

Part Three - Profit and Loss Statement

52. General

Unless otherwise stated, the provisions regarding the profit and loss statement relate to the profit and loss statement in reported amounts, as stated in Standard no. 12.

53. Set off of Income and Expenses

Income against expenses should not be set off except in the cases where these Provisions expressly state otherwise. Amounts repaid on account of specific expenses should be set off against such expenses.

54. Participation in Expenses

Where other parties have participated in the expenses of the banking corporation, the amounts of the participation should be included in the appropriate items, specifying such amounts separately.

55. Additional Guidelines for Drawing-up a Profit and Loss Statement

- a) A nominal (unconsolidated) profit and loss statement should be prepared for each month separately.
- b) The profit and loss statement will be divided into three sections, to include the following components:
 - (1) Financial section - financing income, financing expenses and provisions for doubtful debts;
 - (2) Operations section - income from financial services, profits from the sale of shares, other income and other operating expenses;
 - (3) Designated section - all the following items which come after profit from pre-tax ordinary operations.
- c) Strict single value correlation must be maintained between the profit and loss statement items and those appearing in the balance sheet.
- d)
 - (1) In a profit and loss statement of a banking corporation - exchange rate differentials on balance sheet balances in foreign currency as at the beginning of the month are to be included in the appropriate income and expenses items;
 - (2) In a nominal profit and loss statement on a consolidated basis -
At the time of the consolidation of the statement of a representative office being a remote extension of the banking corporation; there is to be included in the income and expenses of the representative office, exchange rate differentials (gross) as included in the statement of the banking corporation;

56. **Income from Credit (to the Public and the Government)**

- a. In these items, there must be included income from interest, linkage differentials and exchange rate differentials on credit.
- b. In these items, a one-time commission taken from a borrower otherwise than for a specific service or not being as a repayment of special expenses, but as an increment to the interest, is to be included. Such a commission will not be taken into account as income in the collection year, but spread over the loan period in proportion to the interest. For the purpose of these items, there will be considered as a one-time commission any increased rate of interest which the banking corporation collects in the first year, and which exceeds the regular interest rate collected by the banking corporation in the subsequent years. Thus, allocation commissions for credit frameworks, must be included in these items, and these will be posted to income proportionately to the period of the framework.
- c. Interest on a doubtful debt -
Pending the waiver by the banking corporation to receive interest on a debt determined to be doubtful, the banking corporation will continue to debit the debtor's account with the interest, at the rate prescribed according to the agreement with the customer. This interest will not be posted to income in the profit and loss statement but credited to "**provision for interest on doubtful debts**" account, as from the beginning of the quarter in which the doubtful debt was determined. Where a banking corporation has determined that part of a debt is doubtful, the interest will be posted only on that part of the debt to the "**provision for interest on doubtful debts**" item. The provision accounts for doubtful debts and the interest thereon, will be managed in a manner enabling provisions made for specific debts to be attributed at any time.

- d. Non-income bearing debts -
- (1) Interest accrued on non-income bearing debts, will be posted as income to the profit and loss statement only when actually collected. Until collection, the customer's account will be debited to the credit of the "**provision for interest on non-income bearing debts**" account, as from the commencement of the quarter in which the debt has been determined to be non-interest bearing.
 - (2) The provision account for interest on non-income bearing debts will be operated separately and in a manner enabling, at any time, the relation of the components for specific debts to be classified to this group of debts.
The provision account for interest in respect of debts in foreign currency, and classified as non-income bearing debts, will be maintained in foreign currency.
- e. Rescheduling of problematic debts -
- (1) Where the balance of the liability on the date of the new arrangement is smaller than the amount of the expected revenues according to the arrangement - including in respect of prepayment commissions and commissions of any other kind, which have been paid by the customer or for which his account has been debited within the scope of the rescheduling - the difference will be entered as income from interest during the period commencing the date of the arrangement until final repayment, according to the effective interest rate prescribed for such period.
 - (2) Where the balance of the liability (including the interest accrued thereon) on the date of the new arrangement exceeds the amount of the revenues expected according to the arrangement, the difference will be entered as mentioned in paragraph 66.c.(5).
- f. (1) A waiver of interest, debited to a customer's account in respect of a debt which has not been classified as problematic, made during the course of ordinary business as a result of negotiations not connected with the debtor's financial condition - may be presented as a reduction of income from interest.
- (2) For this purpose, a waiver of interest is only to be made by arrangement with the customer and must be documented.
- g. Interest on arrears on borrowers' payments on housing loans received by them from mortgage banks, are to be included as income only upon collection thereof. Collection on account of arrears in housing loan payments from mortgage banks will be appropriated, in the absence of circumstances justifying otherwise, to arrears interest (to be credited to other financing income) and thereafter, to accrued arrears balances.

h. Cancelled

57. Cancelled ^(4/97)

58. **Income from Cash and Deposits at Banks**

These items should include income from interest, linkage differentials and exchange rate differentials on deposits at banks (including central banks) and on cash, in foreign currency.

