (expenses)[b]	12,751	1,062	109	(2)	2	1,171	13,922
Net income (loss) attributable to the Bank's shareholders	3,360	228	(64)	(13)	11	162	3,522
Total assets	438,923	23,774	6,058	-	26	29,858	468,781

	December 31 2018						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS million						
Total income[b]	12,282	1,075	331	74	(1)	1,479	13,761
Net income (loss) attributable to the Bank's shareholders	2,874	219	131	31	2	383	3,257

(a) The classification is based on the office's location.
(b) Interest income and noninterest income, net.

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 the 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 2020											
	The Bank									Subsi-diaries in Israel	Foreign subsi-diaries	
	Retail, premium and private banking	Small busi-nesses	Mortgages	Banking - total	Com-mercial	Corpo-rate	Real estate	Capital markets	Other			Total
	In NIS million											
Interest income, net:												
Interest income from external	1,126	1,142	2,047	4,315	1,118	880	834	510	-	128	938	8,723
Interest income (expenses) - inter-segmental	657	(20)	(965)	(328)	34	(252)	(127)	668	-	7	(2)	-
Interest income, net	1,783	1,122	1,082	3,987	1,152	628	707	1,178	-	135	936	8,723
Noninterest income	1,341	448	24	1,813	416	236	309	948	127	254	263	4,366
Total income	3,124	1,570	1,106	5,800	1,568	864	1,016	2,126	127	389	1,199	13,089
Expenses (income) in respect of loan losses	333	482	178	993	352	762	210	(18)	(33)	4	282	2,552
Total operating and other expenses	2,610	951	245	3,806	667	227	125	382	871	190	778	7,046
Profit (loss) before tax	181	137	683	1,001	549	(125)	681	1,762	(711)	195	139	3,491
Tax expenses (income)	62	47	234	343	188	(43)	233	602	(47)	41	39	1,356
Net income (loss) attributable to the Bank's shareholders	119	90	449	658	361	(82)	448	1,162	(664)	139	80	2,102
												Balances as at December 31 2020
Loans to the public, net	27,530	24,253	91,313	143,096	44,626	39,389	31,559	8,700	5,339	790	21,842	295,341
Deposits by the public	181,676	47,710	-	229,386	65,775	28,390	10,149	90,938	5	-	22,388	447,031
Assets under management	183,752	19,455	-	203,207	25,909	10,043	2,336	585,627	21,484	312,520	16,529	1,177,655

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 2019											
	The Bank									Subsi-diaries in Israel	Fo-reign 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 million											
Interest income, net:												
Interest income (expenses) - 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
Loan loss expenses (income)	231	329	7	567	80	(124)	71	(37)	(13)	7	58	609
Total operating and other expenses	2,845[a]	1,097	278	4,220	721	350	133	396[a]	1,059	204	825	7,908
Profit (loss) before tax	369	342	735	1,446	889	612	746	1,721	(622)	206	407	5,405
Tax expenses (income)	126[a]	117	251	494	304	209	255	588[a]	(140)	48	72	1,830
Net income (loss) attributable to the Bank's shareholders	243	225	484	952	585	403	491	1,135	(482)	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	17,731	1,152,658

(a) 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 2018[a]											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Retail, premium and private banking	Small businesses	Mortgages	Banking - total	Commercial	Corporate	Real estate	Capital markets	Other			Total
	In NIS million											
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
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)	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	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.

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 2020					
	Loan loss provision					
	Loans to the public					
	Com-mercial	Housing	Private individuals - other	Total - public	Banks and govern-ments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	2,590	467	657	3,714	2	3,716
Loan loss expenses	2,105	175	271	2,551	1	2,552
Accounting write-offs	(816)	(6)	(383)	1,205	-	(1,205)
Collection of debts written off in previous years	429	-	247	676	-	676
Net accounting write-offs	(387)	(6)	(136)	(529)	-	(529)
Adjustments from translation of financial statements	(24)	-	-	(24)	-	(24)
Balance of loan loss provision as at year end[1]	4,284	636	792	5,712	3	5,715
[1]Of which: in respect of off-balance-sheet credit instruments	402	-	20	422	-	422

	For the year ended December 31 2019					
	Loan loss provision					
	Loans to the public					
	Com-mercial	Housing	Private individuals - other	Total Public	Banks and govern-ments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	2,700	479	634	3,813	3	3,816
Expenses (income) in respect of loan losses	454	22	134	610	(1)	609
Accounting write-offs	(967)[b]	(29)	(385)[b]	(1,381)	-	(1,381)
Collection of debts written off in previous years	439[b]	-	275[b]	714	-	714
Net accounting write-offs	(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)
Balance of loan loss provision as at year end[1]	2,590	467	657	3,714	2	3,716
[1]Of which: in respect of off-balance-sheet credit instruments	366	-	20	386	-	386

(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.)

1. Change in outstanding loan loss provision (cont.)

	For the year ended December 31 2018					
	Loan loss provision					
	Loans to the public					
	Com-mercial	Housing	Private indivi-duals - other	Total - public	Banks and govern-ments	Total
	In NIS million					
Balance of 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
Net accounting write-offs	(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)
Balance of loan loss provision as at year end[1]	2,700	479	634	3,813	3	3,816
[1] Of which: in respect of off-balance-sheet	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.

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 2020					
	Loans to the public					
	Com-mercial	Housing	Private individuals - other	Total - public	Banks and govern-ments	Total
	In NIS million					
Recorded outstanding debt:[a]						
Examined on a specific basis	143,317	24	786	144,127	10,879	155,006
Examined on a collective basis[1]	40,741	90,365	25,398	156,504	158	156,662
[1]Of which: The provision for which was calculated by extent of arrears	624[c]	90,237	-	90,861	-	90,861
Total debts[a]	184,058	90,389	26,184	300,631	11,037	311,668
Loan loss provision for debts:[a]						
Examined on a specific basis	3,103	1	228	3,332	3	3,335
Examined on collective basis[2]	779	635	544	1,958	-	1,958
[2]Of which: The provision for which was calculated by extent of arrears	-[d]	634[b]	-	634	-	634
Total loan loss provision	3,882	636	772	5,290	3	5,293
Of which: For impaired non-performing debts	875	7	212	1,094	-	1,094

	December 31 2019					
	Loans to the public					
	Com-mercial	Housing	Private individuals - other	Total - public	Banks and govern-ments	Total
	In NIS million					
Recorded outstanding debt:[a]						
Examined on a 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 a 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	-[d]	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

(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 460 million (2019 - 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 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 2020					
		Troubled debts[b]			Unimpaired debts - additional information	
	Non-troubled	Perfor-ming	Non-perfor-ming[c]	Total	In arrears of 90 days or more[d][h]	In arrears of 30 days to 89 days[e]
	In NIS million					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction[g]	28,608	128	110	28,846	9	29
Construction & real estate - real estate activities[g]	29,016	99	325	29,440	3	22
Financial services	19,341	7	4	19,352	1	28
Commercial - other	72,133	1,634	1,594	75,361	29	118
Commercial - total	149,098	1,868	2,033	152,999	42	197
Private individuals - housing loans	89,480	722[f]	26	90,228	720	512
Private individuals - other	25,156	304	336	25,796	38	104
Total loans to the public - activity in Israel	263,734	2,894	2,395	269,023	800	813
Banks in Israel	1,631	-	-	1,631	-	-
Government of Israel	9	-	-	9	-	-
Total activity in Israel	265,374	2,894	2,395	270,663	800	813
Borrower activity outside Israel						
Public - commercial						
Construction & real estate[g]	11,341	576	287	12,204	-	226
Commercial - other	16,406	1,137	1,312	18,855	14	187
Commercial - total	27,747	1,713	1,599	31,059	14	413
Private individuals	524	-	25	549	-	-
Total loans to the public - activity abroad	28,271	1,713	1,624	31,608	14	413
Foreign banks	8,774	-	-	8,774	-	-
Foreign governments	608	-	15	623	-	-
Total activity outside Israel	37,653	1,713	1,639	41,005	14	413
Total - public	292,005	4,607	4,019	300,631	814	1,226
Total - banks	10,405	-	-	10,405	-	-
Governments - total	617	-	15	632	-	-
Total	303,027	4,607	4,034	311,668	814	1,226

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 2019					
		Troubled debts[(b)]			Unimpaired debts - additional information	
	Non-troubled	Performing	Non-performing[(c)]	Total	In arrears of 90 days or more[(d)]	In arrears of 30 days to 89 days[(e)]
	In NIS million					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	23,601	102	79	23,782	8	48
Construction & real estate - real estate activities	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
Commercial - total	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 loans to the 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
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	11,523	77	362	11,962	3	17
Commercial - other	17,862	511	359	18,732	-[(i)]	139
Commercial - total	29,385	588	721	30,694	3	156
Private individuals	566	-	1	567	-	-
Total loans to the public - activity abroad	29,951	588	722	31,261	3	156
Foreign banks	10,171	-	-	10,171	-	-
Foreign governments	733	-	-	733	-	-
Total activity outside Israel	40,855	588	722	42,165	3	156
Total - public	280,193	3,082	2,531	285,806	980	1,210
Total - banks	12,338	-	-	12,338	-	-
Governments - total	744	-	-	744	-	-
Total	293,275	3,082	2,531	298,888	980	1,210

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 debt 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. Accrual debt.

(e) Accrual debt. Debts in arrears of 30 to 89 days totaling NIS 472 million (December 31 2019 - NIS 210 million) were classified as unimpaired troubled debt.

(f) Including outstanding housing loans in the amount of NIS 78 million (December 31 2019 - NIS 85 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) 2.4 percent of the credit granted for income-generating properties through the Bank's Construction and Real Estate Department requires LTV rates in excess of 85 percent.

(h) Outstanding unimpaired debt in arrears of at least 90 days as at December 31 2020, in the amount of NIS 800 million constitutes credit granted by the Bank, of which NIS 80 million is for non-housing loans and NIS 720 million - for housing loans, of which a total of NIS 196 million is in arrears of up to 149 days, NIS 144 million is in arrears of 150-249 days and the remaining debt is in arrears of 250 days or more.

(i) 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.

It should be noted that in light of the Bank of Israel's guidance of April 21 2020, and as part of the efforts to assist borrowers in difficulties, debt arrangements under which the terms and conditions of the debt were changed, and specifically - the original repayment dates were deferred, were not taken into consideration in determining the arrears status or debt classification.

For more information on the Banking Supervision Department's guidance in the context of dealing with the coronavirus, please see Note 1.W.5.

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 debt

A. Impaired non-performing debts and specific provision

	December 31 2020				
	Outstanding[(b)] impaired non-performing debt in respect of which there is a specific provision[(c)]	Balance of specific provision[(c)]	Outstanding [(b)] non-performing loans in respect of which there is no specific provision[(c)]	Total outstanding [(b)] non-performing loans	Outstanding contractual principal in respect of impaired non-performing debt
	In NIS million				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - construction	47	14	63	110	357
Construction & real estate - real estate activities	195	21	130	325	1,086
Financial services	1	1	3	4	403
Commercial - other	1,107	428	487	1,594	3,431
Commercial - total	**1,350**	**464**	**683**	**2,033**	**5,277**
Private individuals - housing loans	-	-	26	26	26
Private individuals - other	334	212	2	336	834
Total loans to the public - activity in Israel	**1,684**	**676**	**711**	**2,395**	**6,137**
Borrower activity outside Israel					
Public - commercial					
Construction and real estate	287	86	-	287	358
Commercial - other	1,267	325	45	1,312	1,357
Commercial - total	**1,554**	**411**	**45**	**1,599**	**1,715**
Private individuals	24	1	1	25	25
Total loans to the public - activity abroad	**1,578**	**412**	**46**	**1,624**	**1,740**
Foreign governments	15	-	-	15	15
Total activity outside Israel	**1,593**	**412**	**46**	**1,639**	**1,755**
Total - public	**3,262**	**1,088**	**757**	**4,019**	**7,877**
Governments - total	**15**	**-[(d)]**	**-**	**15**	**15**
Total	**3,277**	**1,088**	**757**	**4,034**	**7,892**
Of which:					
Measured according to the present value of cash flows	**2,675**	**947**	**594**	**3,269**	
Restructured troubled debts	**2,148**	**589**	**493**	**2,641**	

(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) Balance lower than 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 debt (cont.)

A. Impaired non-performing debts and specific provision (cont.)

	December 31 2019				
	Outstanding[b] impaired non-performing debt in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding [b] non-performing loans in respect of which there is no specific provision[c]	Total outstanding [b] non-performing loans	Outstanding contractual principal in respect of impaired non-performing debt
	In NIS million				
Borrower 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
Commercial - total	700	231	799	1,499	4,811
Private individuals - other	307	166	3	310	765
Total loans to the public - activity in Israel	1,007	397	802	1,809	5,576
Borrower activity outside Israel					
Public - commercial					
Construction and real estate	362	100	-	362	379
Commercial - other	137	41	222	359	392
Commercial - total	499	141	222	721	771
Private individuals	1	1	-	1	1
Total loans to the public - activity abroad	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	1,329[d]	493	694	2,023	
Restructured 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.
(d) 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 debt (cont.)

B. Average balance and interest income

	For the year ended December 31					
	2020			2019		
	Average outstanding[(b)] impaired non-performing debts	Recorded interest income[(c)]	Of which: Recorded on a cash basis	Average balance[(b)] of non-performing loans	Recorded interest income[(c)]	Of which: Recorded on a cash basis
	In NIS million					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	103	1	-	140	1	-
Construction & real estate - real estate activities	242	4	1	305	5	3
Financial services	5	-	-	7	-	-
Commercial - other	1,284	8	2	1,152	10	5
Commercial - total	**1,634**	**13**	**3**	1,604	16	8
Private individuals - housing loans	9	-	-	-	-	-
Private individuals - other	317	5	-	317	2	-
Total loans to the public - activity in Israel	**1,960**	**18**	**3**	1,921	18	8
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	313	-	-	153	3	-
Commercial - other	511	40	2	380	5	5
Commercial - total	**824**	**40**	**2**	533	8	5
Private individuals	29	-	-	9	-	-
Total loans to the public - activity abroad	**853**	**40**	**2**	542	8	5
Foreign governments	11	-	-	-	-	-
Total activity outside Israel	**864**	**40**	**2**	542	8	5
Total - public	**2,813**	**58[(d)]**	**5**	2,463	26[(d)]	13
Governments - total	**11**	**-**	**-**	-	-	-
Total	**2,824**	**58[(d)]**	**5**	2,463	26[(d)]	13

(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 debt in the reporting period.
(c) Interest income recorded for the reporting period in respect of the average outstanding impaired non-performing debt 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 410 million (2019 - NIS 402 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 debt (cont.)

B. Average balance and interest income (cont.)

	For the year ended December 31 2018		
	Average outstanding[b] impaired non-performing debt	Recorded interest income[c]	Of which: Recorded on a cash basis
	In NIS million		
Borrower activity in Israel			
Public - commercial			
Construction & real estate - construction	265	1	1
Construction & real estate - real estate activities	379	4	2
Financial services	6	-	-
Commercial - other	1,347	10	4
Commercial - total	1,997	15	7
Private individuals - other	373	2	-
Less balances classified as held-for-sale assets[e]	(38)	-	-
Total loans to the public - activity in Israel	2,332	17	7
Borrower activity outside Israel			
Public - commercial			
Construction and real estate	133	6	6
Commercial - other	520	6	4
Commercial - total	653	12	10
Private individuals	20	1	1
Total loans to the public - activity abroad	673	13	11
Total - public	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 debt in the reporting period.
(c) Interest income recorded for the reporting period in respect of the average outstanding impaired non-performing debt 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 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.)

C. Restructured troubled debts

	For the year ended December 31							
	2020				2019			
	Non-accrual debt	Accrual, in arrears of 30 days to 89 days[b]	Accruing[b], non delinquent	Total [c]	Non-accrual debt	Accrual, in arrears of 30 days to 89 days[b]	Accrual[b], non-delinquent	Total [c]
	In NIS million							
Borrower activity in Israel								
Public - commercial								
Construction & real estate - construction	72	1	14	87	32	1	15	48
Construction & real estate - real estate activities	192	-	67	259	63	-	139	202
Financial services	1	-	1	2	2	-	1	3
Commercial - other	562	8	325	895	226	8	122	356
Commercial - total	**827**	**9**	**407**	**1,243**	323	9	277	609
Private individuals - other	187	4	126	317	213	5	72	290
Total loans to the public - activity in Israel	**1,014**	**13**	**533**	**1,560**	536	14	349	899
Borrower activity outside Israel								
Public - commercial								
Construction and real estate	17	-	-	17	-	-	-	-
Commercial - other	1,060	-	4	1,064	96	-	24	120
Commercial - total	**1,077**	**-**	**4**	**1,081**	96	-	24	120
Total loans to the public - activity abroad	**1,077**	**-**	**4**	**1,081**	96	-	24	120
Total - public	**2,091**	**13**	**537**	**2,641**	632	14	373	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) Accrual debt.
(c) Included in impaired non-performing debt.

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 20 million as at December 31 2020 (December 31 2019 - NIS 0 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 debts (cont.)

1. Restructurings carried out

	For the year ended December 31					
	2020			2019		
	No. of contracts	Recorded outstanding debt before restruc-turing	Recorded outstanding debt after restruc-turing	No. of contracts	Recorded outstanding debt before restruc-turing	Recorded outstanding debt after restruc-turing
		In NIS million			In NIS million	
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	348	74	73	344	41	40
Construction & real estate - real estate activities	104	158	158	89	26	26
Financial services	12	1	1	22	2	2
Commercial - other	2,067	851	847	1,690	234	230
Commercial - total	2,531	1,084	1,079	2,145	303	298
Private individuals - other	6,092	217	214	5,317	171	168
Total loans to the public - activity in Israel	8,623	1,301	1,293	7,462	474	466
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	2	61	61	2	12	12
Commercial - other	8	1,039	1,039	-	-	-
Commercial - total	10	1,100	1,100	2	12	12
Total loans to the public - activity abroad	10	1,100	1,100	2	12	12
Total - public	8,633	2,401	2,393	7,464	486	478

(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.

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 debts (cont.)

1. Restructurings carried out (cont.)

	For the year ended December 31 2018		
	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
		In NIS million	
Borrower activity in Israel			
Public - commercial			
Construction & real estate - construction	400	47	47
Construction & real estate - real estate activities	161	33	33
Financial services	24	2	1 [b]
Commercial - other	1,762	253	248
Commercial - total	2,347	335	329
Private individuals - other	8,649	217	216
Less balances classified as held-for-sale assets[b]	(2,956)	(37)	(37)
Total loans to the public - activity in Israel	8,040	515	508
Borrower activity outside Israel			
Public - commercial			
Construction and real estate	2	2	2
Commercial - other	6	57	57
Commercial - total	8	59	59
Total loans to the public - activity abroad	8	59	59
Total - public	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.

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 debts (cont.)

2. Failed restructurings[b]

	December 31					
	2020		2019		2018	
	No. of contracts	Recorded outstanding debt[c]	No. of contracts	Recorded outstanding debt[c]	No. of contracts	Recorded outstanding debt[c]
		In NIS million		In NIS million		In NIS million
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	**144**	**15**	176	22	120	15
Construction & real estate - real estate activities	**46**	**15**	40	15	50	14
Financial services	**7**	**1**	12	1	5	-[e]
Commercial - other	**810**	**108**	733	104	540	78
Commercial - total	**1,007**	**139**	961	142	715	107
Private individuals - other	**1,850**	**54**	1,888	58	2,503	49
Less balances classified as held-for-sale assets[d]	**-**	**-**	-	-	(1,248)	(9)
Total loans to the public - activity in Israel	**2,857**	**193**	2,849	200	1,970	147
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	**1**	**-[e]**	1	-[e]	2	1
Commercial - other	**-**	**-**	1	-[e]	9	60
Commercial - total	**1**	**-**	2	-	11	61
Private individuals	**-**	**-**	-	-	2	1
Total public - foreign operations	**1**	**-**	2	-	13	62
Total - public	**2,858**	**193**	2,851	200	1,983	209

(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.

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 debts (cont.)

Outstanding end of period loan-to-value (LTV)[(b)], type of repayment and interest

		December 31 2020			
		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 million			
First pledge: LTV ratio	Up to 60%	**58,016**	**1,525**	**36,610**	**2,818**
	More than 60%	**32,366**	**611**	**20,923**	**409**
Unpledged secondary lien		**7**	**-**	**4**	**-**
Total		**90,389**	**2,136**	**57,537**	**3,227**

		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 million			
First pledge: LTV ratio	Up to 60%	54,809	1,771	35,258	2,270
	More than 60%	29,601	659	19,730	303
Unpledged secondary lien		11	-	9	-
Total		84,421	2,430	54,997	2,573

(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 facility on the date granted and the value of the asset, as approved by the Bank when granting the credit facility. The LTV ratio provides an additional indication of the Bank's risk assessment of a customer on granting a credit facility. 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 2020		
Maximum credit		Number of borrowers[c]	Loans[a]	Off balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS million	
From	To			
0	10	468,323	554	1,315
10	20	176,894	976	1,772
20	40	196,016	2,484	3,437
40	80	203,842	6,109	5,656
80	150	145,800	10,863	5,127
150	300	100,369	17,058	3,856
300	600	69,205	26,617	3,095
600	1,200	58,671	45,179	4,471
1,200	2,000	17,302	22,735	3,027
2,000	4,000	6,345	14,528	2,620
4,000	8,000	2,556	11,519	2,789
8,000	20,000	1,984	20,547	4,892
20,000	40,000	937	21,205	5,927
40,000	200,000	903	55,753	20,585
200,000	400,000	108	19,705	10,044
400,000	800,000	44	11,184	10,763
800,000	1,200,000	17	8,462	7,264
1,200,000	1,600,000	5	1,966	4,993
1,600,000	2,000,000	5	5,047	3,309
2,000,000	2,400,000	2	1,641	2,743
2,400,000	2,670,975	2	2,717	2,419
Total		1,449,330	306,849	110,104

Please see comments below.