59. **Income from Debt Securities**

- a. These items will include interest, linkage differentials and exchange rate differentials accrued in the year reported on investments in debt securities, together with the proportionate share of disagio or subtracting the proportionate share of the agio, within the meaning thereof as contained in paragraph 24, and together with amortization as mentioned in paragraph 27a.(d).
- b. Profits (losses) deriving from the sale of investments in debt securities and from adjustments to fair value of trading debt securities, will be presented under separate headings within the framework of "profit after financing activity" (Note 20) as detailed in the format contained in the Note.
Disclosure will be given for that part of the gains and losses in respect of tradable debt securities that relates to tradable debt securities that are still held on the balance sheet (financial position) date.
- c. Income received from the Bank of Israel in respect of the holding of short-term loans are to be included in this item, according to the period held.
- d. Profit from the sale of available-for-sale or held to maturity, debt securities should be posted to the profit and loss statement at the time of sale, in the appropriate profit and loss item from the sale of debt securities.

- e. For the purpose of this paragraph - "gain or loss from the sale of available-for-sale debt securities" - means the difference between the proceeds received from the sale of the debt securities and the amortized cost thereof on the sale date deducting the unrealized gain or adding the loss as yet from adjustments to fair value of an available-for-sale security designated as hedged by a fair value hedge and which have been recognized in earnings during the hedging period according to Part A-1 - Derivative Instruments and Hedging Activities. The gain or loss from the sale will additionally include the amount reclassified from accumulated other comprehensive income in earnings as a result of the sale.
- f. For the purpose of this paragraph - "gain or loss from the sale of held-to-maturity debt securities" - means the difference between the proceeds received from the sale of the debt securities and the carrying amount thereof on the sale date. The gain or loss from the sale will additionally include the amount reclassified from accumulated other comprehensive income in earnings as a result of the sale.
- g. In Index-linked debt securities, a banking corporation may calculate the gain or loss from the sale having regard to the data set out in paragraphs (e) and (f) above, according to the balance in the last monthly balance sheet preceding the date of sale, provided the calculation using this method is done consistently.

60. **Expenses on Deposits** (10/02)

- a. There are to be included in the items dealing with deposits of their different classes, interest, linkage differentials and exchange rate differentials.
- b. Cancelled.

- c. The expenses item on deposits from the public is to include the reduction of the proportionate share of bonuses payable by the banking corporation to depositors in approved savings plans, with the addition of interest, linkage differentials and exchange rate differentials accrued thereon. Expenses on savings plans will be included according to the accrual method according to the maximum yield rate due to the saver at the end of the saving period, according to the conditions of the savings plan.

61. **Expenses on Debt securities**

- a. In this item, interest, linkage differentials and exchange rate differentials are to be included.
- b. In this item, there are to be included the issue expenses of debt securities in proportion to the balance of the principal, each year. Repayment of issue expenses is to be deducted from this item.
- c. This item will include the reduction of the relative share of the "**disagio**" and the "**agio**" on debt securities issued together with the interest and linkage differentials and exchange rate differentials according to the "**uniform yield**" method as mentioned in paragraph 24(g).

62. **Financing from Business Commissions**

In this item, there are to be included commissions in respect of acceptances, guarantees, documentary credits, etc., and these are to be distributed proportionately over the periods of the transactions. Where the amount of this item is insubstantial, it should be added to the item dealing with other financing income.