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 (cont.)

Maximum credit		December 31 2019		
		Number of borrowers[c]	Loans[a]	Off balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS million	
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

(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 6,218 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.

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".

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

D. Off Balance-Sheet Financial Instruments

	December 31			
	2020		2019	
	Outstanding loan contracts(a)	Balance of loan loss provision	Outstanding loan contracts(a)	Balance of loan loss provision
	In NIS million			
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	**1,070**	**3**	729	2
Loan guarantees	**5,254**	**68**	5,293	74
Guarantees for apartment buyers	**20,141**	**18**	21,248	18
Guarantees and other commitments(b)	**17,171**	**172**	16,257	158
Unutilized credit card credit facilities	**15,670**	**15**	14,837	13
Unutilized current loan account facilities and other credit facilities in demand accounts	**12,841**	**28**	12,456	25
Irrevocable loan commitments approved but not yet granted[1]	**32,567**	**98**	28,655	81
Commitments to issue guarantees	**20,460**	**20**	16,723	15
Unutilized credit facilities for derivatives activity	**3,083**	**-**	2,921	-
Approval in principle to maintain interest rate(c)	**7,175**	**-**	4,778	-

1. Of which: Credit exposures in respect of an unutilized obligation to provide liquidity to securitization entities under the auspices of others as at December 31 2019 in the amount of NIS 207 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 421 million (as at December 31 2019, NIS 259 million).

(c) Liabilities to extend credit to customers in the framework of "Authorization in principle and preserving the interest rate" to Proper Conduct of Banking Business Directive No. 451, "Procedures for Extending Housing Loans".

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

e. Guarantees by repayment date

	As at December 31 2020				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS million				
Loan guarantees	3,590	1,225	153	286	5,254
Guarantees for apartment buyers	-	20,141	-	-	20,141
Guarantees and other commitments	10,198	4,929	957	1,087	17,171
Total guarantees	13,788	26,295	1,110	1,373	42,566

	As at December 31 2019				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS million				
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

The following collateral information reflects collaterals the Bank has received specifically against guarantees:
If the balance of cash available to the Bank to cover for losses realized under these guarantees and indemnities totaled NIS 347 million (as at December 31 2019 - NIS 319 million). In addition, the balance of securities and other tradable assets held as collateral, totaled NIS 11 million (as of December 31 2019 - NIS 13 million).

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

f. Sale and purchase of loans to the public

Credit risk from sold loans to the public

	For the year ended December 31									
	2020					2019				
	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 million									
Commercial - total	-	**175**	-	-	**1,268**	900	35	62	15	1,500
Private individuals - housing loans	-	-	-	-	**898**	-	-	-	-	1,043
Private individuals - other	-	-	-	-	-	-	-	-	-	-
Total risk for loans to the public	-	**175**	-	-	**2,166**	900	35	62	15	2,543

Purchased credit risk from loans to the public

	For the year ended December 31					
	2020			2019		
	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 million					
Commercial - total	**8,957**	-	-	9,419	-	-
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	**61**	-	-	70	-	-
Total credit risk arising from loans to the public	**9,018**	-	-	9,489	-	-

(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 derivatives.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

g. Syndications and Participation in Loan Syndications

	December 31 2020					
	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 million					
Commercial - total	**4,280**	**2,464**	**8,513**	**4,743**	**17,859**	**1,281**
Private individuals - housing loans	**2,505**	**166**	**2,522**	**166**	**91**	**-**
Private individuals - other	**1**	**-**	**1**	**-**	**289**	**-**
Total credit risk arising from loans to the public	**6,786**	**2,630**	**11,036**	**4,909**	**18,239**	**1,281**

	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 million					
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

(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 derivatives.

Note 31 - Assets and Liabilities by Linkage Basis

	December 31 2020						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Non-linked	CPI-linked	In US dollars	In EUR	In other currencies		
	In NIS million						
Assets							
Cash and deposits with banks	126,474	-	5,416	1,457	1,999	848	136,194
Securities	30,706	5,194	42,965	3,895	5,141	4,396	92,297
Securities borrowed or purchased under reverse repurchase agreements	584	-	1,554	1	880	-	3,019
Loans to the public, net[c]	211,311	43,202	31,124	3,377	5,403	924	295,341
Loans to the Israeli Government	9	-	613	10	-	-	632
Investments in associates	-	-	-	-	-	795	795
Buildings and equipment	-	-	-	-	-	2,932	2,932
Assets in respect of derivatives	6,008	12	3,004	807	464	4,957	15,252
Goodwill	-	-	-	-	-	15	15
Other assets	7,419	4	916	1	39	1,179	9,558
Total assets	382,511	48,412	85,592	9,548	13,926	16,046	556,035
Liabilities							
Deposits by the public	310,835	10,925	108,671	9,256	5,668	1,676	447,031
Deposits by banks	10,607	-	3,710	642	71	113	15,143
Deposits by the Israeli Government	115	-	84	9	-	-	208
Securities loaned or sold under repurchase agreements	354	-	251	-	-	-	605
Bonds, promissory notes and subordinated bonds	4,614	9,244	2,445	-	-	-	16,303
Liabilities for derivatives	7,006	178	3,172	1,159	892	4,908	17,315
Other liabilities	7,746	12,269	787	20	166	347	21,335
Total liabilities	341,277	32,616	119,120	11,086	6,797	7,044	517,940
Difference[d]	41,234	15,796	(33,528)	(1,538)	7,129	9,002	38,095
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(25,547)	(701)	32,704	1,052	(7,990)	482	-
In the money options, net (according to underlying asset)	658	-	(959)	236	65	-	-
Out of the money options, net (according to underlying asset)	(89)	-	(44)	102	19	12	-
Grand total	16,256	15,095	(1,827)	(148)	(777)	9,496	38,095
In the money options, net (discounted nominal value)	773	-	(1,109)	252	84	-	-
Out of the money options, net (discounted nominal value)	(756)	-	181	419	(82)	238	-

(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 5,290 million.
(d) Shareholders' equity including non-controlling interests.

Note 31 - Assets and Liabilities by Linkage Basis (cont.)

	December 31 2019						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Non-linked	CPI-linked	In US dollars	In EUR	In other currencies		
	In NIS million						
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	-	956[e]	-[e]	-[e]	-	1,117
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 in respect of 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	81,484	10,147	9,156	12,829	468,781
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	-	-[e]	-[e]	-[e]	11	123
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	105,019	10,187	5,703	5,366	432,907
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.
(e) Reclassified.

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)]

	December 31 2020			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	Over one year and up to two years
	In NIS million			
NIS (including foreign currency-linked)				
Assets[1]	175,498	23,167	39,140	36,393
Liabilities[2]	275,908	27,461	24,223	8,721
Difference	(100,410)	(4,294)	14,917	27,672
[1]Of which: Loans to the public	47,075	20,419	32,250	30,916
[2]Of which: Deposits by the public	266,578	23,162	21,357	6,954
Derivatives (excluding options)	(8,324)	(3,844)	(13,271)	(1,068)
Options (by underlying asset)	(300)	193	688	131
Difference after effect of derivatives	(109,034)	(7,945)	2,334	26,735
Foreign currency[(c)]				
Assets[1]	22,882	10,733	27,219	13,076
Liabilities[2]	100,749	13,186	16,954	2,107
Difference	(77,867)	(2,453)	10,265	10,969
[1]Of which: Loans to the public	10,859	4,585	8,428	5,208
[2]Of which: Deposits by the public	94,555	10,211	12,909	1,085
Of which: Difference in dollars	(71,155)	(5,170)	6,288	9,533
Of which: Difference in respect of foreign activity	(11,096)	1,407	4,009	3,595
Derivatives (excluding options)	8,324	3,844	13,271	1,068
Options (by underlying asset)	300	(193)	(688)	(131)
Difference after effect of derivatives	(69,243)	1,198	22,848	11,906
Total				
Assets[1]	198,380	33,900	66,359	49,469
Liabilities[2]	376,657	40,647	41,177	10,828
Difference[(g)]	(178,277)	(6,747)	25,182	38,641
[1]Of which: Loans to the public	57,934	25,004	40,678	36,124
[2]Of which: Deposits by the public	361,133	33,373	34,266	8,039

(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 provision.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 774 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 8.7 billion. Loans in excess of the credit facility, totaling NIS 0.8 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 6.0 billion.

							Carrying amount(d)		
Over 2 years and up to 3 years	Over three years and up to four years	Over four years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total cash flows	Without term to maturity(b)	Total	Cont-ractual rate of return(e)
									In %
33,695	24,057	19,753	55,439	49,571	17,668	474,381	2,783	432,080	3.02
15,201	5,432	4,101	4,838	5,607	4,898	376,390	1,828	375,661	1.39
18,494	18,625	15,652	50,601	43,964	12,770	97,991	955	56,419	
24,437	19,469	14,930	46,870	46,195	13,643	296,204	1,221	254,511	3.39
1,407	1,031	757	1,200	683	-	323,129	-	321,790	1.78
808	275	(812)	955	(286)	-	(25,567)	-	(25,805)	
1	-	-	-	-	-	713	-	713	
19,303	18,900	14,840	51,556	43,678	12,770	73,137	955	31,327	
8,660	5,485	4,711	16,524	6,719	6,859	122,868	1,242	112,866	2.42
1,522	644	505	8,139	157	80	144,043	59	140,143	2.04
7,138	4,841	4,206	8,385	6,562	6,779	(21,175)	1,183	(27,277)	
3,599	2,504	2,076	3,258	220	352	41,089	1,229	39,906	3.70
718	15	-	4,795	-	-	124,288	-	123,565	1.32
5,614	4,037	3,366	7,180	5,989	6,639	(27,679)	909	(33,231)	
2,508	1,845	2,046	(595)	799	1,822	6,340	53	4,604	
(808)	(275)	812	(955)	286	-	25,567	-	25,805	
(1)	-	-	-	-	-	(713)	-	(713)	
6,329	4,566	5,018	7,430	6,848	6,779	3,679	1,183	(2,185)	
42,355	29,542	24,464	71,963	56,290	24,527	597,249	4,025	544,946	2.90
16,723	6,076	4,606	12,977	5,764	4,978	520,433	1,887	515,804	1.57
25,632	23,466	19,858	58,986	50,526	19,549	76,816	2,138	29,142	
28,036	21,973	17,006	50,128	46,415	13,995	337,293	2,450	294,417	3.43
2,125	1,046	757	5,995	683	-	447,417	-	445,355	1.66

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)] (cont.)

	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)]	Over one year and up to two years
	In NIS million			
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]	22,102 [(h)]	9,007	20,564	18,434
Liabilities[2]	85,298[(h)]	15,791	20,191	1,770
Difference	(63,196)	(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 in respect of 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	(56,425)	(2,660)	8,641	17,221
Total				
Assets[1]	138,018	33,029	69,669	52,486
Liabilities[2]	293,558	33,861	56,308	13,927
Difference[(g)]	(155,540)	(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 provision.
(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.
(h) Reclassified.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 5.7 billion.

Over 2 years and up to 3 years	More than three years and up to four years	Over four years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total cash flows	Carrying amount(d) Without term to maturity(b)	Total	Contractual 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	111,875	2,194	103,836(h)	3.19
943	613	240	376	61	48	125,331	28	124,002(h)	1.64
7,637	5,890	4,086	12,796	5,329	3,749	(13,456)	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)	-	(185)(h)	
6,700	5,258	4,097	11,864	5,267	3,749	3,712	2,166	(2,544)	
35,027	26,426	20,024	62,409	49,483	19,637	506,208	4,907	459,645	3.11
7,069	4,521	5,493	8,730	6,101	5,823	435,391	1,126	431,178	1.48
27,958	21,905	14,531	53,679	43,382	13,814	70,817	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 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 non-interest 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 the outstanding loans to the public is measured according to the present value of the future cash flows discounted at an adequate discount rate. The outstanding loans were 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 debt 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 debts 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 debts 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:

Derivatives:

Derivatives with an active market were estimated at market value determined in the principal market. If the instrument is traded in several markets, fair value is estimated according to the most active market.

Derivatives not traded on an active market were measured using models used by the Bank in the ordinary course of business, which take into account the risks inherent in the financial instrument (market risk, credit risk, etc.).

	December 31 2020				
	Book	Fair value			
	balance	Level 1[a]	Level 2[a]	Level 3[a]	Total
	In NIS million				
Financial assets					
Cash and deposits with banks	136,194	127,710	6,938	1,581	136,229
Securities[b]	92,297	50,256	38,510	4,187	92,953
Securities borrowed or purchased under reverse repurchase agreements	3,019	3,019	-	-	3,019
Loans to the public, net	295,341	2,661	91,683	201,873	296,217
Loans to governments	632	-	24	589	613
Assets in respect of derivatives	15,252	2,644	10,841	1,767	15,252
Other financial assets	1,950	38	-	1,912	1,950
Total financial assets	544,685[c]	186,328	147,996	211,909	546,233
Financial liabilities					
Deposits by the public	447,031	3,473	337,410	105,878	446,761
Deposits by banks	15,143	113	6,034	8,929	15,076
Deposits from governments	208	-	94	122	216
Securities loaned or sold under repurchase agreements	605	605	-	-	605
Bonds, promissory notes and subordinated bonds	16,303	16,233	-	802	17,035
Liabilities for derivatives	17,315	2,631	14,445	239	17,315
Other financial liabilities	5,746	257	4,272	1,217	5,746
Total financial liabilities	502,351[c]	23,312	362,255	117,187	502,754
Off-balance-sheet financial instruments					
Transactions in which the balance embodies credit risk	301	-	-	301	301
In addition, liabilities in respect of employee benefits, gross - pension and severance pay[d]	20,491	-	203	20,288	20,491

(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 additional 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 144,975 million and NIS 309,860 million, respectively, the carrying 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 additional 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 2019				
	Book	Fair value			
	balance	Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	In NIS million				
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	1,117[(e)]	1,117[(e)]	-	-	1,117
Loans to the public, net	282,478	2,384	88,862	192,218	283,464
Loans to governments	744	-	11	759	770
Assets in respect of derivatives	10,970	2,146[(e)]	7,587[(e)]	1,237[(e)]	10,970
Other financial assets	2,009	47	-	1,961	2,008
Total financial assets	458,480[(c)]	123,334	136,395	200,198	459,927
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 from governments	315	-	236	87	323
Securities loaned or sold under repurchase agreements	123[(e)]	123[(e)]	-	-	123
Bonds, promissory notes and subordinated notes	19,958	20,041	-	828	20,869
Liabilities for derivatives	11,528	2,133[(e)]	9,100[(e)]	295	11,528
Other financial liabilities	5,052	100	4,348	607	5,055
Total financial liabilities	416,796[(c)]	25,834	290,441	100,136	416,411
Off-balance-sheet financial instruments					
Transactions in which the balance embodies credit risk	301	-	-	301	301
In addition, liabilities in respect of 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 additional 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 129,303 million and NIS 216,344 million, respectively, the carrying 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 additional 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.

Note 33B - Items Measured at Fair Value

A. Items Measured at Fair Value on a Recurring Basis

	December 31 2020			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS million			
Assets				
Available-for-sale bonds:				
Government of Israel bonds	29,809	4,979	33	34,821
Foreign governments' bonds	11,046	8,847	-	19,893
Bonds of Israeli financial institutions	-	69	-	69
Bonds of foreign financial institutions	-	8,861	-	8,861
Asset-backed (ABS) or mortgage-backed (MBS)bonds	-	4,440	2,556	6,996
Other Israeli bonds	105	115	-	220
Other foreign bonds	-	6,059	8	6,067
Total available-for-sale bonds	40,960	33,370	2,597	76,927
Equity securities and mutual funds not held-for-trading:				
Equity securities and mutual funds not held-for-trading	2,769	-	-	2,769
Held-for-trading securities:				
Government of Israel bonds	3,144	-	-	3,144
Foreign governments' bonds	223	-	-	223
Bonds of Israeli financial institutions	323	-	-	323
Bonds of foreign financial institutions	-	98	-	98
Asset-backed (ABS) or mortgage-backed (MBS)bonds	-	58	22	80
Other Israeli bonds	58	-	-	58
Other foreign bonds	-	44	2	46
Held-for-trading equity securities and mutual funds	61	-	-	61
Total held-for-trading securities	3,809	200	24	4,033
Assets in respect of derivatives:				
NIS-CPI contacts	-	144	148	292
Interest rate contracts	14	4,448	439	4,901
Foreign exchange rate contracts	-	3,553	1,158	4,711
Stock contracts	2,062	2,677	18	4,757
Commodity- and other contracts	149	19	4	172
MAOF (Israeli financial instruments and futures) market activity	419	-	-	419
Total assets in respect of derivatives	2,644	10,841	1,767	15,252
Other:				
Credit and deposits for loaned securities	3,567	-	-	3,567
Securities borrowed or purchased under reverse repurchase agreements	3,019	-	-	3,019
Other	38	-	-	38
Total - Other	6,624	-	-	6,624
Total assets	56,806	44,411	4,388	105,605

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2020			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS million			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	332	63	395
Interest rate contracts	14	5,288	-	5,302
Foreign exchange rate contracts	-	6,145	176	6,321
Stock contracts	2,050	2,657	-	4,707
Commodity- and other contracts	148	23	-	171
MAOF (Israeli financial instruments and futures) market activity	419	-	-	419
Total liabilities in respect of derivatives	2,631	14,445	239	17,315
Other:				
Deposits by the public	3,474	21	-	3,495
Securities loaned or sold under repurchase agreements	605	-	-	605
Other	257	-	-	257
Total - Other	4,336	21	-	4,357
Total liabilities	6,967	14,466	239	21,672

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 million			
Assets				
Available-for-sale bonds:				
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 bonds	42,877	27,936	1,455	72,268
Available-for-sale equity securities and funds:				
Equity securities and mutual funds	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 in respect of derivatives:(a)				
NIS-CPI contacts	-	127	82	209
Interest rate contracts	17	3,667	764	4,448
Foreign exchange rate contracts	-	1,942	379	2,321
Stock contracts	1,774	1,841	8	3,623
Commodity- and other contracts	30	10	4	44
MAOF (Israeli financial instruments and futures) market activity	325	-	-	325
Total assets in respect of derivatives	2,146	7,587	1,237	10,970
Other:				
Credit and deposits for loaned securities	3,564	-	-	3,564
Securities borrowed or purchased under reverse repurchase agreements	1,117 (a)	-	-	1,117
Other	47	-	-	47
Total - Other	4,728	-	-	4,728
Total assets	55,228	35,965	2,692	93,885

(a) Reclassified.

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 million			
Liabilities				
Liabilities for derivatives:[(a)]				
NIS-CPI contacts	-	265	38	303
Interest rate contracts	14	4,429	-	4,443
Foreign exchange rate contracts	-	2,547	257	2,804
Stock contracts	1,763	1,846	-	3,609
Commodity- and other contracts	30	13	-	43
MAOF (Israeli financial instruments and futures) market activity	326	-	-	326
Total liabilities in respect of derivatives	2,133	9,100	295	11,528
Other:				
Deposits by the public	3,437	44	6	3,487
Securities loaned or sold under repurchase agreements	123[(a)]	-	-	123
Other	100	-	-	100
Total - Other	3,660	44	6	3,710
Total liabilities	5,793	9,144	301	15,238

(a) Reclassified.

Note 33B - Items Measured at Fair Value (cont.)

B. Items Measured at Fair Value on a Non-Recurring Basis

	December 31 2020				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS million				
Impaired non-performing loans whose collection is collateral-dependent	-	-	737	737	(179)
Total	-	-	737	737	(179)

	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)[(a)]	Total fair value	Total profit (loss) from changes in value during the period[(a)]
	In NIS million				
Impaired non-performing loans whose collection is collateral-dependent	-	-	508	508	76
Total	-	-	508	508	76

(a) Restated.

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3

	For the year ended December 31 2020										
	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 issuances	Sales	Discharges	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from level 3[(c)]	Fair value as at December 31 2020	Unrealized gains (losses) for instruments held as at December 31 2020
	In NIS million										
Assets											
Available-for-sale bonds:											
Government of Israel	-	(1)	-	-	-	-	-	34	-	33	2
Foreign financial institutions	-	-	-	7	-	-	-	-	(7)	-	-
MBS/ABS	1,455	(39)	8	1,323	(70)	(565)	-	444	-	2,556	5
Others - abroad	-	(1)	-	-	-	-	-	9	-	8	-
Total available-for-sale bonds	1,455	(41)	8	1,330	(70)	(565)	-	487	(7)	2,597	7
held-for-trading bonds:											
MBS/ABS	-	-	-	-	-	-	-	22	-	22	-
Others - abroad	-	-	-	-	-	-	-	2	-	2	-
Total held-for-trading bonds:	-	-	-	-	-	-	-	24	-	24	-
Assets in respect of derivatives:											
NIS-CPI contacts	82	22	-	-	-	-	-	44	-	148	11
Interest rate contracts	764	(116)	-	-	-	(209)	-	-	-	439	(319)
Foreign exchange rate contracts	379	(122)	-	901	-	-	-	-	-	1,158	878
Stock contracts	8	10	-	-	-	-	-	-	-	18	12
Commodity- and other contracts	4	-	-	-	-	-	-	-	-	4	4
Total assets in respect of derivatives	1,237	(206)	-	901	-	(209)	-	44	-	1,767	586
Total assets	2,692	(247)	8	2,231	(70)	(774)	-	555	(7)	4,388	593
Liabilities											
Liabilities for derivatives:											
NIS-CPI contacts	38	(31)	-	-	-	-	-	56	-	63	-
Foreign exchange rate contracts	257	(81)	-	-	-	-	-	-	-	176	-
Total liabilities in respect of derivatives	295	(112)	-	-	-	-	-	56	-	239	-
Total - other	6	(6)	-	-	-	-	-	-	-	-	-
Total liabilities	301	(118)	-	-	-	-	-	56	-	239	-

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income line 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 more than 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 2019										
		Realized/ unrealized gains (losses), net, including:									
	Fair value as at the beginning of year	In the income statement[(a)]	In other comprehensive income[(b)]	Purchases and issuances	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 million										
Assets											
Available-for-sale bonds:											
MBS/ABS	2,821	(144)	31	308	(315)	(234)	-	-	(1,012)	1,455	(4)
Assets in respect of derivatives:											
NIS-CPI contacts	149	(80)	-	-	-	-	-	18	(5)	82	(25)
Interest rate contracts	142	728[(d)]	-	-	-	(106)	-	-	-	764	618
Foreign exchange rate contracts	971	(1,122)[(d)]	-	530	-	-	-	-	-	379	229
Stock contracts	937	(929)	-	-	-	-	-	-	-	8	2
Commodity- and other contracts	19	(15)	-	-	-	-	-	-	-	4	(2)
Total assets in respect of derivatives	2,218	(1,418)	-	530	-	(106)	-	18	(5)	1,237	822
Total assets	5,039	(1,562)	31	838	(315)	(340)	-	18	(1,017)	2,692	818
Liabilities											
Liabilities for derivatives:											
NIS-CPI contacts	109	(37)	-	-	-	-	-	35	(69)	38	12
Foreign exchange rate contracts	128	129	-	-	-	-	-	-	-	257	-
Total liabilities in respect of derivatives	237	92	-	-	-	-	-	35	(69)	295	12
Total - other	3	3	-	-	-	-	-	-	-	6	3
Total liabilities	240	95	-	-	-	-	-	35	(69)	301	15

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income line 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.
(d) Reclassified.

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 2020		
	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]					
Government of Israel bonds	33	Discounted cash flows	Spread	205 bp	205 bp
			Probability of default	1.68%	1.68%
			% of loss	25%	25%
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,556	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%
Others - abroad	8	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30%	30%
Held-for-trading securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	22	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%
Others - abroad	2	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30%	30%
Assets for derivatives[2]					
NIS-CPI interest contracts	90	Discounted cash flows	Expected inflation	0%-0.24%	0.12%
	58	Discounted cash flows	Counterparty risk	0.19%-100%[*]	1.54%
Interest rate contracts	439	Discounted cash flows	Counterparty risk	0.19%-100%[*]	1.54%
Foreign exchange rate contracts	1,158	Discounted cash flows	Counterparty risk	0.19%-100%[*]	1.54%
Stock contracts	18	Discounted cash flows	Counterparty risk	0.19%-100%[*]	1.54%
Commodity contracts	4	Discounted cash flows	Counterparty risk	0.19%-100%[*]	1.54%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	63	Discounted cash flows	Expected inflation	0%-0.24%	0.12%
Foreign exchange rate contracts	176	Discounted cash flows	Expected inflation	0%-0.24%	0.12%
b. Items measured at fair value on a non-recurring basis					
Impaired non-performing loans whose collection is collateral-dependent	737	Collateral's fair value			

Please see comments below.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	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	764[a]	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%
	297[a]	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 loans whose collection is collateral-dependent	508[b]	Collateral's fair value			

(a) Reclassified.
(b) Restated.

* For a defaulted counterparty.

Qualitative Information on Fair Value Measurement in Level 3

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 2020			
	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 million			
Assets:				
Deposits with banks	-	-	-	-
Securities[(e)]	-	-	-	-
Loans to the public	228	380	5	7
Loan loss provision	-	-	-	-
Loans to the public, net	228	380	5	7
Investments in associates[(e)]	-	-	-	-
Other assets	5	7	-	-
Liabilities:				
Deposits by the public	193	193	16	21
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	4	4	-	-
Credit risk in off-balance sheet items[(g)]	15	18	2	2

(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) Additional details about these items are also included in Note 12 and Note 15.
(f) As at December 31 2020, interested parties' holdings in the Bank's share capital amounted to NIS 357,837,110 par value of Bank's shares (of which officers: NIS 773,093 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 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. "Other shareholders" as at December 31 2020, including through entities held by them, are Altshuler Shaham Ltd. (as of December 19 2017), which holds - to the best of the Bank's knowledge - 5.08 percent of the Bank's equity; The Phoenix Holdings Ltd. and Excellence Investments Ltd. (as of August 28 2019) - 7.32 percent of equity; Harel Investments in Insurance and Financial Services Ltd. (as of March 12 2020) - 6.52 percent of equity; and Meitav Dash Investments Ltd. (as of June 4 2020) - 5.95 percent of equity.

				Related parties[h]					
				Held by the Bank				Other[c]	
Other[b]		Interested parties as of the transaction date		Unconsolidated subsidiaries		Associates[i]			
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]
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	548	548
1,146	1,146	-	1	-	-	678	841	161	165
-	-	-	-	-	-	(50)	-	-	-
1,146	1,146	-	1	-	-	628	841	161	165
-	-	-	-	-	-	795	801	-	-
17	17	-	-	-	-	3	3	3	3
480	480	-	13	5	5	464	464	108	108
-	-	-	-	-	-	12	19	-	-
-	-	-	-	-	-	-	-	-	-
1	1	-	-	-	-	2	3	2	4
88	102	-	1	-	-	183	183	84	84

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

A. Balances (cont.)

	December 31 2019			
	Interested parties[f][h]			
	Other shareholders[j][k]		Officers[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS million			
Assets:				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	275	309	7	8
Loan loss provision	-	-	-	-
Loans to the public, net	275	309	7	8
Investments in associates[e]	-	-	-	-
Other assets	2	8	1	1
Liabilities:				
Deposits by the public	57	59	31	40
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	2	5	-	-
Credit risk in off-balance sheet items[g]	7	41	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) Additional details about these items are also included in 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 Bank's share capital).
(k) Restated.

				Related parties[h]					
				Held by the Bank				Other[c]	
Other[b][k]		Interested parties as of the transaction date		Unconsolidated subsidiaries		Associates[i]			
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
890	918	-	-	-	-	747	834	101	110
-	-	-	-	-	-	-	-	-	-
890	918	-	-	-	-	747	834	101	110
-	-	-	-	-	-	765	765	-	-
-	1	-	-	-	-	-	1	1	1
59	91	-	2	5	5	223	223	12	59
-	1	-	-	-	-	13	19	-	-
1	1	-	-	-	-	-	-	-	-
-	1	-	-	-	-	3	4	-	-
43	55	-	-	-	-	85	91	25	70

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 2020					
	Interested parties(f)			Related parties(f)		
				Held by the Bank		Other(c)
	Other share-holders(h)	Officers(a)	Other(b)	Unconso-lidated subsi-diaries	Asso-ciates or jointly controlled inves-tees(g)	
	In NIS million					
Interest income, net(d)	8	-	23	-	21	6
Loan loss provision	-	-	-	-	(50)	-
Noninterest income (expense)	1	-	20	-	4	3
Of which: Management and service fees	1	-	2	-	2	1
Operating and other expenses(e)	-	(65)	(14)	-	(18)	(47)
Total	9	(65)	29	-	(43)	(38)

	For the year ended December 31 2019					
	Interested parties(f)			Related parties(f)		
				Held by the Bank		Other(c)
	Other share-holders(h)(i)	Officers(a)	Other(b)(i)	Uncon-solidated subsi-diaries	Asso-ciates or jointly controlled inves-tees(g)	
	In NIS million					
Interest income, net(d)	5	-	21	-	21	1
Noninterest income (expense)	-	-	-	-	3	2
Of which: Management and service fees	-	-	1	-	2	1
Operating and other expenses(e)	(4)	(79)	(25)	-	(14)	(52)
Total	1	(79)	(4)	-	10	(49)

(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) Additional information in Section D below.
(e) Additional 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.
(i) Restated.

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 2018					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Officers[a]	Other[b]	Uncon-solidated subsi-diaries	Asso-ciates or jointly controlled inves-tees[g]	
	In NIS million					
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) Additional information in Section D below.

(e) Additional 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					
	2020		2019		2018	
	Officers					
	Benefits - total	No. of benefit recipients	Benefits - total	No. of benefit recipients	Benefits - total	No. of benefit recipients
	In NIS million		In NIS million		In NIS million	
Interested party employed in the corporation or on its behalf[(a)(b)(c)]	**51**	**20**	65	20	44	20
Director not employed in the corporation or on its behalf[(a)]	**7**	**11**	8	12	8	13

(a) Excluding payroll tax expenses.
(b) Of which: Short-term employee benefits NIS 32 million and post-employment benefit NIS 19 million. (2019 – short term employee benefits - 48 million, post-employment benefits - NIS 15 million, 2018 - short term employee benefits - NIS 44 million).
(c) In 2020, expenses for stock-based totaled less than NIS 1 million (in 2019, expenses in respect of stock-based compensation were less than NIS 1.7 billion, 2018 - expenses for stock-based payments were less than NIS 1 million).

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 5.857 million (2019 – NIS 5,099 thousand, 2018 – NIS 4,657 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					
	2020		2019		2018	
	Conso-lidated	Of which: Asso-ciates	Conso-lidated[(a)]	Of which: Asso-ciates	Conso-lidated	Of which: Asso-ciates
	In NIS million					
(a) For assets						
From loans to the public	**59**	**22**	48	21	34	20
(b) For liabilities						
For deposits by the public	**(1)**	**(1)**	-	-	(1)	-
Total interest income, net	**58**	**21**	48	21	33	20

(a) Restated.

E. Information Relating to 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		
	2020	2019	2018
	In NIS million		
Interest income	**9,028**	10,069	9,626
Interest expenses	**1,359**	2,328	2,199
Interest income, net	**7,669**	7,741	7,427
Loan loss expenses	**2,270**	519	310
Interest income, net after loan loss expenses	**5,399**	7,222	7,117
Noninterest income			
Noninterest finance income	**963**	1,577[(a)]	399
Fees and commissions	**2,955**	2,889	2,950
Other income	**17**	147	46
Total noninterest income	**3,935**	4,613	3,395
Operating and other expenses			
Salaries and related expenses	**3,191**	3,748	3,612
Buildings and equipment - maintenance and depreciation	**1,351**	1,338	1,309
Other expenses	**1,575**	1,848	1,673
Total operating and other expenses	**6,117**	6,934	6,594
Net income before taxes	**3,217**	4,901	3,918
Provision for profit tax	**1,281**	1,712[(a)]	1,371
Profit after taxes	**1,936**	3,189	2,547
Bank's share in investees' net profits, after tax	**166**	333[(a)]	710
Net income	**2,102**	3,522	3,257

(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	
	2020	2019
	In NIS million	
Assets		
Cash and deposits with banks	136,572	77,603
Securities	83,883	78,810
Securities borrowed or purchased under reverse repurchase agreements	3,019	1,117[(a)]
Loans to the public	277,550	261,607
Loan loss provision	(4,842)	(3,053)
Loans to the public, net	272,708	258,554
Loans to governments	632	744
Investments in investees	10,817	11,968
Buildings and equipment	2,749	2,805
Assets in respect of derivatives	15,086	10,897
Other assets	7,322	6,495
Total assets	532,788	448,993
Liabilities and equity		
Deposits by the public	425,661	355,203
Deposits by banks	15,077	6,115
Deposits from governments	193	184
Securities loaned or sold under repurchase agreements	354	123[(a)]
Bonds, promissory notes and subordinated bonds	16,303	19,958
Liabilities for derivatives	17,156	11,431
Other liabilities	20,380	20,573
Total liabilities	495,124	413,587
Shareholders' equity	37,664	35,406
Total liabilities and equity	532,788	448,993

(a) Reclassified.

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Cash flows from operating activities			
Net income for the year	**2,102**	3,522	3,257
Adjustments:			
Bank's share in undistributed net profits of investees net of dividend received	**48**	(123)	(581)
Other, net	**3,086**	2,844[a]	(1,351)
Net cash provided by operating activities	**5,236**	6,243	1,325
Cash flows from investing activities			
Purchase of investees' shares	**(16)**	(28)	(19)
Central severance pay fund	**135**	157	250
Other	**(21,385)**	(18,743)[a]	(8,496)[a]
Net cash for investing activities	**(21,266)**	(18,614)	(8,265)
Cash flow from financing activities			
Proceeds from issue of bonds and subordinated bonds	**4,986**	3,152	2,114
Redemption of bonds and subordinated bonds	**(8,248)**	(958)	(32)
Dividend paid to shareholders	**(297)**	(1,387)	(1,369)
Proceeds from disposal of investments in consolidated companies without loss of control	**-**	-	512
Share buyback	**(250)**	(700)	(700)
Other	**79,807**	13,272[a]	1,863[a]
Net cash from financing activities	**75,998**	13,379	2,388
Increase (decrease) in cash and cash equivalents	**59,968**	1,008	(4,552)
Cash balance as at the beginning of the year	**72,865**	72,539	76,691
Effect of exchange rate fluctuations on cash and cash equivalent balances	**(1,266)**	(682)	400
Balance of cash and cash equivalents at the end of the year	**131,567**	72,865	72,539

Interest and taxes paid and/or received and dividends received

	For the year ended		
	2020	2019	2018
	In NIS million		
Interest received	**9,512**	9,852	9,005
Interest paid	**(2,356)**	(3,106)	(2,438)
Dividends received	**222**	221	134
Income tax paid	**(1,633)**	(2,190)[a]	(1,141)[a]
Income tax received	**221**	9[a]	296[a]

(a) Reclassified.

Note 36 - Other Topics

A. IT and Operational Services Agreement with Union Bank of Israel Ltd.

The Bank arrived at an understanding with Union Bank of Israel Ltd. on the extension of the engagement term for IT and Operational Services Agreement (hereinafter: the "Agreement"), altering some of the terms and conditions of the engagement.

In this framework, it was agreed, inter alia, that subject to, and in accordance with the terms and conditions detailed in writing in the addendum to the Agreement (hereinafter: the "Addendum"), the validity of the Agreement will be extended until December 31 2022.

The scope of the ongoing services and the service level provided by Leumi according to the Addendum will be the same as the ongoing services and the service level which were provided to Union Bank as of December 31 2016, and Leumi will provide Union Bank with ongoing services in the Addendum term according to the "follow me" principle. In addition, an adjustment was made to the consideration paid in the framework of the agreement.

B. The effects of the coronavirus spread

The spread of the coronavirus began in January 2020, and started to impact most world countries during the first quarter of 2020; lately, the virus is spreading more quickly due to the onset of various mutations. Most governments impose temporary lockdowns, temporary and prolonged disruptions of significant parts of the economic activity and take care of those who contracted the disease, while significantly increasing the costs incurred for taking care of citizens and businesses whose work was disrupted. Central banks across the world use a variety of tools to support economic activity, beyond reducing interest rates.

The coronavirus crisis is a significant ongoing event which is disrupting business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact. The ramifications of the crisis for the global and domestic economies are substantial, with a significant decrease in gross world product in 2020 and early 2021; as a result, there may be a material effect on the Bank's business.

As long as a wide-ranging administering of an effective vaccine or a simple and effective medication has not been achieved, keeping the virus under control will require adhering to social distancing rules, including lockdowns, which continue to disrupt orderly economic activity, with the end of the crisis still nowhere in sight. In the absence of efficient steps to control morbidity, the economic aspects of the coronavirus could linger in the foreseeable future.

In order to provide a solution to the current needs and enable business continuity even in prolonged states of emergency, key Leumi units transitioned to a new work mode, which combines work from home, physical separation of organic units and pods. Work and control processes were adjusted. In order to ensure that the exposure remains within the boundaries of the risk tolerance, business, procedural and automated controls were set up to hedge the risks. Since the work format is dynamic and changes from time to time, the work processes are continuously assessed as are their compliance with the risk tolerance.

In the wake of the coronavirus crisis, the Banking Supervision Department decided (in a letter dated March 29 2020), to reduce the minimum regulatory capital adequacy requirements. Subsequently, the Bank's Board of Directors decided on April 16 2020 to establish that the internal Common Equity Tier 1 capital ratio threshold will be 9.5 percent in lieu of the previous 10.5 percent and that the Bank will discontinue, at this stage, the dividend distribution and the continuation of the Bank's share buyback plans.

In addition, due to the increase in risk levels, emphases in credit granting during the crisis period were pinpointed and ongoing monitoring and follow up of risk focal points and market developments are conducted in order to prepare in advance and adapt the activity, as needed.

Note 36 - Other Topics (cont.)

In addition, the Bank is examining ways to provide assistance to customers who are in temporary crisis and who, according to the Bank's assessment, will overcome it. In this context, the effects of the crisis are taken into account and the customers are thoroughly scrutinized. Due to the crisis, loan loss expenses increased, totaling NIS 2,552 million in 2020. Most of the increase is in the collective loan loss provision. The loan loss provision of the Bank reflects the Bank's estimates. The provision is an estimate based on significant judgment exercised during the reporting period in a changing environment characterized by unusual uncertainty.

Due to the spread of the coronavirus, there was an increase in the risk factors in financial markets and substantial declines were recorded in equity markets and marketable credit, and significant fluctuations were in the risk-free interest curves and exchange rates. Beginning in the second quarter of the year, market volatility subsided and equity markets recovered. However, uncertainty still prevails in the markets, and volatility in financial markets may persist.

During the fourth quarter, there was no material change in the liquidity coverage ratio. Throughout the reviewed period, the LCR in foreign exchange and across all currencies was higher than the regulatory requirement.

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)

Mr. Avi Bzura(d)

Dr. Shmuel (Muli) Ben Zvi(e)

Mr. Yoram Gabbay(b)

Ms. Tamar Gottlieb(b)

Ms. Esther Dominissini(f)

Mr. Ohad Marani(e)

Prof. Yedidia Stern(e)(f)

Ms. Irit Shlomi

(a) Dr. Samer Haj Yehia, Chairman of the Board of the Bank, was re-elected director with the status of "Other Director" (a director who is not an external director as prescribed in Section 11D(a)(2) to the Banking Ordinance, 1941 (hereinafter: "**Director with the Status of Other Director**") in an annual general meeting of the Bank held on September 10 2020, commencing a third and last term of office on October 28 2020, after having received the Banking Supervision Department's non-objection to his appointment as director with the status of Other Director and Chairman of the Board.

(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 Banking Supervision Department's notice of non-objection to said appointment.

(d) Mr. Avi Bzura was elected director with the status of Other Director by the Bank's annual general meeting held on September 10 2020, commencing a first term of office on November 9 2020 after having received the Banking Supervision Department's notice of non-objection to his appointment as aforesaid.

(e) External director pursuant to the provisions of Proper Conduct of Banking Business Directive No. 301 (hereinafter - "External Director").

(f) Ms. Esther Dominissini was re-elected 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 Banking Supervision Department's notice of non-objection to said appointment.

(g) Prof. Yedidia Stern was elected external director by the Bank's annual general meeting held on September 10 2020, commencing his term of office on November 22 2020, after having received the Banking Supervision Department's notice of non-objection to his appointment as aforesaid. It should be noted that Prof. Stern served as External Director of the Bank for two terms, from October 30 2012 to October 29 2018. For more information, please see the immediate report regarding summons to annual general meeting dated August 5 2020 (Ref. No.: 2020-01-084459) and a complementary report to the meeting summons published on August 13 2020 (Ref. No.: 2020-01-078268).

* On November 21 2020, Ms. Z. Samet ended her third and last term as external director who and also meets the terms of qualifications for ED, under an individual arrangement (for more information, please see Section 1.4.2 to the General Meeting Summons Report published by the Bank on September 28 2017 (Ref. No. 2017-01-086014).

** 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 2020 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 10 members.

Pursuant to Proper Conduct of Banking Business Directive ("Directive 301"), at least one third of the Board members 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 3 EDs 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, the Bank has 4 board members who are classified as external directors, of which 3 are EDs. It should be noted that on July 22 2020, the Bank's Board of Directors approved the split of the Compensation Committee from the Audit Committee.

Pursuant to the revised Directive 301, published on July 5 2017, the following changes were made to the qualification requirements of the Board members, became effective on July 1 2020: 1) The mandatory portion of directors with experience in banking increased 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 is required to have proven knowledge and experience in information technology.

As of the reporting date and publication date: 1) The Bank has 4 directors defined as having "banking experience", i.e., Dr. Samer Haj Yehia, Tamar Gottlieb, Avi Bzura and Irit Shlomi; 2) All members of the Board of Directors are defined as being "professionally eligible"; 3) The Bank's Board of Directors includes one director classified by the Board as having proven knowledge and experience in information technology - Dr. Samer Haj Yehia.

Changes in the Board of Directors

During 2020, there were changes in the composition of the Board of Directors as specified below.

Under the amendment to Proper Conduct of Banking Business Directive No. 301, published on July 5 2017 (hereinafter: "**Directive 301**"), the maximum number of members on the Board of Directors of banking corporations is to be reduced to 10 by July 1 2020. Accordingly, as of the date of this report and its publication date, the Board of Directors has 10 members.

Annual general meeting and election of directors

On April 26 2020, the Bank published a preliminary notice regarding a plan to convene an annual general meeting of the Bank's shareholders to discuss several topics, including the appointment of one external director in accordance with Directive No. 301 (hereinafter: "**External Director**") of the Banking Supervision Department, and two directors with the status of "Other Director" - a member of the Board who is not an external director pursuant to Section 11D(a)(2) to the Banking Ordinance, 1941 (hereinafter: the "**Banking Ordinance**", "**Director with the Status of Other Director**"). For more information, please see the immediate report published by the Bank on April 26 2020 (Ref. No. 2020-01-041766) (hereinafter: the "**Preliminary Notice**").

Pursuant to the Preliminary Notice published by the Bank as aforesaid and in accordance with Sections 11D(a)(1), (2) and (3) to the Banking Ordinance, 1941, on May 18 2020 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 included a list of candidates to serve as the Bank's directors for election in the Bank's 2020 annual general meeting (for more information, please see the immediate report issued by the Bank on May 19 2020 (Ref. No. 2020-01-049725) (hereinafter: the "**Notice Issued by the Committee for the Appointment of Directors**").

On August 5 2020, the Bank published a summons to an annual general meeting to be convened on September 10 2020, with the following items on its agenda: (1) Discussion of the annual financial statements; (2) Appointment of independent auditors and authorization to set their fees; (3) Appointment of two directors with the status of "Other Director"; (4) Appointment of one External Director (Ref. No. 2020-01-084459) (hereinafter: the "**Meeting Summons**"). On August 13 2020, the Bank published a complementary report to the Meeting Summons (Ref. No. 2020-01-078268).

In the Bank's 2020 annual general meeting held on September 10 2020, the following resolutions were made: (1) To reappoint the auditing firms Somekh Chaikin (KPMG) and Brightman Almagor Zohar & Co. (Deloitte) as the Bank's joint independent auditors for the period starting on the date of approval of the current annual general meeting through the end of the Bank's next annual general meeting and to authorize the Bank's Board of Directors to set their fees; (2) To appoint Mr. Avi Bzura as a director having the status of "Other Director" for a 3-year period upon and subject to the approval or non-objection of the Banking Supervision Department; (3) To appoint Dr. Samer Haj Yehia as a director having the status of "Other Director" for a 3-year period upon and subject to the approval or non-objection of the Banking Supervision Department, but not before October 30 2020 (after the end of his second tenure); and (4) To appoint Prof. Yedidia (Zvi) Stern as an External Director for a 3-year period upon and subject to the approval or non-objection of the Banking Supervision Department, but not before November 22, 2020, after the end of Ms. Zipora Samet's third and last tenure.

For more information, please see the immediate report published by the Bank regarding the results of the annual general meeting of the Bank dated September 10 2020 (Ref. No. 2020-01-090973).

On October 29 2020, Dr. Samer Haj Yehia, Chairman of the Board of Directors of the Bank, had ended his second term as director with the status of "Other Director". Dr. Samer Haj Yehia was elected to a further term as director with the status of Other Director by the Bank's 2020 annual general meeting, as outlined below. On October 28 2020, the Bank received the Banking Supervision Department's notice of non-objection to Dr. Samer Haj Yehia's additional tenure as an "Other Director" and Chairman of the Board. Accordingly, on October 30 2020, Dr. Samer Haj Yehia began his third and last tenure as Other Director in the Bank.

On November 4 2020, a notice was received regarding the Banking Supervision Department's non-objection to the appointment of Mr. Avi Bzura as Other Director in the Bank, subject to the terms outlined in the approval. Accordingly, on November 9 2020, Mr. Avi Bzura began his first tenure as a director with the status of Other Director in the Bank. For more information, please see the immediate report dated November 9 2020 (Ref. No. 2020-01-111469).

On November 21 2020, Ms. Zipora Samet ended her third and last term as external director in accordance with Proper Conduct of Banking Business Directive No. 301; Ms. Samet also complies with the qualifications of an External Director, in accordance with the provisions of the Companies Law, 1999. (hereinafter: the "Companies Law", "ED", respectively).

On November 22 2020, a notice was received regarding the Banking Supervision Department's non-objection to the appointment of Prof. Stern as External Director in the Bank, subject to the terms outlined in the approval. On November 22 2020, Prof. Stern commenced his term of office as External Director in the Bank. For more information, please see the immediate report dated November 22 2020 (Ref. No. 2020-01-116770).

On February 24 2021, the Bank published a preliminary notice regarding the intention to summon an annual general meeting of the Bank's shareholders to discuss several topics, including the appointment of two external directors in accordance with the requirements of the Companies Law and appointment of two external directors in accordance with Directive No. 301. For more information, please see the immediate report published by the Bank on May 24 2021 (Ref. No. 2021-01-022431).

For more information about updates to Directive 301 regarding the Board of Directors, please see under "Members of the Board of Directors".

[1] 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.

Members of the Bank's Management and their Roles

Mr. Hanan Friedman, Adv.
President and Chief Executive Officer

Mr. Ronen Agassi, CPA[(1)]
First Executive Vice President, Head of Corporate Division

Mr. Shmulik Arbel[(1)]
First Executive Vice President, Head of Banking Division

Mr. Eyal Ben Haim
First Executive Vice President, Head of Operations Division

Ms. Bosmat Ben-Zvi, CPA[(1)]
First Executive Vice President, Head of Capital Markets Division

Mr. Shlomo Goldfarb, CPA[(1)]
First Executive Vice President, Chief Accounting Officer and Head of the Accounting Division

Mr. Omer Ziv, CPA[(1)]
First Executive Vice President, Head of the Finance Division

Mr. Uri Yonissi, CPA[(1)]
First Executive Vice President, Head of Customer Relations Division

Ms. Hilla Eran-Zick[(1)]
First Executive Vice President, Head of Human Resources Division

Ms. Mor Fingerer, Adv.[(1)]
First Executive Vice President, Chief Legal Counsel, Head of Legal Counsel Division and Head of Legal Risk

Ms. Liat Shuv, CPA[(1)]
First Executive Vice President, Chief Risk Officer, Head of the Risk Management Division

Mr. Jaime Schcolnik[(1)]
First Executive Vice President, Head of Leumi Technologies Division

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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.[(1)]
Secretary of the Bank and the Group

Somekh Chaikin
Brightman Almagor Zohar & Co.
The Bank’s Joint Independent Auditors

(1) For information regarding changes in the Bank’s management and senior officers during 2020, please see the section entitled “Appointments and Retirements”. For more information regarding members of the Bank’s management, please see the Bank’s 2020 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

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, and Leumi’s Internal Audit Division oversees their professional activity according to the requirements of the Banking Supervision Department and subject to local laws.

The Chief Internal Auditor and team of auditors in the Leumi Group in Israel comprise, on annual average, 82.3 positions for 2020, as outlined below.

	Average number of auditor positions in the Leumi Group in Israel:
The Bank	76.9
Subsidiaries in Israel	2.4
Supervision and control over foreign subsidiaries	3.0
Total	82.3*

* Of which 1.3 positions, on average, are on maternity leave or unpaid leave.

In addition, 4.8 positions are outsourced.
Furthermore, foreign subsidiaries employ local auditors in 11.5 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 2020 to the Chief Internal Auditor in NIS thousands

2020					
% of the Bank's	Compensation for services			Other compensatio	
	Salaries	Bonuses**	Social benefit	Benefit value	Total*
	(in NIS)				
-	1,227	-	599	106	1,932

* Excluding salary tax.
** Please see note 23E to the 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 Chief 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 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.

Once the coronavirus crisis erupted, the Internal Audit Division adjusted its activity and work processes. Immediately following the first wave, the Internal Audit Division revised its work plan according to the risks embodied in the period, and the Internal Audit Division was back to full working mode. The revised plan was approved by the Audit Committee on May 20 2020 and approved by the Board of Directors on June 3 2020.

The Internal Auditor’s report for the first half of 2020 was submitted to the Audit Committee on August 3 2020 and was discussed by the Committee on August 6 2020; the report was submitted to the Board of Directors on August 27 2020.

The Internal Audit Division’s report for the second half of 2020 was submitted to the Audit Committee on January 25 2021 and was discussed by the Committee on February 1 2021; the report shall be submitted to the Board of Directors on February 24 2021.

The Internal Auditor’s annual report for 2020 will be submitted to the Audit Committee on March 8 2021, will be discussed by the Audit Committee on March 15 2021, and will be discussed by the Board of Directors on March 22 2021.

The Internal Audit Division's work plan for 2021 was submitted to the Audit Committee on December 17 2020 and approved by the Committee on December 23 2020; the plan was submitted to the Board of Directors on December 31 2020 and was approved by the Board on January 13 2021.

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	
	2020	2019	**2020**	2019
	In NIS thousands			
For audit work:(d)				
Joint independent auditors	**20,461**	19,596	**12,162**	10,219
Other independent auditors	**206**	196	**-**	-
Total	**20,667**	19,792	**12,162**	10,219
For audit-related services(f)				
Joint independent auditors	**599**	2,665	**322**	2,378
For tax services:(e)				
Joint independent auditors	**2,223**	2,345	**315**	463
Other independent auditors	**51**	55	**-**	-
For other services:				
Joint independent auditors	**5,901**	5,985	**5,237**	5,120
Other independent auditors	**491**	409	**-**	-
Total	**9,265**	11,459	**5,874**	7,961
Independent auditors' fees - total	**29,932**	31,251	**18,036**	18,180

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. Accountancy firm Somekh Chaikin (KPMG) has served as joint independent auditors of the Bank since 1950 and accountancy firm Brightman Almagor Zohar (Deloitte) serves as joint independent auditors since 2020. From 2003 to 2019, Kost Forer Gabbay & Kasierer (EY) served as joint independent auditors of the Bank.

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 went into effect as of the beginning of 2020 and will be in force until 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 efficiency ratio 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 the Board members, 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 Compensation 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 Compensation 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 when, in the opinion of the Remuneration Committee and the Board of Directors, they are justified under the circumstances on revision date.

Thus, for example, according to the Compensation Policy, the Compensation 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 officeholders such that the total compensation amount to officeholders (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. According to the Compensation Policy, the compensation of any of the officers at the Bank which will exceed, according to a decision by the Compensation Committee and Board of Directors 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 23B.2 and 23B.3.

Compensation of Senior Officers

For the year ended December 31 2020

Set forth below is a breakdown of the benefits and amounts paid or provided for in 2020 and 2019 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 and commissions 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.

2020							
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)				
Dr. Samer Haj Yehia[6]	Chairman of the Board	-	2,717	-	479	116	3,312
Mr. Hanan Friedman[7]	President & CEO	-	2,766	-	487	67	3,320
Mr. Avner Mendelson	CEO of Bank Leumi USA	-	2,572	2,443	550	192	5,757
Mr. Dave Paulson	Head of Commercial Banking at Bank Leumi USA	-	1,447	1,945	99	161	3,652
Raja Dakkuri, CFO and COO Bank Leumi USA	CFO and VP Operations at Bank Leumi USA	-	1,447	1,784	244	-	3,475
Dr. Avi Ortal	CEO of Leumi Partners	-	1,341	1,266	434	125	3,166
Mr. Eliav Ben David	CEO of Leumi Partners Underwriters	-	768	1,972	225	51	3,016
Mr. Omer Ziv[9]	First Executive Vice President, Head of Finance Division	-	1,588	134	551	98	2,371
Ms. Sharon Gur[8][10]	First Executive Vice President, Chief Internal Auditor and Head of the Internal Audit Division	-	1,227	-	599	106	1,932
Mr. Eyal Ben Haim[8][11]	First Executive Vice President, Head of Operations Division	-	1,119	85	444	78	1,726

1. The compensation recipients work full time.
2. Excluding payroll tax. Including provisions for compensation and statutory severance pay for Mr. Samer Haj Yehia - NIS 401 thousand; for Mr. Hanan Friedman - NIS 409 thousand; for Mr. Omer Ziv - NIS 238 thousand; for Ms. Sharon Gur - NIS 179 thousand and for Mr. Eyal Ben Haim - NIS 150 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.A.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.B.1.

It is clarified that the cost of employing officers does not include the cost of interest (the interest component, which is presented according to the financial standards under operating costs).

4. The value of the benefit includes, inter alia, car and telephone expenses.

5. Including a sign-on bonus, retention bonus, long-term incentive plan bonus, special bonus and ROE bonus. For more information regarding senior employees' eligibility for bonuses in accordance with the new officers' compensation policy, please see Note 23.E.

6. 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.

   For more information regarding the Chairman of the Board's employment terms and conditions, please see Note 23.B.3. and the Bank's immediate report regarding convening of a general meeting, dated November 10 2019 (Ref. No.: 2019-01-096531).

7. 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 1 2014. 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.

   Under the President and CEO's service and employment terms and conditions, he 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 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.B.2. and the Bank's immediate report regarding convening of a general meeting, dated November 10 2019 (Ref. No.: 2019-01-096531).

8. 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.

9. Mr. Omer Ziv serves as a member of management; as of August 16 2016 - as Head of Financial Division at the Bank. Mr. Ziv'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, a highly negligible cost, which is not included

in the above table, was recorded in respect of past benefits to which Mr. Ziv was entitled, in respect of vesting of PSUs previously allocated to him under the Bank's compensation policy.

10. 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 631 thousand in respect of its liabilities as outlined in Footnote 8 above.

11. Mr. 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 445 thousand in respect of its liabilities as outlined in Footnote 8 above.

12. 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.

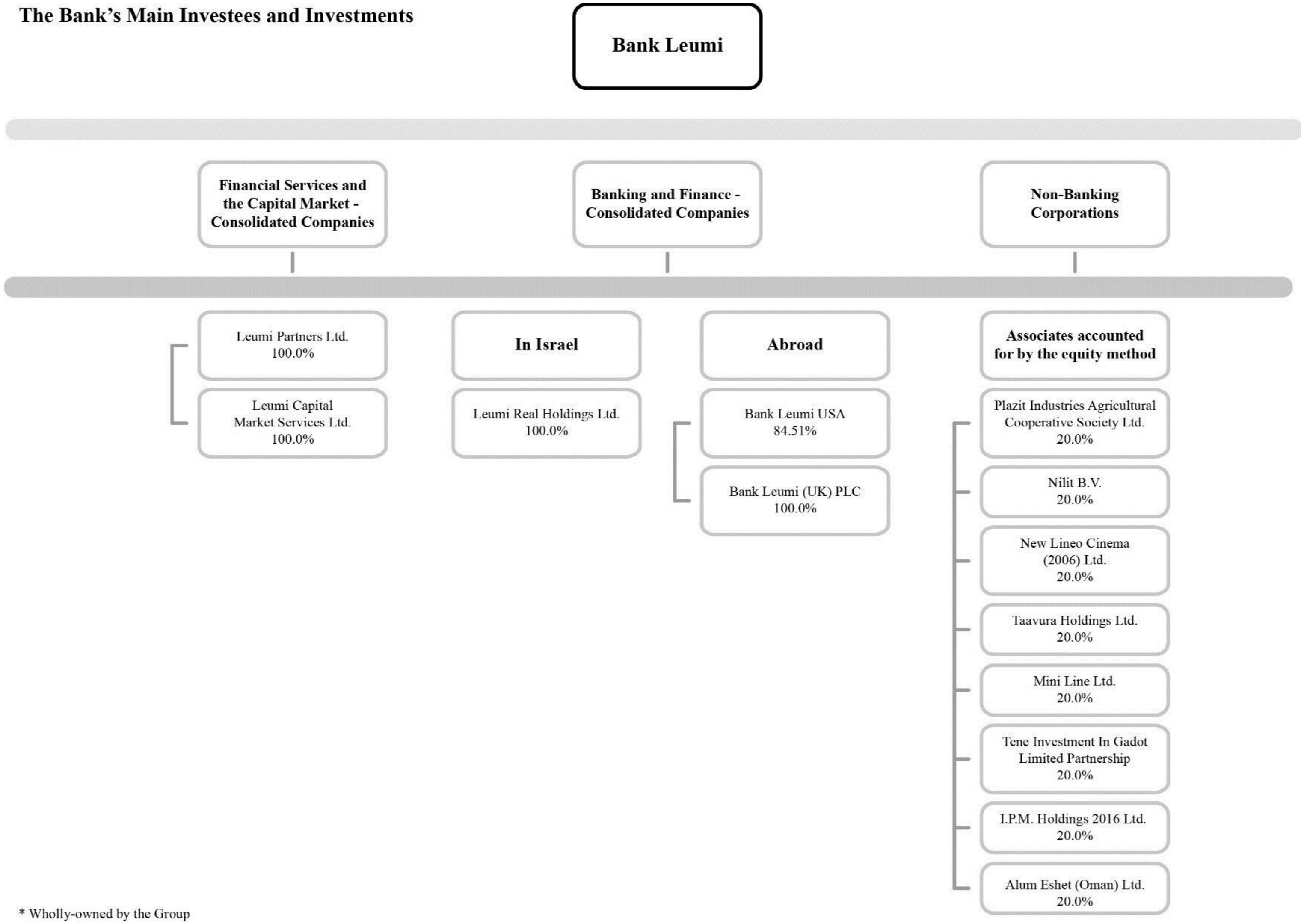
13. Directors and other officers are covered by directors' and officers' liability insurance policy (D&O) taken out by the Bank and its investees. The relative insurance premium is marginal and therefore not included in the above tables. The premium totaled NIS 7,398 thousand for all of the Group's insured officers.

14. 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 2020 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.

2019								
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	Departing Chairman of the Board	0.017	2,800	-	427	87	3,314	
Dr. Samer Haj Yehia	Chairman of the Board	-	1,260	-	208	10	1,478	
Ms. Rakefet Russak Aminoach	Departing President & CEO	0.001	2,784	-	486	52	3,322	
Mr. Hanan Friedman	President and CEO, former First Executive Vice President, Head of Strategy and Regulation Division	0.005	1,869	678	597	74	3,218	
Mr. Avner Mendelson	CEO of Bank Leumi USA	-	1,728	2,827	644	1,926	7,125	
Mr. Shmulik Arbel	First Executive Vice President, Head of Corporate Division	0.007	1,316	535	688	118	2,657	
Ms. Sharon Gur	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 Ben Haim	First Executive Vice President, Head of Operations Division	-	1,103	352	497	76	2,028	

For information and explanations regarding salaries and tenure terms of the officers outlined in the above table in respect of 2019, please see the section entitled "Officer Salaries" in the Bank's 2019 Annual Report

The Bank's Main Investees and Investments



* Wholly-owned by the Group

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 updated information regarding interested parties' holdings in the Bank as at December 31 2020, please see the immediate report entitled "Status of Holdings of Interested Persons and Senior Officers" dated January 7 2021 (Ref. No.: 2021-01-003345); Immediate report dated January 6 2021 regarding Altshuler Shaham having ceased to constitute an interested party in the Bank (Ref. No.: 2021-01-002298).Please see also the immediate report entitled "Status of Holdings of Interested Persons and Senior Officers" as at March 31 2020, dated April 19 2020 (Ref. No. 2020-01-034717) and the immediate report dated July 31 2020 regarding a shareholder which began constituting a controlling shareholder in the Bank (Ref. No. 2020-01-054723).

Property, Plant and Equipment

Buildings and equipment - the amortized cost of buildings and equipment as at December 31 2020 amounted to NIS 2.9 billion, similar to last year.

Investments in buildings and equipment as at December 31 2020 are as follows

	Cost	Accumulated depreciation	Carrying value	
	December 31			
	2020			2019
	In NIS million			
Buildings and land	**2,969**	**1,630**	**1,339**	1,349
Equipment, furniture and vehicles	**3,521**	**2,722**	**799**	814
Software costs	**4,177**	**3,383**	**794**	880
Total	**10,667**	**7,735**	**2,932**	3,043

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 2020, amounted to NIS 32 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	
	2020	2019
	In m^2 thousand	
Owned	249	249
Leased	87	97
Total	336	346

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 2020, the Group invested in equipment (including software) approximately NIS 530 million, compared with approximately NIS 661 million in 2019. The budget was adjusted to support the strategic targets set by the Bank’s management.

For more information, please see Note 16.

In 2020, the following products and services were added:

- **Opening a digital account** - opening a digital account through a fully digital process, including: a private individual account, a joint account and a managed investment account.
- **Loan to customers of all banks** - an end-to-end digital process was launched - from the assessment for eligibility to a real time loan, through opening an account, to actual origination of the loan.
- **Mobile payment service (Leumi Wallet) -** a service that enables users of the Leumi app (on Android) to pay merchants by placing their mobile phones on the payment terminal, while activating an advanced fraud prevention identification system.
- **Mortgages**
    - **Digital Mortgage** - the service was extended such that customers can now use it to find out whether they are eligible for government assistance in buying a home. In addition, the Bank now enables customers to obtain mortgage documents by mail and sign them without arriving at a branch.
    - Current mortgage customers can now view their mortgage data digitally even if they do not have an account with Bank Leumi.
- **Chat Bot** - during the coronavirus period, an interactive emergency bot was launched to assist customers using the Leumi website and app. The app was designed to provide a quick response to customer inquiries during the coronavirus period.
- **Instant Payments** - a new digital service was launched which enables all Leumi customers to make instant payments to accounts in other banks (up to NIS 2,000).
- **Deferment of loans and mortgages** - new digital services were launched enabling customers who have taken out a loan or mortgage with Leumi to apply for deferment of up to 6 months.

- **Viewing credit card transactions in real time** - customers can now view their credit card transactions a few minutes after making them.
- **Linking ERP systems to bank accounts** - a new service was launched - based on Open Banking - allowing business customers to make payments and direct transfers directly through their ERP systems.

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 2020, the number of positions in the Group decreased by 423, a 4.6 percent decrease compared with 2019. The annual average number of positions in the Group fell by 541, a 5.6 percent decrease compared with 2019.

	Positions[(a)] as at the end of the year		Annual average no. of positions[(a)]	
	2020	2019	**2020**	2019
The Bank in Israel	**7,946**	8,372	**8,211**	8,743
Consolidated Companies in Israel	**231**	235	**231**	237
Group in Israel - total	**8,177**	8,607	**8,442**	8,980
Consolidated Companies outside Israel[(b)]	**639**	632	**638**	[(c)]641
Group in Israel and abroad - total	**8,816**	9,239	**9,080**	9,621

(a) Position - a full-time position including specific overtime, working hours of service bureaus and employment of contract workers.
(b) Including foreign offices.
(c) Excluding Leumi Romania.

Positions by operating segments - management approach:

	Average number of positions	
	2020	2019
Banking:		
Retail, premium and private banking	**3,835**	4,061
Mortgages	**433**	455
Small businesses	**1,581**	1,751
Banking - total	**5,849**	6,267
Commercial	**1,135**	1,171
Corporate	**409**	439
Real estate	**223**	221
Capital markets	**553**	564
Other and adjustments	**42**	81
Bank - total	**8,211**	8,743
Subsidiaries in Israel	**231**	237
Foreign subsidiaries	**638**	641
Total	**9,080**	9,621

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 at the end of 2020, the percentage of Bank employees who hold an academic degree was 78.7 percent of all employees, compared with 77.7 percent in 2019 and 77.1 percent in 2018. In 2020, the percentage of staff employees with academic degrees reached 97.4 percent, compared with 97.2 percent in 2019 and 97.1 percent in 2018.

Age and seniority

As at the end of 2020, the average age of Bank's employees was 43.8, compared with 42.9 in 2019 and 43.6 in 2018. As at the end of 2020, the average seniority of Bank's employees was 15.8 years, compared with 15.0 in 2019 and 16.0 in 2018.

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)*

	2020	2019	2018
	In NIS thousands		
Cost per employee position - (excl. bonus)	**395.0**	381.6	370.8
Cost per employee position - (incl. bonus)	**397.4**	431.9	410.0
Salary per employee position - (excl. bonus)	**253.8**	244.2	242.2
Salary per employee position - (incl. bonus)	**255.7**	285.1	272.1

* Cost per employee position includes the cost of service and cost of interest (less expected return) for active employees.

Organizational development and learning

Learning and organizational development are key organizational tools for strategic planning and management of human capital and for adapting employees’ skills to the changing business needs. Learning and development constitute an inseparable part of the value proposition to employees and a significant component of employee engagement. The coronavirus period brought about a new challenge to the domain of organizational development and learning, necessitating transformation in the way employees are trained for core positions, improve their skills and develop new knowledge and relevant skills.

In the training and learning domains, most organizational development and learning processes have been transformed from in-person processes to online learning ones - in many cases taking place even from the employees’ homes. In this framework, entire core courses have been converted, new learning methods have been developed, content was revised and relevant infrastructure created to allow for hybrid learning, remote learning and to convey knowledge in an effective, accurate manner.

In the organizational development domains, we supported managers in the significant changes they underwent during the year: managing teams, creating routines and meeting targets in the “new normal”. Discussions were held with hundreds of managers in order to boost resilience, share, expose difficulties and challenges and find shared solutions.

In total, 141,897 learning hours were logged by the organization in 2020 (since learning is mostly digital and decentralized, the figure was conveyed in hours rather than in learning days, as was the case in the past).

Learning and training for the future - re-skilling and up-skilling

While preparing for the changing trends in the financial world and the changing needs under the coronavirus, we continue to prepare for the changes and opportunities in the new work age. To this end, we train our employees for the needs and skills of the future world of work. In this context, we continued to operate Shift - the school for the professions of the future, and established Shift Light - a school for the skills of the future. As part of the school for the skills of the future, we created a model that invites our employees to conduct a personal skills analysis, which shows their level in each of the core skills defined as vital to success in the work world of the future; according to the results of the analysis, employees can enroll in one of six study tracks: data handling, resilience and agility, learning, digital communication, business acumen and strategic thinking. In addition, learning in the organization supported organizational changes and quick, effective streamlining necessitated by the new reality. In this framework, retraining courses were offered, as well as training for transitioning from one role to another, while learning a new profession.

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. In addition, responsive capabilities were implemented to allow surfing on the knowledge management sites using mobile devices.

Managerial excellence program in the new normal

Once the first lockdown ended, a new executive excellence development program for the "new normal" was created for the One Hundred Forum and Leadership Forum - the Bank's senior management levels. The purpose of the program is to provide managerial approach and tools for handling the managerial and personal challenges which increased during the coronavirus crisis. The program was adapted to each of the organization's divisions and is based on a combination of digital self-learning, online dialogues among managers and virtual workshops on key focal points: hybrid management tools, empowering management, managing for results, and management during transformation (resilience and managing relationships in a complex reality).

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). The Bank's corporate social responsibility activity against the background of the coronavirus crisis reflects our commitment to empowering Israel's society and economy and constitutes a direct continuation of Leumi's ongoing, year-long activity as an organization working in the community and for the community. In 2020, we quickly adapted our activity to the reality, which changed unrecognizably following the implications of the coronavirus, in terms of life in the State of Israel in general and for NGOs and the needy in particular. Leumi donated thousands of shekels to hospitals in Israel in order to support the purchase of gear to handle the coronavirus and assisted El Al in bringing home Israelis travelling abroad.

In 2020, 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 in Israeli society. During the lockdowns, the NGO supported thousands of people, including more than 10,000 senior citizens. In addition, the NGO's volunteers and students prepared thousands of protective kits for nursing homes. In addition, the Bank assisted the NGO, in collaboration with Mifal Hapais, to launch a nation-wide initiative entitled "Building a Career" for youth aged 20-30, in order to assist them in finding adequate work and providing training and customization to the economy's needs. The initiative was widely covered by the media.

Leumi continues its years-long support of the following NGOs: Young Entrepreneurs, Atidim, Etgarim, Shiur Acher, 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.

As in each year, the Bank donated approximately 4,000 parcels for the needy in Jewish society and more than 1,000 parcels and coronavirus aid in Arab society, in cooperation with NGOs LaTet and Amaniana.

According to the decision of the Board of Directors regarding extending the social policy and boosting Leumi's outreach for the senior citizen population, the Bank embarked on several initiatives which included donations as well as volunteer work by employees, including: an initiative to conduct weekly phone calls with approximately 300 Holocaust survivors in collaboration with the Remembrance in the Living Room NGO; initiative to distribute parcels to homes of about 600 elderly persons ahead of Rosh Hashana, in collaboration with the Good Spirit NGO; initiative to distribute 900 warm-up gift packages for the winter to people supported by the LaTet NGO across Israel; initiative to distribute menorahs for Hannukah to 600 elderly people living alone, in collaboration with the Follow Me! NGO; initiative to continue giving courses and free digital learning workshops to senior citizens and operate 2 mobile branches to help elderly people confined to their homes.

In 2020, total community outreach investment was NIS 37 million, with over 2,300 of Leumi's employees from various functions volunteering in numerous programs, investing a total of 16,070 hours.
For more information on corporate social topics, please see Leumi's annual Corporate Social Responsibility Report on Leumi's website. The report presents the Group's activity in the areas of society, the environment and corporate governance and describes how the Bank invests in the growth of Israel's society and economy to advance innovation and digital tools, develop human capital and preserve the environment - through fair business conduct and corporate governance.

Appointments and Departures

Appointments

Mr. **Uri Yonissi** was appointed Head of Customer Relations Division, member of the Bank's management and First Executive Vice President, reporting directly the Banking Division as of June 26 2020.

Adv. **Mor Fingerer** was appointed Chief Legal Counsel and Head of the Legal Counsel Division, member of the Bank's management and First Executive Vice President, as of September 1 2020.

CPA **Ronen Agassi**, Head of Capital Markets Division and member of the Bank's management, was appointed Head of the Corporate Division and First Executive Vice President, as of January 1 2021.

Mr. **Shmulik Arbel**, Head of Corporate Division and member of the Bank's management, was appointed Head of the Banking Division and First Executive Vice President, as of January 1 2021.

CPA **Bosmat Ben Zvi**, Head of Risk Management Division and member of the Bank's management, was appointed Head of the Capital Markets Division, as of January 1 2021.

CPA **Liat Shuv** was appointed Head of the Risk Management Division and member of the Bank's management and First Executive Vice President, as of January 1 2021.

Mr. **Jaime Schcolnik** was appointed Head of Leumi Technologies Division, member of the Bank's management and First Executive Vice President, as of January 3 2021.

Ms. **Avivit Klein** is expected to be appointed Head of Human Resources Division, member of the Bank's management and First Executive Vice President, as of April 1 2021.

CPA **Omer Ziv,** who currently serves as member of management and Head of the Finance Division, will be appointed Chief Accounting Officer and Head of Finance and Accounting Division as of April 1 2021.

On August 5 2020, the Bank's Board of Directors confirmed the appointment of Mr. **Michael Schiller** to the post of CEO of Bank Leumi UK. The appointment is effective October 12 2020, subject to obtaining the required approvals under local regulation.

Ms. **Sharon Daniel** was appointed Chief Compliance Officer and Head of Compliance and Enforcement Department, effective January 11 2021.

Departures

Mr. **Ilan Buganim**, Head of the Data Division and member of the Bank's management, retired on May 31 2020, after approx. 7 years of working for Leumi.

Ms. **Irit Roth**, Head of the Legal Counsel Division, Chief Legal Counsel, Legal Risk Manager and member of the Bank's management, retired on August 31 2020, after approx. 3 years of working for Leumi.

Mr. **Eilon Dachbash**, Head of the Banking Division and member of the Bank's management, resigned on December 31 2020 after 17 years of working at Leumi.

Mr. **Shai Basson**, Head of the Leumi Technologies Division and member of the Bank's management, resigned on December 31 2020 after 4 years of working at Leumi.

Ms. **Hilla Eran-Zick**, Head of Human Resources Division and member of the Bank's management, resigned on March 31 2021, after 29 years of working at Leumi.

Mr. **Shlomo Goldfarb**, Chief Accounting Officer, Head of the Accounting Division and member of the Bank's management, will resign during 2021, after 40 years of working at Leumi.

Adv. **Livnat Ein-Shay Wilder**, Secretary of the Bank and the Group, resigned on February 28 2021, after 5 years of working at Leumi.

Mr. **Gil Karni**, CEO of Bank Leumi UK, resigned on November 9 2020.

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:

- The **Retail Department** is responsible for activity and services for households and private individuals.
- **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 - please 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 Banking Division includes the Customer Relations Division, which is responsible, inter alia, for the mortgages function - which is responsible for mortgages for all customers of the Bank and customers of other banks who have taken out a mortgage with Leumi; for the banking centers which provide telephone response to customers calling the call center to ask for information and initiate transactions.

The Banking Division is also responsible for the Bank's Marketing Department and Pepper.

The **Corporate Division** is responsible for all business customers (except small businesses, which are managed by the Retail Banking Division - please 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 business lines:

- The **Corporate Department** is responsible for large Israeli corporations on the basis of sector expertise and synergies.
- The **Commercial Banking Department** is responsible 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 Special Loans Department** deals with struggling corporate customers, by attempting to facilitate the recovery of active customers through business assistance and support or by taking measures to collect the debts owed to corporate customers the recovery of whose business is impossible, as well as sell hard debts at adequate prices.
- **Securitization Syndication and Debt Management Unit** - manages syndication transactions and debt selling while optimizing the loan portfolio.

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. As of the second quarter of 2021, the Finance Division and Accounting Division will merge.

The **Human Resources Division** is responsible for developing and implementing the human resources strategy, labor relations, salary and compensation structure, organizational consulting and development, including executive learning and training, banking training, employee welfare and corporate social responsibility.

The **Leumi Technologies Division** is responsible for the IT systems of the Bank and activities related to technological development, communications, cyber and information security and Group and coordinates the IT strategy and policy at the group level.

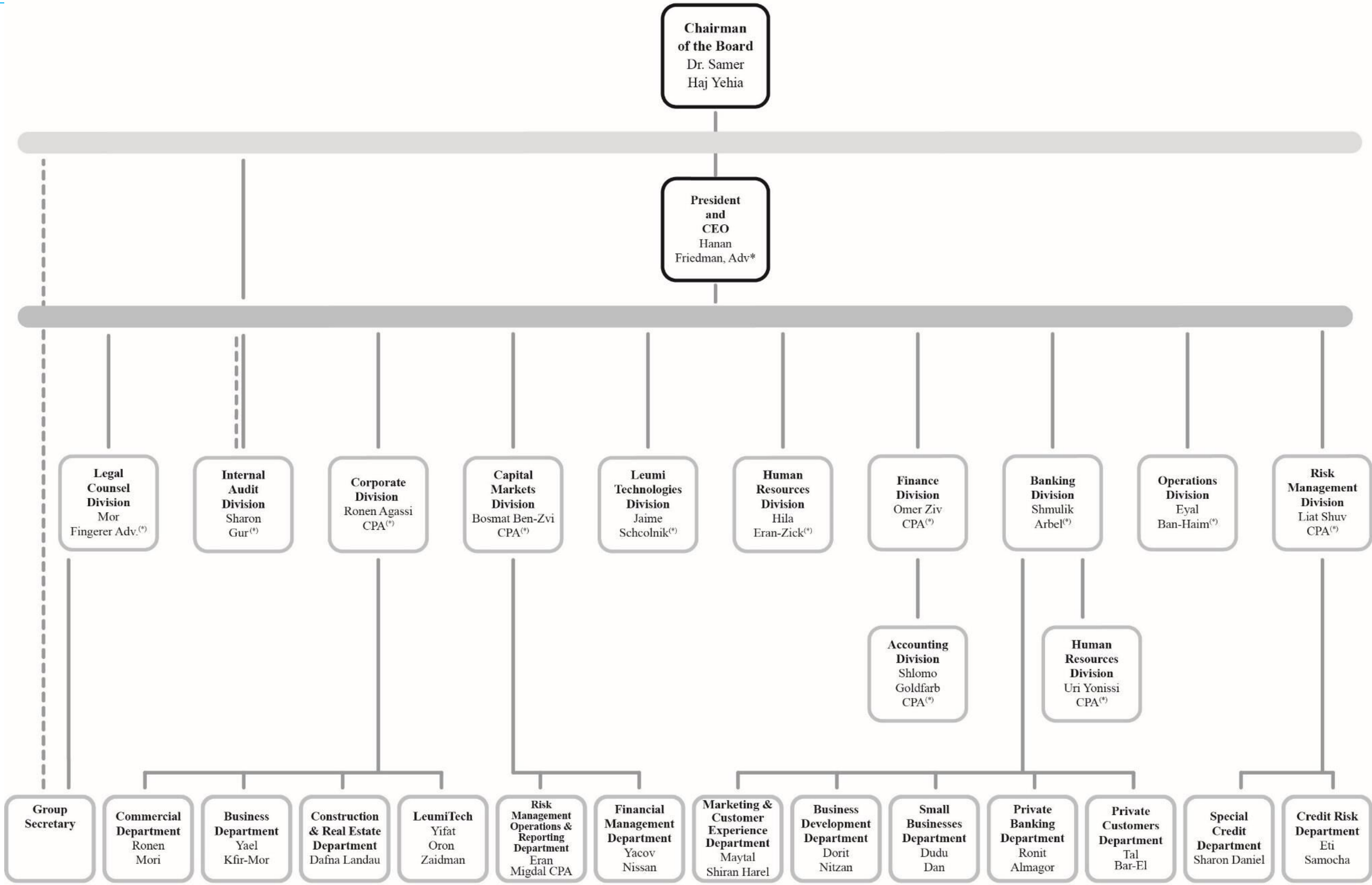
The Operations Division The is responsible for the execution of most operational issues at the Bank, serves as an infrastructure for professional knowledge and customer service improvement.

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 and secretariat.

The **Risk Management Division** is in charge of risk management in the Group and Bank, and of the Credit Risk Department and Compliance and Enforcement Department.

The **Internal Audit Division** is independently responsible for Leumi Group's internal auditing.

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 (including 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. Maalot-Standard Agreement

In accordance with an agreement dated March 29 2020, Standard has assigned Veritas Insurance Agency Ltd. of the Harel Group, as at April 1 2020, the full rights and commitments of Standard under the Maalot-Standard Agreement, subject to the completion of the merger of Standard into Harel. The merger was completed on July 2 2020.

For more information about the Maalot-Standard Agreement, please see the section entitled "Material Agreements" in the 2019 Annual Financial Statements.

2. IT and Operational Services Agreement with Union Bank of Israel Ltd.

The Bank arrived at an understanding with Union Bank of Israel Ltd. on the extension of the engagement term for IT and Operational Services Agreement (hereinafter - the "Agreement"), altering some of the terms and conditions of the engagement.

In this framework, it was agreed, inter alia, that subject to, and in accordance with the terms and conditions detailed in writing in the addendum to the Agreement (hereinafter: the "Addendum"), the Agreement will be extended until December 31 2022.

The scope of the ongoing services and the service level provided by Leumi according to the Addendum will be the same as the ongoing services and the service level which were provided to Union Bank as of December 31 2016, and Leumi will provide Union Bank with ongoing services in the Addendum term according to the "follow me" principle. In addition, an adjustment was made to the consideration paid in the framework of the agreement.

For more information, please see the immediate report published by the Bank on May 12 2020 (Ref. No. 2020-01-047130) and on May 26 2020 (Ref. No. 2020-01-052887).

3. The Bynet agreement

An agreement was signed with Bynet Data Communications to host Leumi's data center in Bynet's site at Har Hotzvim, Jerusalem. The agreement is for 10 years, with an option for two additional 5-year periods.

4. The Bank granted officers and others letters of indemnification. For more information, please see Note 26F.
5. For information regarding agreements relating to the Bank's subsidiaries, please see the section entitled "Principal Investee Companies".
6. 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 and implications of the term, please see the section entitled "Forward-Looking Information".

During the reporting period, several proposals for regulatory amendments and changes in 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

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). In addition, the bill prescribes various guidance regarding payment orders, performance of payment transactions and liability arrangements governing them.

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 entered into force on October 14 2020.

The Bank is preparing for all aspects of the law's implementation.

Checks Without Cover Law (Amendment No. 14), 2020

On August 18 2020, an amendment to the Checks Without Cover Law, 1981 was promulgated. According to the amendment, if a check is deposited and there is no adequate balance in the customer's account to pay the check, the bank will notify the account holder on which the check is drawn in order to notify the holder of the need to deposit funds in the account no later than two and a half hours prior to the end of the work day, in order to prevent the check from bouncing.

On February 25 2021, the Banking Supervision Department published amendment to Proper Conduct of Banking Business Directive No. 420, Sending Online Notices, which stipulates guidance for sending notices to customers in accordance with the said amendment, including guidance on the following: details of the notice, addressees of the notice, date for sending the notice and manners of delivering notices to customers.

The amendment will become effective one year from its publication date.

The amendment to the law requires the Bank to adjust its work mode with customers in this respect.

Directives Issued by the Banking Supervision Department

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). On January 10 2021, the Banking Supervision Department published an additional amendment to said directive, according to which the said credit limit for the real estate and construction industry (including indebtedness in respect of national infrastructures) will increase from 24 percent to 26 percent of the public's total indebtedness to the banking corporation (total indebtedness to the real estate and construction industry, less indebtedness for national infrastructure, shall not exceed 22 percent of the public's total indebtedness to said banking corporation). This expedient is aimed at allowing the business flexibility required due to the coronavirus crisis, and will be limited to a period of up to 24 months as of December 31 2025, provided that after December 31 2025, the rate of indebtedness shall not exceed the higher of: the rate at the said date or the rate prescribed by the directive prior to the expedient.

On January 10 2021, an additional amendment to the directive was published, in which the definition of indebtedness was revised, such that the indebtedness of an industry for which a banking corporation had procured credit protection, eligible for the purpose of mitigating credit risk (as outlined in Proper Conduct of Banking Business Directive No. 203) shall be classified according to the main industry of activity of the protection supplier. The rule will also apply to guarantees for affordable housing given under the Sales Law (Apartments) (Guaranteeing Investments by Apartment Buyers), 1974, without restrictions.

The said amendments will allow the Bank to extend more credit to the real estate and construction industry.

Proper Conduct of Banking Business Directive No. 222 draft, "Stable Funding Ratio"

On March 5 2020, the Banking Supervision Department published a draft for the new Proper Conduct of Banking Business Directive No. 222, Net Stable Funding Ratio (NFSR). The draft adopts the Basel III recommendations regarding the calculation of the Net Stable Funding Ratio (NSFR) by the Israeli banking system.

In accordance with the draft, a banking corporation is required to maintain a Net Stable Funding Ratio - defined as the amount of stable available funding divided by the amount of required stable funding (as prescribed by the directive) - to be calculated according to the total currencies and be no less than 100 percent at any given time.

The Net Stable Funding Ratio will be met and reported including all currencies, but banking corporations are expected to actively monitor and control the liquidity needs required in order to maintain a net stable funding ratio for each of the main currencies.

The Net Stable Funding Ratio will be used by the banking corporation on an ongoing basis and reported to senior management and Board of Directors at least once each quarter (in extreme cases, more frequently).

A banking corporation which leads a banking group will apply the directive on a consolidated basis.

Proper Conduct of Banking Business Directive No. 443, Dormant Deposits and Accounts whose Owners Have Passed Away

On November 15 2020, the Banking Supervision Department published a new Proper Conduct of Banking Business Directive whose objective is to improve the way dormant deposits and accounts whose owners have passed away are handled, inter alia, by extending the obligation to locate the owners of these deposits and accounts and the requirement to ensure that there is an organizational function responsible for ensuring that such deposits are being handled.

The directive will become effective one year from its publication date.

The directive requires the Bank to make changes in its work processes and the resources allocated to this matter.

Proper Conduct of Banking Business Directive regarding management of consumer credit

On February 4 2021, the Banking Supervision Department published Proper Conduct of Banking Business Directive, Management of Consumer Credit.

The directive offers a summary of the Banking Supervision Department's requirements from the banking system regarding activity with consumers, inter alia covering the following topics: maintaining an adequate organizational culture; policy and processes in place to ensure adequate and fair credit marketing processes, especially ones for proactive marketing of credit; as well as having credit approval processes, inter alia, the obligation to provide credit that is in line with the borrower's financial ability to repay the loan.

At the same time, the Capital Market, Insurance and Savings Authority published a directive that applies to some of its regulated entities, in an effort to set consistent principles and standards for the various credit providers.

The directive's effective date will be 9 months from its publication, excluding provisions relating to consumer credit marketing, which will become effective three months after publication.

The directive's application may require the Bank to make changes in its work processes and the resources allocated to this matter.

Amendment to Proper Conduct of Banking Business Directive No. 329 - Restrictions on Housing Loans

On December 27 2020, the Banking Supervision Department issued an amendment to the directive. Prior to the amendment, the directive set two restrictions on the variable interest portion of the loan: under the first restriction, the portion of the prime interest rate shall not exceed one third of the loan; the second restriction established that the portion of the variable loan shall not exceed two thirds of the total loan.

Under the amendment, the first restriction (the prime interest restriction) was reversed, such that at least one third of a mortgage loan will be given in a fixed interest rate and the remaining two thirds will be at the borrowers' discretion, under no restriction.

The Bank is preparing to make the needed adjustments to its procedures, whether in its system or in additional operational aspects in order to implement the directive.

Proper Conduct of Banking Business Directive No. 367, E-Banking

On December 29 2020, an amendment to Proper Conduct of Banking Business Directive No. 367, E-Banking, was published. The amendment enables to open online corporate accounts, without the customer being required to arrive at a branch, and provides reliefs for e-banking customers.

The implementation of the directive will give the Bank greater flexibility in opening corporate accounts remotely.

Various Initiatives for Increasing Competition

Recently, special emphasis has been placed on regulation to encourage competition in various segments pertaining to the banking system's areas of activity. This trend is reflected in various legislative 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 reliefs for connecting to the payment and clearing systems, as well as the transfer and sharing of information stored by banks.

In this context, the following topics may be mentioned:

- On December 15 2019, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 448, regulating customers' online transition between banks, which will enter into force in September 2021. 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.
  In tandem with the said directive, on February 10 2021, the Law of Clearing Checks and Bounced Checks (Legislative Amendments), 2021 was published, aiming to ensure that when a customer transfers from one bank to another, checks will continue to be properly cleared.
- The Israel Securities Authority published a paper 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 follows a previous one, 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 25 2020, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 368 regulating the implementation of an 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, 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 March 1 2020, the Bank of Israel published a revision for Proper Conduct of Banking Business Directive No. 201, “Measurement and Capital Adequacy”. The amendment to the directive includes a change in the calculation of the minimum capital requirements, aimed at providing easements to banks the consolidated total assets of which equal or do not exceed 24 percent of the banking sector’s total assets. The purpose of the amendment, according to its explanatory notes, is to enable a structural change in the banking system with the aim of reducing the dominance of the two large banking groups.
- On March 12 2020 the Banking Supervision Department published 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 Proper Conduct of Banking Business Directive No. 480 regarding adjustments to Proper Conduct of Banking Business directive applicable to a new bank and a bank under establishment, was published, as was a Reporting to the Public directive applicable to a new banking corporation and a new banking corporation under establishment.

  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, leverage ratio, liquidity ratio, 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 March 12 2020, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 411, “Management of Anti-Money Laundering and Countering Financing of Terrorism Risks”. The amendment grants, inter alia, reliefs 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, under the condition that the transactions in these accounts are in accordance with the licenses). The purpose of the amendment, according to its explanatory notes, is to remove a significant barrier that hinders these entities from operating in the Israeli financial system and competing with the banking system.
- On May 7 2020, the Bank of Israel announced that the Payments Department has completed clearing-out process of the BICs (bank codes) which are used to identify payment service providers and their customers in the payments systems. This measure will enable the entities dealing with the provision of payment services (which hold a license,

or are exempt from holding a license that enables the provision of payment services), to connect to and use the payments systems, thus increasing competition in this area.

- MASAV - cartel exemption - on June 18 2020, the Israel Competition Authority extended the cartel exemption for the five largest banks, regarding cooperation between them as part of their jointly-owned Bank Clearing Center ("MASAV"). MASAV is a corporation which clears all inter-bank payments transactions. According to the exemption decision, new terms and conditions were set to ensure the ability of non-bank entities to use the MASAV system and enjoy its services at the same terms and conditions as the banks. This includes the decision to allow these entities to gain access to the instant payments systems promoted by MASAV. The system is designed to enable the instant transfer of funds between bank accounts.

  As part of the said exemption, terms and conditions were set requiring MASAV to accept as participants any payments service provider who is eligible for it and represented by a bank and allow each participant to take part in MASAV's internal committees that are relevant to them. In addition, the five largest banks were prohibited from unreasonably denying a non-bank entity the required services in order to connect them to MASAV as participants. In addition, the Bank was prohibited from making use of the instant payments system for its payments app until it represents a non-bank entity, such that the represented entity transfers transactions through that system. According to the exemption, the condition regarding the instant payment system expires on the earlier of: June 30 2022 or until one year has elapsed from the day on which the first non-bank entity began to conduct such transactions on a regular basis.

  These terms, along with the other terms applicable to MASAV, are intended to allow non-bank entities to compete with the banks on the provision of various financial services and offer various financial services to the public. In tandem with the said cartel exemption for the MASAV activity, the Bank of Israel published directions for MASAV and MASAV participants for compulsory clearing representation or in the MASAV system's rulings. In this context, the Bank of Israel established the terms and conditions designed to allow payments service providers access to the various payments systems managed by MASAV by being represented by the clearing participants as well as the definition of "reasonable denial" and terms and conditions such participants may put forward for said representation.

- On June 24 2020, the Ministry of Finance published Memorandum of Financial Information Services Law, 2020. The purpose of the memorandum is to replace portions of the Supervision of Financial Services (Regulated Financial Services) Law, 2016, which relate to the service of comparing financial costs by a new law, which will regulate all the information included in providing financial information services both by the entities providing the service and the financial entities which hold financial information of customers. The proposed regulation will allow financial information service providers to receive, with the customer's agreement, online access to financial information about the customer from financial sources, in order to provide various services (at this stage: banks, issuer clearing entities and deposit and credit unions). At the same time, such information sources will be required to allow financial information service providers online access to customers' financial information, subject to the customer's agreement. The financial information services included in the Memorandum of Provision of Financial Information Services Law are: price, cost or return comparisons; providing information to financial providers to obtain quotes to the customer for the financial services the customer wishes to consume (i.e., competing quotes) or in order to help contract with them; as well as consulting regarding financial management. The access to customers' financial information stored by financial information sources is expected, according to the explanatory notes, to remove barriers for transitioning between various financial providers and encourage competition, both on the demand and supply sides. The proposed law will also apply to banking corporations, both as financial service providers and information sources.

- On July 2 2020, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 432, "Transferring Activity and Closing a Customer's Account." According to the amendment, a banking corporation should enable a customer to submit an online application to transfer a securities portfolio to another investment entity, without requiring him/her to arrive at a branch. The banking corporation will not unreasonably deny a customer's request to such transfer. The guidance's objective was to make it easier for customers to transfer their securities portfolios between various entities in and outside the banking system, as well as to encourage competition in the brokerage industry, pursuant to a recommendation of the Brokerage Report published by the Israel Securities Authority and Israel Competition Authority.
- On November 5 2020, the Ministry of Finance published the memorandum of Securities Law (Regulation of Broker-Dealer Activity), 2020. The memorandum proposes to regulate the broker-dealer domain in Israel, and to subject entities engaged in such activity to regulation by the Israel Securities Authority (except the type of entities mentioned in the memorandum, which are exempt in this respect, including the banking corporations). The purpose of the memorandum is to protect investors who use broker-dealer services, and to boost the public's confidence in this activity, so as to enable it to develop and to encourage competition among the various service providers - in this domain - to the benefit of the investor public.
- On December 13 2020, the Bank of Israel announced it would begin making repo transactions with regulated non-bank credit providers. This measure is intended, inter alia, to boost the ability of these entities to provide attractive credit to customers by cutting costs on their funding sources.
- On January 3 2021, the Privacy Protection Authority, the Israel Competition Authority and the Consumer Protection and Fair Trade Authority published a draft for public comment of a policy paper recommending the adoption of a general right to transfer personal information. According to the details provided in said paper, the right to transfer information is expected to increase competition and the possibilities available to digital consumers, since it creates an infrastructure for the development of new, knowledge- and information-based competitors and easy transfer among them.
- On January 11 2021, the bill of Banking Law (Licensing) (Amendment No.) (Expanding Funding Sources for Non-Bank Credit Entities), 2021 was published. The bill allows non-bank credit entities to expand their funding sources, inter alia by increasing maximum par value of bonds a non-bank company may issue to the public (in addition to granting credit and subject to other terms and conditions prescribed by law) from NIS 5 billion to NIS 15 billion.
- Bill for Encouragement of Financial Technology Development, 2021 - the purpose of the bill is to create a regulatory framework that will allow FinTech companies to operate in Israel. FinTech activity in Israel has several advantages; among other things, it is intended to allow the use of new technology in the financial system in order to improve access to various products and services, raise the level of service and boos competition in this area, as well as reduce the costs of financial services in Israel.
- Bank of Israel position dated February 14 2021, Developments on Payments and Digital Wallets - according to which the Bank of Israel's policy regarding the development of a payments market is aimed at forming an infrastructure enabling market actors to innovate in the payments domain, thus expanding the range of payments options available to consumers and merchants in Israel. Accordingly, the Bank of Israel's position is that the new ventures in this domain could boost competition, develop the payments domain and provide value to Israeli consumers and that there is no point in delaying them, provided that at this stage of developments in the payments market: (1) No use shall be made of information collected through digital wallets to provide financial services or sell other financial products to customers with debit cards issued by other than the wallet supplier, until all aspects of the issue have been evaluated; (2) Within a brief period, an open digital wallet will enable the issue of multiple cards by multiple issuers, such that customers will be able to use several cards easily and conveniently, at their discretion;) 3) The restriction imposed on the two largest banks by the Law for Minimizing Market Centralization and Promoting Economic Competition in the Banking System as to credit card facilities apply to credit cards which were issued or shall be issued through joint ventures in which the two largest banks are involved, whether these are dedicated cards for use by digital wallets or other cards, unless the Bank of Israel announces, following an evaluation it is conducting, that such collaborations do not constitute a joint issuance, which is subject to the said restriction.

These amendments are expected to affect the Israeli banking system in the coming years, along with initiatives led by the Bank of Israel, such as: launching the 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; encouraging the banking system to increase efficiency; and the reform regulating customers' transfer from one bank to another through direct channels.

Regulatory Developments Following the Coronavirus

Against the backdrop of the unfolding coronavirus event and its ramifications on the Israeli and global economies, as well as on households and businesses, the Banking Supervision Department and other regulators have set a series of regulatory measures in an effort to assist households and businesses to overcome this period, while allowing banking corporations to be more flexible in their business conduct.
The said measures focus, among other things, on continuing to provide banking services to the public, with emphasis on transitioning to the various digital channels, providing services without the need for customers to reach the Bank's branches and making adjustments for working remotely; providing various reliefs to the banks to allow them to function property even when not fully staffed; requiring the banks to assist the economy in overcoming the crisis through debt restructuring, increasing available credit and pricing loans fairly.

Following are the main topics of the said adjustments:

Adjustments designed to advance remote banking services

- Directives issued by the Banking Supervision Department:
  - Subscribing to digital services - banks were allowed to send customers notifications on digital channels offering them to subscribe to the digital banking services and instructing them on how to do so (according to the draft published recently, the relief will become permanent and apply during routine times as well). Banks were also allowed to send customers who do not possess debit cards issued by the bank notifications on the e-banking channels offering them to have a debit card issued to them. Opening branches - during the coronavirus period, a quota was set for the minimum number of branches that should be open to the public, following the recent developments. The said quota was set taking into account, inter alia, adequate geographical dispersion, and the ability to provide banking services to a wide array of customers, while taking into account the type of services rendered in these branches and the need to schedule advance appointments. In addition, banking corporations are required to allocate adequate resources for telephone response, within reasonable time, to customers belonging to branches offering no customer-facing service.
  - An outline for debit cards issuance for customers receiving National Insurance annuities in order to help these customers withdraw their annuities from any ATM without arriving at a branch.
  - Bankrupt customers - guidance to issue debit cards to bankrupt customers and subscribe them to a service allowing them to carry out transactions through the bank's website, without the need for approval by a trustee in bankruptcy for each request, based on the position of the Official Receiver, who has given it a sweeping approval.
  - Management of guardian bank accounts - guidance regarding issuing debit cards to a guardian and a person who was appointed a guardian in the appropriate cases, as well as guidance for enrolling a guardian in online information services and regulating transactions in a guardian account not necessarily to the branch to which the customer's account is assigned.
  - Reliefs regarding obtaining telephone banking services - including entering into agreements for e-banking services, giving orders by phone, making telephone calls to sell credit to retail customers and entering into agreements to grant credit (excluding housing loans) through unrecorded telephone calls.
  - Check deposits - increasing the maximum deposit amount for a single check by smartphone from NIS 20,000 to NIS 50,000.
  - Making banking services more accessible to senior citizens - bringing the minimum age for receiving priority in call centers down from 75 to 70 (it was lately decided to apply this change even during routine times). In addition, a voluntary charter was developed to make banking services more accessible to senior citizens, in an effort to

help the senior citizen population to cope with the challenges in obtaining various banking services during the coronavirus crisis. The charter was developed by the Ministry for Social Equality and Senior citizens, the Banking Supervision Department and the banking system. The charter deals with services adapted to the needs of senior citizens, including in the following areas: making the banking services more accessible (inter alia, through a mobile branch which travels to locations with a high concentration of senior citizens), a courier service in special cases - at the Bank's discretion, improving the telephone response (additional reliefs pertaining to prioritizing senior citizens' calls), prioritizing them in the branches, disseminating adequate information, etc.

- Identification requirements - relief in identification requirements for a general trust account managed by a lawyer, accountant or rabbinical lawyer for their customers. If the trustee in a general trust account (exempt from the beneficiaries' statement as long as he does not exceed the stipulated amounts) wishes to exceed the amount restrictions set for the management of this type of account, he will be able to convert the account to an unrestricted account, by providing an updated beneficiaries' statement. Since this does not involve opening an account, the beneficiaries statement may be sent via facsimile (in lieu of sending the original).
- Receiving a customer's order to withdraw a charge authorization (or a specific charge under authorization) over the phone, provided that the call is recorded (in lieu of a written order).
- Banking Ordinance (Customer Service) (Supervision of Immediate Debit Card, Letter of Warning by a Lawyer and Teller-Performed Transaction through a Call Center) (Temporary Order), 2020 - in accordance with the order published on September 13 2020, the following services were declared regulatable services and the maximum fees that may be charged for them shall be capped, as follows: teller-executed transaction by way of a phone call - NIS 2.5 per transaction; warning letter by a lawyer - NIS 50 per letter; immediate debit card fees - it is prohibited to charge fees. The ordinance applies to private customers or small businesses and is limited in time, as outlined in the ordinance.
  The purpose of the ordinance is to help customers deal with the coronavirus crisis, to encourage them to refrain from arriving at the branches and to prefer remote transactions.
  The said ordinance is expected to affect the Bank's revenues from these fees and commissions.

- The Registrar of Companies and Registrar of Liens and Mortgages - developing a remote work outline to register and remove liens and mortgages.
- Amendment to the Land Regulations (Management and Registration) - the amendment allows mortgages to be registered digitally, without physical presence, in two ways: either directly with the Registrar or through a bank.
- Supervisor of the Sales Law - according to the Sales Law (Apartments) (Securing Investments of Home Buyers), 1974 in certain cases, buyers of new apartments are required to pay for them using vouchers. The Supervisor of the Sales Law published a procedure allowing such vouchers to be paid other than by physically arriving at a bank branch.
- Investment advice - the Israel Securities Authority - option to work remotely on the initial customer needs inquiry for a new customer as well as reliefs for the requirement to revise the customer's needs and how such revision should be made, and reliefs regarding documentation of an advisory call. The relief was granted for a limited time. Another relief was granted regarding call control by a "call controller".
- Amendment to the Execution Law - the amendment prescribes that a restriction on the use of debit cards imposed by the Executions Registrar on the debtor will not apply to the use of immediate debit cards, provided that transactions will only be approved after verifying that the debtor has a credit balance. The amendment allows such debit cards to be issued to customers who have a credit facility in their accounts and allows the customers to perform transactions with the card against their unused credit facility.
- Amendment to the Debit Cards Law - waiver of the requirement for a "blue signature" on the card contract, which was replaced by the requirement to obtain the customer's agreement and the requirement that the issuer document his/her agreement.

Adjustments designed to assist customers in the credit domain

- The banking system joins forces to help the Israeli economy through the crisis by boosting its credit offering and fair pricing of loans - a letter by the Banking Supervision Department, emphasizing its expectation that the banks continue to provide credit and refrain from exercising stricter underwriting criteria, with emphasis on small and mid-sized business borrowers and households - out of a long-term holistic economic view which takes into account the needs of the economy and customers.
- Reducing the minimum capital ratio requirements - the Bank of Israel granted reliefs in respect of the capital requirements so that the banks use the capital sources released as a result in order to increase the pool of credit available to households and the business sector, without detracting from the need for meticulous and responsible underwriting, with emphasis on the extension of credit to customers who met their credit repayments regularly prior to the outbreak of the coronavirus crisis. In addition, it was clarified that released sources may not be used for dividend distribution or share buyback purposes.
- The minimum leverage ratio requirement was decreased, in order to prevent the leverage ratio from becoming a barrier to credit provision.
- Managing credit facilities in current accounts - option to authorize an overdraft beyond the credit facility at the customer's request for a period of three days (in lieu of one day prior to the relief) and an option to refrain from applying the guidance to amounts greater than NIS 5,000 for private individuals and NIS 100,000 for commercial credit, when the customer has an authorized credit facility. The overdraft interest rate shall not exceed the rate set in the most recent credit facility agreed with the customer.
- Reporting to the Central Credit Register - in accordance with the guidance of the Bank of Israel, negative reporting of alerts for 5 bounced checks were deleted from the system from March 4 2020 to August 10 2020. In addition, transaction which entered into difficulties during the coronavirus crisis were flagged. Reliefs granted to customers following the coronavirus crisis in connection with loan and mortgage deferment are reported in the Register's reporting form fields.
- Bounced checks - according to the Banking Supervision Department's guidance, any restriction on a bank account and its owner should be suspended during the determined period. Information about bounced checks should be reported to the Central Credit Register.
- The LTV on mortgages -
    - The Bank may grant loans for any purpose against mortgaging of an apartment at a 70 percent LTV ratio, in lieu of 50 percent prior to the relief. The loan is conditioned upon the borrower's declaration whereby the loan shall not be used to purchase another apartment.
    - To estimate a borrower's income, banking corporations may take into account the average amount of the borrower's income in the three months prior to their unpaid leave or their cutback to part-time employment owing to the coronavirus crisis, subject to the following conditions: (1) In the bank's estimation, the borrower is expected to return, after the coronavirus crisis, to their employment at the same income level they had had prior to the unpaid leave; (2) Repayments shall not exceed 70 percent of the borrower's income after going on unpaid leave; (3) The bank shall set a limit to the total credit extended under this relief.
    - The requirement whereby for the purpose of calculating the capital adequacy requirement, a banking corporation can increase the CET1 capital target to a rate that reflects 1 percent of the outstanding housing loans will not apply to housing loans approved during the defined period. This relief was designed to ease the capital requirement for banks in respect of mortgages and respectively, decrease the interest on housing loans.
- Debt settlement agreements - the requirement to sign a debt settlement agreement was substituted by a requirement to obtain the customer's documented agreement even by phone.
- Reliefs regarding the deadline for providing up-to-date financial statements to the bank in order to obtain credit.
- Reliefs which allow not to classify certain loans as restructured troubled debt, in order to stabilize borrowers who do not, or may not, meet their loan covenants due to the coronavirus event.

- Reliefs in mortgage payments for entitled parties - guidance by the Accountant General and the Ministry of Housing and Construction regarding reliefs in mortgage payments to entitled parties, including the need to exercise judgment and make special concessions regarding collection processes, and the option to defer mortgage payments by up to six months - in new applications by eligible borrowers who did not previously request grace on their loans, if the application has been submitted to the Bank by December 31 2020. For eligible borrowers who have already been granted grace periods, the Bank is required to allow the grace periods to be extended until December 31 2020, even beyond six-month in total. The outline detailed below on the deferment of repayments of mortgages and consumer loans, also pertains to such loans.
- Outlines to postpone the repayments of mortgages and loans - upon the outbreak of the coronavirus crisis, the Banking Supervision Department formulated an outline, which was adopted by the banking system, allowing customers to postpone repayment of bank loans in three areas of activity: mortgages, consumer credit and credit for businesses. The outline, which was first formed on May 7 2020, was extended and expanded several times.

  On November 30 2020, the Banking Supervision Department published an additional outline for deferment of mortgages and consumer loans subject to the terms and conditions of the outline. The outline emphasized borrowers' resumption of loan repayments, using an accommodating repayment schedule. The period of filing applications for loan deferment in accordance with the additional outline shall be between January 1 2021 and March 31 2021. The deferment shall be made without charge, in accordance with the original interest rate of the loan.

  On December 10 2020, the Banking Supervision Department published an additional outline for providing loan repayment aid to small and micro businesses, subject to the terms and conditions of the outline. The outline allows small and micro-businesses significantly hurt by the crisis, who meet several cumulative conditions of the outline, to defer the principal component of the loan, without the bank exercising any discretion, for the periods established by the outline. The outline also emphasized borrowers' resumption of their loan repayments, using an accommodating repayment schedule. The outline will apply to applications filed between January 1 2021 and March 31 2021. The deferment shall be made without charge, in accordance with the original interest rate of the loan. Loan deferment is akin to new credit.
- Amendments to Bounced Checks Regulations - which complement the Banking Supervision Department's guidance on the topic (according to which any restriction on a bank account and its owner should be suspended during the said period), according to which checks which bounced from March 4 2020 to August 10 2020 have been derecognized from the total number of regular bounced checks (and the account restrictions should be lifted accordingly). On February 7 2021, another draft regulation was published, which proposes that checks which bounced between January 8 2021 and February 7 2021 will be excluded from declined checks.
- Offering a solution to customers who are in financial difficulties due to the coronavirus crisis - according to the Banking Supervision Department's letter, despite the resumption of activity under the coronavirus, the ramifications of the crisis have not yet played out in full, and it appears that many households and businesses are affected and will continue to be affected by the ramifications of the crisis both in the short and mid-terms. Against this backdrop, the banks are required to try to exhaust, as far as possible, various ways to collect debts, including all its components, from customers before turning to the courts and to speed up such efforts, compared to regular times, in order to identify difficulties and help their customers overcome the challenging period, as early as possible, thus helping to prevent them from accumulating debt and from future deterioration. In this context, a variety of tools may be used, such as: extending debt handling schedules; proactively and promptly reaching out to customers in arrears in order to examine ways for helping them; offering them convenient payment terms; providing discounts on fees and commissions and interest in arrears; rescheduling debts for longer periods, and more.

- The coronavirus event - regulatory emphases regarding additional changes in the loan terms and conditions - a letter published on October 12 2020 by the Banking Supervision Department on the substantial adverse effect of the coronavirus event. The letter outlines practices for stabilizing borrowers by prudently and adequately altering their loan terms and conditions, in an effort to ease the cash flow pressures on borrowers who were adversely affected by the crisis, improve their ability to service their debts and help the banking corporation collect its debts. The principles of the letter are based on guidance issued by US bank regulators on August 3 2020, with adjustments to Israel's circumstances.

- The Insolvency and Economic Rehabilitation Bill (Amendment No. 4 - Temporary Order) (Novel Coronavirus) (Delay in Proceedings for Formulation and Approval of Debt Settlement), 2021 - the bill proposes to create a dedicated track for handling debts of debtors (corporations and private individuals) hurt by the coronavirus crisis, which will be in effect for one year, and allow to reach debt settlement agreements as an alternative to full insolvency proceedings. The proposed temporary settlement allows to stay legal proceedings and collections proceedings against the debtor. During the stay period, it is proposed that the debtor will retain control of his/her assets. Therefore, the arrangement also includes respective alternative protections to lenders.

Reliefs due to staffing shortages and working remotely

- Directives issued by the Banking Supervision Department:
  - Changes in the work of the Board of Directors - the Banking Supervision Department issued guidance allowing board meetings to be conducted remotely, using electronic means of communications, in lieu of by physical presence. In addition, the Chairman of the Board was given the option to determine the date and frequency of discussing various topics (subject to the requirements of the Companies Law), thus taking into account the developing risks and rapid changes in the operating environment, and the need to monitor the operations of banking corporations. A relief was also granted regarding the dates of approving and distributing minutes of meetings.
  - Reporting extraordinary actions - clarification by the Banking Supervision Department whereby banks are required to report such actions as soon as possible according to circumstances. However, in this context, the changes in the modus operandi of banking corporations at this time should be taken into account. In a case of a reporting delay, the delay should be documented. This clarification is consistent with the one issued by the Prohibition on Money Laundering Authority, according to which the Authority will accept reporting delays. On the other hand, the Authority emphasized it expects financial institutions to provide information to it as close as possible to the relevant date, in accordance with the risk management policy and as needed.
  - Handling public inquiries - reliefs regarding the handling of public inquiries, including the manner of answering customers and the time frames for providing the response. At this stage, the Banking Supervision Department has determined that the easements may be used under exceptional circumstances, such as a complete lockdown or substantial decrease in manpower.
  - Rotation and continuous leave in 2020 - various reliefs in implementing the continuous leave requirement, while distinguishing between employees who do not fulfil roles identified as sensitive and those fulfilling roles that have been identified as such. In addition to the relief, the banks are required to step up their supervision and control over fraud and embezzlement risks.

- General:
  - General permit to employ workers overtime, taking into account the special needs of the work place and the good of the workers, their safety and needs, which was in effect for two months as of March 17 2020. On October 4 2020, an additional permit was published, which was valid through October 31 2020.

Postponement of the effective dates, reliefs for reporting to the Banking Supervision Department, and additional guidance

- Postponement of the effective date of Proper Conduct of Banking Business Directive No. 368, "Open Banking" by approx. three months, such that the gradual application of the directive will commence on March 31 2021.
- Postponement of the banks' preparations for various topics, including: postponement of preparations for reporting the results of Quantitative Impact Survey (QIS) regarding restrictions on pledging assets of banking corporations; deferral of the deadline for completing the QIS in respect of to the Proper Conduct of Banking Business Directive draft on Net Stable Funding Ratio (NFSR) until December 31 2020 and postponement of the gaps survey according to the FX Global Code.
- Postponement of the deadline for conducting a safety survey for high-risk systems.
- Reliefs for reporting to the Banking Supervision Department in accordance with various reporting requirements, whether by temporarily holding the report or postponing it.
- Postponement of an independent survey of the Internal Audit function (which banking corporations are required to conduct at least every five years), such that if the five-year period ends during 2020, the bank may extend the completion date by six months.
- Postponement of an operational risks survey (which banking corporations are required to conduct at least every three years), such that if the three-year period ends during 2020, the bank may extend the completion date by six months.
- Postponement of the "Mandatory Inter-Bank Transitioning" Reform by six months, until September 22 2021.
- The Order for Increasing Competition and Reducing Concentration in the Banking Industry in Israel for Minimizing Market Centralization and Promoting Economic Competition (Legal Amendments) (Change of Rate and Amounts of Credit Facilities in accordance with Section 9(c) to the Law) (Temporary Order), 2020, published on November 17 2020 pursuant to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017 (hereinafter: the "Law"). Pursuant to the law, from January 31 2021 to January 31 2024, the total credit limits on the Bank's credit cards by customers of a bank with extensive activity, each year, shall not exceed 50 percent of the total credit limits on the credit cards of the Bank's customers as of 2015. In calculating the said total credit limits, credit limits above NIS 5,000 shall be included and the credit limit on a customer's credit card shall not be reduced to less than the said amount. In this matter, "a bank with extensive activity" is one whose total assets is more than 20 percent of all Israeli banks' total assets.

  According to the said ordinance, and against the backdrop of worsening economic condition of numerous households following the coronavirus event, it was determined that the credit limits on credit cards of customers of such banks shall not exceed 55 percent of the limits, as was the case in 2015. It was also determined that in calculating the said total credit limits, credit limits above NIS 7,500 shall be included and the credit limit on a customer's credit card shall not be reduced to less than the said amount. The ordinance will be in effect for a limited period of one year, until January 31 2022, upon which the new arrangement under the law shall become effective, as outlined above.

  According to the provisions of the law and as provided by the arrangement prescribed by the ordinance, the Bank began reducing the said credit limits.

The various adjustments required due to the coronavirus event were limited to different time frames, in line with the assessments regarding the duration of the coronavirus event, and are continuously being revised in accordance with the needs of the customers and banking system, as well as the economic situation in Israel.
The effect of said regulatory provisions is part of the overall effect of the event on the Bank and Group as outlined in this Report.

Additional Topics

Environmental risk management

Lately, there is a growing understanding that the materialization of environmental risks will adversely affect the economy and undermine the stability of the banks and financial system. Accordingly, regulators in Israel and across the world require banks to prepare to risk-manage this issue. The Bank is studying the topic and its possible implications.

Privacy protection

Lately, there has been a trend of growing regulation in the area of privacy protection, both in Israel and around the world. European Directive PSD2 places specific emphasis on privacy protection in payments services. Lately, this trend has become manifested in Israel as well in the draft for public comment published by the Privacy Protection Authority on privacy protection of users of applications for payments transfer and payment to merchants. The Privacy Protection Authority believes that special emphasis should be made on obtaining consent for all aspects of subscription and use of the applications, in order to allow the users to control their information in the best manner and ensure that their information will be used at their knowledge and subject to their full consent, while preserving their privacy. In addition, as part of the said paper, the Authority discusses issues such as information collection as part of authorizing access to various components in mobile phones (such as the camera and contact list); collection and processing information by using cookies; consent to use other and new technologies; as well as details for the users' rights and privacy aspects once the engagement has been severed. In addition, the Privacy Protection Authority lately published a draft for public comment on appointing a privacy protection officer in the organization and his/her purview. The draft was intended to clarify the Privacy Protection Authority's stance, according to which a privacy protection supervisor should be appointed in order to ensure that personal information laws are complied with in Israel; the supervisor would be responsible for implementing personal information laws in the organization.

Implementation of the provisions of these laws, if any, will require changes in work processes.

Operational risks management

Lately, special emphasis was made on guidance from the operational risks domain, inter alia, due to the increase in various potential risks due to the coronavirus crisis and due to the continued uncertainty and extreme and rapid changes in economic conditions in the financial markets, business activities and mode of operation with customers.

In this context, the following regulatory actions may be mentioned:

- Letter of the Banking Supervision Department dated October 13 2020, Emphases for Managing and Monitoring Model Risks on the Back of the Coronavirus Crisis, which is aimed at ensuring, as far as possible, a solid basis for the use of such models during their period, as well as to mitigate the higher models risks due to the crisis.
- Letter of the Banking Supervision Department's dated December 6 2020, E-Commuting in the Banking System, which is aimed at ensuring that e-commuting in the banking system takes place while implementing the necessary steps to identify and manage the risks thereof.
- Letter of the Banking Supervision Department's dated December 30 2020, Models and Technological Tools in the Area of Prohibition on Money Laundering and Terrorism Funding - emphasis on managing models risks, usage and innovation, which is intended to boost the capabilities of managing compliance risks, inter alia by examining the possibility of using "smart technologies", such as AI, machine learning, robotics or natural language processing.

The Bank applies high risk management standards and examines necessary adjustments in its activity in accordance with said guidance.

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.

Taxation

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.

Tax rate

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 from 2018 onwards:

- Profit tax rate of 17.00 percent.
- Corporate tax rate of 23.00 percent.
- Total tax rate of 34.19 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

Credit Ratings

Credit ratings and outlook for the State of Israel and the Bank as at March 8 2021:

	Rating agency	Long term	Outlook	Short term
State of Israel	Moody's	A1	Stable	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-1
	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 2020 to March 8 2021:

On February 18 2020, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On April 30 2020, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On June 17 2020, credit rating agency Moody's reiterated the Bank's rating and rating outlook.

On June 19 2020, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On July 20 2020, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On July 20 2020, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On September 30 2020, credit rating agency Midroog reiterated the Bank's rating and rating outlook.

On December 9 2020, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On December 9 2020, credit rating agency Moody's reiterated the Bank's rating and rating outlook.

On December 22 2020, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On December 29 2020, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On January 20 2021, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On February 16 2021, 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 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 186 branches and service centers 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 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-backed loans

On the back of the coronavirus outbreak, the government has decided to establish a dedicated loan fund, in order to aid businesses with cash flow difficulties as a result of the effects of the coronavirus outbreak.

The fund was established in April 2020. The loans are given against state guarantees. The loans are for a period of one to 5 years with an option of a 12-months grace period. In the first year, interest is paid by the state. Those entitled to apply for loans from the fund include VAT-exempt deals and authorized dealers, NGOs, cooperatives or partnerships with annual turnovers of up to NIS 400 million.

The funds offer two tracks:

- The general track - regular track
- The accelerated track. The accelerated track was established in early July 2020. The above allows higher-risk customers to apply for loans under the general track.

As of January 25 2021, 17,500 loans totaling NIS 6 billion were provided in both tracks (including both the Banking Division and Corporate Division).

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 customer service; the operational services are provided by employees of the Operations Division, as well as through technological services, etc. The Commercial Banking Department's business model involves 12 business centers deployed across Israel, with the aim of providing the best, most efficient service to commercial customers. 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 2021, the global and Israeli economies will gradually emerge from the coronavirus crisis and resume moderate growth - which is expected to impact middle market customers. 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. LeumiTech offers technology company additional, dedicated credit products, including financing, venture lending and SAAS credit.

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.

As a rule, customers with approved credit facilities of more than NIS 10 million and up to NIS 150 million (inclusive) and/or customers with approved credit facilities of up to NIS 250 million to fund income-generating assets or customers with turnovers 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 technology 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 150 million or with a turnover of more than NIS 400 million are assigned to the Corporate Banking segment.

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

While 2020 was characterized by negative growth - as a result of the coronavirus crisis - the expectation is that the country will return to positive growth in 2021, with the rate of growth depending on the economy's ability to resume full activity.

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 2020, housing construction was affected by the various restrictions (movement restrictions, restrictions on arrival of foreign workers and isolation requirement); although the sector was defined as essential, there was a decline in criteria such as investments in construction, the pace of construction starts, sales and apartment deliveries and the number of land sale tenders Nonetheless, the decrease in purchase tax at the end of July 2020 and the apparent return of investors to the housing market, may contribute to greater demand for housing in 2021, in addition to the expected effect of the Bank of Israel's expedient regarding the prime track in mortgages and additional expedients in this area.

The commercial real estate market is significantly affected by developments and preferences in households' consumption. In 2020, medium and large commercial centers suffered substantial harm, as a result of movement restrictions throughout the year and due to the public's accelerated transition to online commerce. Looking forward, the assessment is that once full activity is resumed, these center will recover, albeit at a slow pace, even in light of the excess supply in the market. The office market, on the other hand, showed relative resilience and sustained moderate damage (especially due to the growth in the high-tech services sector); it is estimated that in 2021, prices will remain relatively stable, in addition to a slight decrease in occupancy rates, driven by increased telecommuting.

In 2021, as in previous years, real estate activity is expected to be affected by the following factors: the macroeconomic environment and the economy's full recovery; regulatory changes - particularly those relating to the residential housing market; establishment of a new government and continued implementation of government programs; completion of construction projects; as well as the scope of the government's 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 2020, 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 derivatives.
- 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 action in the available-for-sale nostro portfolio, the held-to-maturity portfolio and use of derivatives.

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 2020, equity and debt markets underwent substantial volatility; at the beginning of the coronavirus crisis, during the first quarter, markets underwent sharp declines and debt spreads rose; as of the beginning of the second quarter, the trend was reversed and markets recovered substantially.

During the first quarter of 2020, the Fed interest rates declined sharply, from a range of 1.5-1.75 percent to 0-0.25 percent, and in April, the Bank of Israel interest rate was down from 0.25 percent to 0.1 percent; later in the year, the said interest rates remained stable.

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 Expenditure Rates[a] and Analysis of the Changes in Interest Income and Expenses

Part A - Average Balances and Interest Rates – Assets

	2020			2019			2018		
	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Interest-bearing assets									
Loans to the public[c]									
In Israel	**261,743**	**8,029**	**3.07**	249,881	8,648	3.46	243,675	8,887	3.65
Outside Israel	**23,656**	**940**	**3.97**	24,333	1,178	4.84	24,530	1,198	4.88
Total[i]	**285,399**	**8,969**	**3.14**	274,214	9,826	3.58	268,205	10,085	3.76
Loans to the government									
In Israel	**737**	**24**	**3.26**	717	32	4.46	719	33	4.59
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**737**	**24**	**3.26**	717	32	4.46	719	33	4.59
Deposits with banks									
In Israel	**11,096**	**85**	**0.77**	10,115	172	1.70	9,032	130	1.44
Outside Israel	**197**	**-**	**-**	359	5	1.39	395	3	0.76
Total	**11,293**	**85**	**0.75**	10,474	177	1.69	9,427	133	1.41
Deposits with central banks									
In Israel	**68,836**	**90**	**0.13**	48,514	122	0.25	49,146	57	0.12
Outside Israel	**1,240**	**3**	**0.24**	1,053	14	1.33	1,958	21	1.07
Total	**70,076**	**93**	**0.13**	49,567	136	0.27	51,104	78	0.15
Securities borrowed or purchased under reverse repurchase agreements									
In Israel	**1,915**	**6**	**0.31**	886	4	0.45	1,042	2	0.19
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,915**	**6**	**0.31**	886	4	0.45	1,042	2	0.19
Bonds - available-for-sale[d]									
In Israel	**76,264**	**859**	**1.13**	66,968	1,087	1.62	64,904	819	1.26
Outside Israel	**4,675**	**114**	**2.44**	5,375	143	2.66	5,269	156	2.96
Total	**80,939**	**973**	**1.20**	72,343	1,230	1.70	70,173	975	1.39
Bonds - held-for-trading[d]									
In Israel	**7,735**	**25**	**0.32**	5,347	32	0.60	5,929	38	0.64
Outside Israel	**-**	**-**	**-**	-	-	-	56	2	3.57
Total	**7,735**	**25**	**0.32**	5,347	32	0.60	5,985	40	0.67
Total interest-bearing assets	**458,094**	**10,175**	**2.22**	413,548	11,437	2.77	406,655	11,346	2.79
Non-interest-bearing receivables for credit cards	**5,284**			5,901			6,695		
Other non-interest-bearing assets[e]	**49,990**			41,050			38,348		
Total assets	**513,368**	**10,175**		460,499	11,437		451,698	11,346	
Total interest-bearing assets attributed to foreign operations	**29,768**	**1,057**	**3.55**	31,120	1,340	4.31	32,208	1,380	4.28

Please see comments below.

Part B - Average Balances and Interest Rates - Liabilities and Capital

	2020			2019			2018		
	Average balance[(b)]	Interest expense	% of expense	Average balance[(b)]	Interest expense	% of expense	Average balance[(b)]	Interest expense	% of expense
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Interest-bearing liabilities									
Deposits by the public									
In Israel	**285,623**	**(940)**	**(0.33)**	258,793	(1,736)	(0.67)	247,570	(1,585)	(0.64)
Demand deposits	**150,125**	**(33)**	**(0.02)**	126,291	(152)	(0.12)	114,355	(90)	(0.08)
Fixed deposits	**135,498**	**(907)**	**(0.67)**	132,502	(1,584)	(1.20)	133,215	(1,495)	(1.12)
Outside Israel	**14,361**	**(113)**	**(0.79)**	15,549	(290)	(1.87)	15,756	(262)	(1.66)
Demand deposits	**6,788**	**(25)**	**(0.37)**	5,781	(77)	(1.33)	5,453	(72)	(1.32)
Fixed deposits	**7,573**	**(88)**	**(1.16)**	9,768	(213)	(2.18)	10,303	(190)	(1.84)
Total	**299,984**	**(1,053)**	**(0.35)**	274,342	(2,026)	(0.74)	263,326	(1,847)	(0.70)
Deposits by the Israeli Government									
In Israel	**193**	**(3)**	**(1.55)**	198	(3)	(1.52)	240	(4)	(1.67)
Outside Israel	**80**	**-**	**-**	307	-	-	329	-	-
Total	**273**	**(3)**	**(1.10)**	505	(3)	(0.59)	569	(4)	(0.70)
Deposits by central banks									
In Israel	**2,847**	**(3)**	**(0.11)**	42	(1)	(2.38)	35	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**2,847**	**(3)**	**(0.11)**	42	(1)	(2.38)	35	-	-
Deposits by banks									
In Israel	**5,687**	**(11)**	**(0.19)**	4,993	(26)	(0.52)	4,905	(28)	(0.57)
Outside Israel	**155**	**-**	**-**	50	-	-	56	(1)	(1.79)
Total	**5,842**	**(11)**	**(0.19)**	5,043	(26)	(0.52)	4,961	(29)	(0.58)
Securities loaned or sold under reverse repurchase agreements									
In Israel	**1,080**	**(8)**	**(0.74)**	384	(3)	(0.78)	477	(2)	(0.42)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,080**	**(8)**	**(0.74)**	384	(3)	(0.78)	477	(2)	(0.42)
Bonds									
In Israel	**19,935**	**(374)**	**(1.88)**	19,896	(537)	(2.70)	16,812	(574)	(3.41)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**19,935**	**(374)**	**(1.88)**	19,896	(537)	(2.70)	16,812	(574)	(3.41)
Total interest-bearing liabilities	**329,961**	**(1,452)**	**(0.44)**	300,212	(2,596)	(0.86)	286,180	(2,456)	(0.86)
Non-interest-bearing deposits from the public	**112,246**			91,061			95,821		
Non-interest-bearing payables for credit cards	**1,725**			3,945			6,297		
Other non-interest-bearing liabilities[(f)]	**32,241**			29,304			29,104		
Total liabilities	**476,173**	**(1,452)**		424,522	(2,596)		417,402	(2,456)	
Total capital resources	**37,195**			35,977			34,296		
Total capital commitments and sources	**513,368**	**(1,452)**		460,499	(2,596)		451,698	(2,456)	
Interest rate spread		**8,723**	**1.78**		8,841	1.91		8,890	1.93
Net return[(g)] on interest-bearing assets[(f)(j)]									
In Israel	**428,326**	**7,779**	**1.82**	382,428	7,791	2.04	374,447	7,773	2.08
Outside Israel	**29,768**	**944**	**3.17**	31,120	1,050	3.37	32,208	1,117	3.47
Total	**458,094**	**8,723**	**1.90**	413,548	8,841	2.14	406,655	8,890	2.19
Total interest-bearing liabilities attributed to foreign operations	**14,596**	**(113)**	**(0.77)**	15,906	(290)	(1.82)	16,141	(263)	(1.63)

Please see comments below.

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Activities in Israel

	2020			2019			2018		
	Average balance[b]	Interest income (expe-nses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (expe-nse)
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Unlinked NIS									
Total interest-bearing assets	**302,496**	**6,649**	**2.20**	272,720	6,854	2.51	272,333	6,593	2.42
Total interest-bearing liabilities	**226,950**	**(451)**	**(0.20)**	200,685	(580)	(0.29)	195,011	(437)	(0.22)
Interest rate spread			**2.00**			2.22			2.20
CPI-linked NIS									
Total interest-bearing assets	**47,620**	**1,160**	**2.44**	46,504	1,563	3.36	45,767	1,959	4.28
Total interest-bearing liabilities	**23,962**	**(316)**	**(1.32)**	29,722	(720)	(2.42)	30,994	(1,000)	(3.23)
Interest rate spread			**1.12**			0.94			1.05
Foreign currency (including foreign-currency linked NIS)									
Total interest-bearing assets	**78,210**	**1,309**	**1.67**	63,204	1,680	2.66	56,347	1,414	2.51
Total interest-bearing liabilities	**64,453**	**(572)**	**(0.89)**	53,899	(1,006)	(1.87)	44,034	(756)	(1.72)
Interest rate spread			**0.78**			0.79			0.79
Total activity in Israel									
Total interest-bearing assets	**428,326**	**9,118**	**2.13**	382,428	10,097	2.64	374,447	9,966	2.66
Total interest-bearing liabilities	**315,365**	**(1,339)**	**(0.42)**	284,306	(2,306)	(0.81)	270,039	(2,193)	(0.81)
Interest rate spread			**1.71**			1.83			1.85

Please see comments below.

Part D - Analysis of Changes in Interest Income and Interest Expenses

	2020 vs. 2019			2019 vs. 2018		
	Increase (decrease) due to change(h)		Net change	Increase (decrease) due to change(h)		Net change
	Quantity	Price		Quantity	Price	
	In NIS million					
Interest-bearing assets						
Loans to the public						
In Israel	364	(983)	(619)	215	(454)	(239)
Outside Israel	(27)	(211)	(238)	(10)	(10)	(20)
Total	337	(1,194)	(857)	205	(464)	(259)
Other interest-bearing assets						
In Israel	223	(583)	(360)	19	351	370
Outside Israel	(13)	(32)	(45)	(21)	1	(20)
Total	210	(615)	(405)	(2)	352	350
Total interest income	547	(1,809)	(1,262)	203	(112)	91
Interest-bearing liabilities						
Deposits by the public						
In Israel	88	(884)	(796)	75	76	151
Outside Israel	(9)	(168)	(177)	(4)	32	28
Total	79	(1,052)	(973)	71	108	179
Other interest-bearing liabilities						
In Israel	57	(228)	(171)	68	(106)	(38)
Outside Israel	-	-	-	-	(1)	(1)
Total	57	(228)	(171)	68	(107)	(39)
Total interest expense	136	(1,280)	(1,144)	139	1	140
Total interest, net	411	(529)	(118)	64	(113)	(49)

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 non-linked 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 outstanding loan loss provisions. Including non-accrual impaired 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 1,675 million (December 31 2019 – NIS 418 million; December 31 2018 - NIS (274) million).

(e) Including book balances of derivatives, other non-interest-bearing assets, non-monetary assets, and less loan loss provision.

(f) Including book balances of derivatives 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 400 million were included in interest income from loans to the public (December 31 2019 - NIS 399 million; December 31 2018 - NIS 365 million).

(j) Net yield on interest-bearing assets (NIM) for the fourth quarter of 2020 and 2019 was 1.88 percent and 2.13 percent, respectively.

Quarterly Consolidated Income Statement - Multi-Quarter Information

	For the year ended December 31							
	2020				2019			
	4	3	2	1	4	3	2	1
	In NIS million							
Interest income	**2,502**	**2,582**	**2,498**	**2,593**	2,676	2,526	3,556	2,679
Interest expense	**285**	**366**	**377**	**424**	513	434	1,090	559
Interest income, net	**2,217**	**2,216**	**2,121**	**2,169**	2,163	2,092	2,466	2,120
Loan loss expenses (income)	**270**	**547**	**875**	**860**	158	181	288	(18)
Interest income, net after loan loss expenses	**1,947**	**1,669**	**1,246**	**1,309**	2,005	1,911	2,178	2,138
Noninterest income								
Noninterest Finance Income	**539**	**457**	**690**	**(660)**	383	305	333	665
Fees and commissions	**824**	**788**	**776**	**893**	799	800	817	809
Other income	**23**	**8**	**15**	**13**	18	27	44	81
Total noninterest income	**1,386**	**1,253**	**1,481**	**246**	1,200	1,132	1,194	1,555
Operating and other expenses								
Salaries and related expenses	**954**	**942**	**911**	**935**	1,021	1,043	1,125	1,136
Buildings and equipment - maintenance and depreciation	**385**	**371**	**367**	**408**	397	379	370	375
Other expenses	**486**	**436**	**391**	**460**	658	514	455	435
Total operating and other expenses	**1,825**	**1,749**	**1,669**	**1,803**	2,076	1,936	1,950	1,946
Profit before tax	**1,508**	**1,173**	**1,058**	**(248)**	1,129	1,107	1,422	1,747
Provision for profit tax	**604**	**432**	**359**	**(39)**	386	324	499	621
Profit after taxes	**904**	**741**	**699**	**(209)**	743	783	923	1,126
The Bank's share in associates' profits (losses), net, after tax	**(8)**	**8**	**1**	**(14)**	7	(8)	10	(24)
Net income:								
Before attribution to non-controlling interests	**896**	**749**	**700**	**(223)**	750	775	933	1,102
Attributable to non-controlling interests	**(6)**	**1**	**(6)**	**(9)**	(8)	(10)	(10)	(10)
Attributable to the Bank's shareholders	**890**	**750**	**694**	**(232)**	742	765	923	1,092
Basic and diluted earnings per share (in NIS)								
Basic and diluted net income attributable to the Bank's shareholders	**0.61**	**0.52**	**0.48**	**(0.16)**	0.51	0.52	0.62	0.73

Loan Loss Expenses

	For the year ended December 31							
	2020				2019			
	4	3	2	1	4	3	2	1
	In NIS million							
Loan loss expense (income) - specific	395	(5)	175	104	42	68	73	(124)
Loan loss expense - collective	(125)	552	700	756	116	113	215	106
Total expense (income) for loan losses	270	547	875	860	158	181	288	(18)
Of which:								
Loan loss expenses (income) for credit risk in respect of commercial credit risk	253	498	615	739	127	146	203	(22)
Loan loss expenses (income) for risk for housing loans	(15)	52	107	31	8	(1)	24	(9)
Loan loss expenses for other credit risk for private individuals	34	(5)	155	87	22	38	60	14
Loan loss expenses (income) for credit risk for banks and governments	(2)	2	(2)	3	1	(2)	1	(1)
Total expense (income) for loan losses	270	547	875	860	158	181	288	(18)
Ratios (in %):								
Percentage of specific expense (income) for loan losses out of total loans to the public, net[(a)]	0.55	(0.01)	0.24	0.14	0.06	0.10	0.10	(0.18)
Percentage of expenses (income) in respect of loan losses out of the average outstanding loans to the public[(a)]	0.37	0.76	1.19	1.20	0.22	0.26	0.41	(0.03)
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	(0.02)	(0.03)	(0.06)	(0.07)	(0.06)[(b)]	(0.08)[(b)]	(0.07)[(b)]	(0.02)[(b)]
Percentage of net write-offs for loans to the public out of the outstanding loan loss provisions for loans to the public	(1.34)	(1.44)	(4.06)	(4.96)	(4.90)[(b)]	(7.30)[(b)]	(6.05)[(b)]	(1.87)[(b)]

(a) Annualized.
(b) Reclassified.

In the fourth quarter of 2020, the change in the loan loss expenses composition stems, inter alia, from the transition of collective expenses recorded in previous periods to specific expenses, which partially reflect risk in respect of specific customers.

Noninterest Income

	For the year ended December 31							
	2020				2019			
	4	3	2	1	4	3	2	1
	In NIS million							
Noninterest Finance Income	539	457	690	(660)	383	305	333	665
Fees and commissions	824	788	776	893	799	800	817	809
Other income	23	8	15	13	18	27	44	81
Total	1,386	1,253	1,481	246	1,200	1,132	1,194	1,555

Fees and Commissions

	For the year ended December 31							
	2020				2019			
	4	3	2	1	4	3	2	1
	In NIS million							
Account management	154	161	155	172	171	172	172	175
Credit cards	82	82	78	85	80	74	85	71
Activity in securities and certain derivatives	187	165	177	198	156	163	158	160
Financial products distribution fees and commissions	54	53	51	58	62	60	59	57
Management, operating and trust services provided to institutional entities	17	21	21	21	17	17	19	19
Credit handling	49	42	39	43	53	44	45	55
Exchange rate differentials	86	84	85	137	88	91	91	91
Foreign trade activity	32	28	26	28	28	31	29	31
Net income from loan portfolio servicing	2	3	2	2	2	3	3	3
Management fees and commissions on life and home insurance	14	11	13	14	12	16	17	13
Financing fees and commissions	120	111	103	108	105	103	114	109
Other fees and commissions	27	27	26	27	25	26	25	25
Total fees and commissions	824	788	776	893	799	800	817	809

Salary Expenses

	For the year ended December 31							
	2020				2019			
	4	3	2	1	4	3	2	1
	In NIS million							
Salaries and related expenses	845	851	823	855	926	953	1,035	1,055
Pension, severance and retirement expenses	109	91	88	80	95	90	90	81
Total salary expenses	954	942	911	935	1,021	1,043	1,125	1,136

Consolidated Balance Sheet as of End of Quarter - Multi-Quarter Information

	December 31							
	2020				2019			
	4	3	2	1	4	3	2	1
	In NIS million							
Assets								
Cash and deposits with banks	136,194	117,555	100,982	103,171	76,213	63,066	83,605	76,380
Securities	92,297	95,164	98,672	94,012	84,949	85,781	80,763	79,553
Securities borrowed or purchased under reverse repurchase agreements[(a)]	3,019	2,333	1,892	1,664	1,117	662	2,646	682
Loans to the public	300,631	291,461	290,977	298,455	285,806	283,646	280,988	280,854
Loan loss provision	(5,290)	(5,087)	(4,633)	(3,969)	(3,328)	(3,272)	(3,354)	(3,308)
Loans to the public, net	295,341	286,374	286,344	294,486	282,478	280,374	277,634	277,546
Loans to governments	632	726	739	728	744	672	734	723
Investments in associates	795	801	748	741	765	668	690	601
Buildings and equipment	2,932	2,886	2,910	2,956	3,043	2,973	2,940	2,863
Goodwill	15	16	16	16	16	16	16	17
Assets for derivatives	15,252	12,551	14,796	24,901	10,970	12,321	11,099	9,408
Other assets	9,558	9,644	9,749	8,860	8,486	8,584	8,092	8,450
Total assets	556,035	528,050	516,848	531,535	468,781	455,117	468,219	456,223
Liabilities and capital								
Deposits by the public	447,031	427,115	416,956	418,627	373,644	359,896	374,007	364,019
Deposits by banks	15,143	10,685	6,659	6,172	6,176	4,295	4,939	4,488
Deposits by governments	208	232	230	313	315	439	437	424
Securities loaned or sold under repurchase agreements[(a)]	605	695	483	3,714	123	365	637	400
Bonds, capital notes and subordinated bonds	16,303	17,368	19,519	22,530	19,958	20,002	19,981	20,951
Liabilities for derivatives	17,315	13,559	15,810	24,946	11,528	13,251	11,626	9,519
Other liabilities	21,335	20,813	20,598	18,524	21,163	21,266	20,339	20,001
Total liabilities	517,940	490,467	480,255	494,826	432,907	419,514	431,966	419,802
Equity attributable to the Bank's shareholders	37,664	37,128	36,132	36,245	35,406	35,144	35,795	35,940
Non-controlling interests	431	455	461	464	468	459	458	481
Total capital	38,095	37,583	36,593	36,709	35,874	35,603	36,253	36,421
Total liabilities and capital	556,035	528,050	516,848	531,535	468,781	455,117	468,219	456,223

(a) Reclassified.

Consolidated Income Statement for 2016-2020 - Multi-Year Information

	2020	2019	2018	2017	2016
	In NIS million				
Interest income	**10,175**	11,437	11,346	10,069	9,552
Interest expense	**1,452**	2,596	2,456	2,023	2,026
Interest income, net	**8,723**	8,841	8,890	8,046	7,526
Loan loss expenses (income)	**2,552**	609	519	172	(125)
Interest income, net after loan loss expenses	**6,171**	8,232	8,371	7,874	7,651
Noninterest income					
Noninterest Finance Income	**1,026**	1,686	682	919	1,282
Fees and Commissions	**3,281**	3,225	4,121	4,052	3,887
Other income	**59**	170	68	371	159
Total noninterest income	**4,366**	5,081	4,871	5,342	5,328
Operating and other expenses					
Salaries and related expenses	**3,742**	4,325	4,544	4,591	4,778
Buildings and equipment - maintenance and depreciation	**1,531**	1,521	1,569	1,661	1,697
Other expenses	**1,773**	2,062	2,224	2,163	2,025
Total operating and other expenses	**7,046**	7,908	8,337	8,415	8,500
Profit before tax	**3,491**	5,405	4,905	4,801	4,479
Provision for profit tax	**1,356**	1,830	1,619	1,692	1,717
Profit after taxes	**2,135**	3,575	3,286	3,109	2,762
The banking corporation's share in associates' profits after tax effect	**(13)**	(15)	36	92	66
Net income					
Before attribution to non-controlling interests	**2,122**	3,560	3,322	3,201	2,828
Attributable to non-controlling interests	**(20)**	(38)	(65)	(29)	(37)
Attributable to the Bank's shareholders	**2,102**	3,522	3,257	3,172	2,791
Basic and diluted earnings per share (in NIS)					
Basic net income attributable to the Bank's shareholders	**1.44**	2.37	2.15	2.08	1.85
Diluted net income attributable to the Bank's shareholders	**1.44**	2.37	2.15	2.08	1.84

Consolidated Balance Sheet as at December 31 - Multi-Year Information

	2020	2019	2018	2017	2016
	In NIS million				
Assets					
Cash and deposits with banks	**136,194**	76,213	80,113	81,333	74,757
Securities	**92,297**	84,949	74,571	77,299	77,201
Securities borrowed or purchased under reverse repurchase agreements	**3,019**	1,117	1,037	1,161	1,284
Loans to the public	**300,631**	285,806	275,954	271,977	265,428
Loan loss provision	**(5,290)**	(3,328)	(3,352)	(3,213)	(3,471)
Loans to the public, net	**295,341**	282,478	272,602	268,764	261,957
Loans to governments	**632**	744	782	715	642
Investments in associates	**795**	765	623	807	901
Buildings and equipment	**2,932**	3,043	2,853	2,986	3,147
Goodwill	**15**	16	17	16	17
Assets for derivatives	**15,252**	10,970	12,750	9,573	10,654
Other assets	**9,558**	8,486	6,642	8,262	8,043
Held-for-sale assets[(a)]	**-**	-	8,570	-	-
Total assets	**556,035**	468,781	460,560	450,916	438,603
Liabilities and capital					
Deposits by the public	**447,031**	373,644	364,714	362,854	346,854
Deposits by banks	**15,143**	6,176	5,210	4,858	3,394
Deposits by governments	**208**	315	709	452	900
Securities loaned or sold under repurchase agreements	**605**	123	321	558	539
Bonds, promissory notes and subordinated bonds	**16,303**	19,958	17,798	15,577	22,640
Liabilities for derivatives	**17,315**	11,528	12,089	9,740	10,677
Other liabilities	**21,335**	21,163	14,780	23,324	21,885
Held-for-sale liabilities[(a)]	**-**	-	8,778	-	-
Total liabilities	**517,940**	432,907	424,399	417,363	406,889
Non-controlling interests	**431**	468	856	386	367
Equity attributable to the Bank's shareholders	**37,664**	35,406	35,305	33,167	31,347
Total capital	**38,095**	35,874	36,161	33,553	31,714
Total liabilities and capital	**556,035**	468,781	460,560	450,916	438,603

(a) 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 bank and whose activities are limited to the fields of activity permitted to the bank controlling it, except activities reserved exclusively for corporations defined as banks 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 bank 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 bank's shareholders, with the addition of some of the non-controlling 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 bank.
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 bank) 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: • Level 1 – Value based on quoted market prices; • Level 2 – Estimated value based on observable inputs; • 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 Non-Performing Loan	A 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 bank 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 of the Banking Supervision Department.
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 bank 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.
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-Performing Loan (NPL)	Non-accrual impaired debt.
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; • Unutilized credit facilities; • Undertakings pursuant to guarantee agreements; • Undertakings pursuant to an approval in principle where the Bank is committed to maintain the interest rate over a certain period, • and more.
On-call Credit	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 bank'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.
Rate of 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: • Net income attributed to bank'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; • Net income attributed to bank'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.
Special Mention Loan	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.
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 bank, 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 banks have adequate capital to support all the risks associated with their business and also to encourage banks 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 bank'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.