62A. **Cancelled.**

63. **Other Financing Income**

- a. Income of the banking corporation from commissions on prepayment of credit granted by it, is to be included in this item.
Income of the banking corporation from prepayment commissions after deduction of the proportionate share relating to the financial capital, are to be set aside and included in the profit and loss statement at equal rates, according to the balance of the repayment period of the credit, or within three years of the repayment date, whichever is the shorter.
An essential condition for treating an event as "**prepayment**" will be the identical transfer of cash which served for payment of the balance of the debt. A new loan, advanced to the debtor on the repayment date or shortly thereafter, will not be regarded as cash serving as payment of the debt.
An example of the calculation of the method for setting aside taking into account the financial capital, is set out in Schedule "**D**".
- b. Reduction of provision for doubtful debts -
If the management of the banking corporation has decided that special conditions exist justifying the reduction of the provision for a doubtful debt and, in the absence of circumstances necessitating special treatment of the reduction in regard to principal or interest (such as an agreement or provision of law) the provision will first be reduced for interest, in respect of such debt. The reduction will be posted to the "**other financing income**" item, in the Note to the profit and loss statement.
- c. Collection of problematic debts -
(1) General -
As a rule, amounts collected in respect of a problematic debt, will first be deemed to be those received on account of such share of the liability which has not been fixed as a doubtful debt, or not classified as a non-income bearing debt.
(2) Collection of a doubtful debt -
The collection on account of a debt for which full provision has been made as doubtful, will first be treated as collection of interest, in the absence of circumstances which dictate other treatment (such as an agreement or operation of law). Such interest is to be posted to the "**other financing income**" item, in the Note to the profit and loss statement.
(3) Collection on account of non-interest bearing debts -
Where part of a debt which has been previously defined as a non-income bearing debt has been collected and in the absence of circumstances which dictate other treatment - the amounts collected will first be deemed to be those received on account of interest. Such interest is to be posted to the "**other financing income**" item, in the Note to the profit and loss statement. For this purpose, circumstances which necessitate other treatment - including the collection through the realization of securities having regard to which the debt balance was entered in the balance sheet.
(4) The collection on account of arrears on housing loans (see paragraph 56(g)).
- d. Where the paragraph includes a material sum that has been entered for other financing income in respect of that stated in sub-paragraphs (b) and (c) above, disclosure will be given of that sum.

- e. In this paragraph there is to be included profit and loss from the sale of debt securities and from adjustments to fair value of trading debt securities, as set out in the form of Note 20E (see paragraph 59B)

64. **Other Financing Expenses**

There are to be included in this item payments of penalties to the Bank of Israel in respect of unauthorized excesses of the liquidity provisions, etc.

65. **Financing Income and Expenses**

Financing income in respect of assets deriving from a single customer, or from a group of customers, the amount of which exceeds 5% of aggregate income, is to be specified separately in the Note on "**profit from financing operations before provision for doubtful debts**", detailing the number of the customers and the amounts of the income.

The above mentioned test is to be carried out respectively also with respect to financing expenses in respect of liabilities deriving from a single customer. For this purpose "**group of customers**" - means a corporate body which controls or is controlled by another corporate body.

66. **Provision for Doubtful Debts**

- a. This item should include the net increase in the provision for doubtful debts (both specific and general). If, during any particular period, a net reduction has occurred in the provision for doubtful debts, this amount should be included in a separate paragraph, between regular income.
- b. Debts collected and previously written off -
Where debts, previously written off, have been collected, the amounts collected are to be credited to the provision account for doubtful debts within the framework of the profit and loss statement.
- c. Debts written off -
 - (1) Where the management of the banking corporation has decided that a debt, previously classified as a doubtful debt, is to be written off - the balance of the debt, including the components thereof, is to be written off against the appropriate amounts set aside (namely - amounts set aside for doubtful debts as well as the amount set aside for interest on doubtful debts).

- (2) Where it has been decided to write off a debt which has yet to be classified as doubtful - provision will be made by the banking corporation in respect of such debt and against this, the balance of the debtor's account will be written off.
 - (3) Where the banking corporation has waived receipt of interest accrued to the debit of the customer's account before the date his debt was determined to be doubtful, or as a non-income bearing debt, and such interest was debited to the customer's account until the beginning of the quarter in which the waiver was made - the waiver will be registered as a debt written off and not as a reduction in income from interest.
For this purpose, "**waiver of interest**" - is one which has been made only by arrangement with the customer and must be documented.
 - (4) Where the banking corporation reaches an agreement with a customer whose debt has been written off, amounts received will be registered only on the basis of actual collection.
 - (5) Where the balance of the liability (including interest accrued thereon) on the date of the new arrangement exceeds the amount of the amounts expected to be received according to the arrangement, the difference is to be recorded as a doubtful debt.
All amounts received in the future, are to be posted in covering the balance of the liability.
- d. The amount of the provision for doubtful debts posted to the profit and loss statement, is to be presented as detailed in the Exhibit and will be calculated in accordance with the specimen set out in schedule C (vide also paragraph 29).

67. **Operating Commissions** (4/97) (10/99)

- a. In this item, commissions are to be included in respect of the grant of services only, as detailed in the Note contained in the specimen in the Schedule, but excepting commissions from financing business, mentioned in paragraph 62.
- b. Commissions received from customers in respect of securities operations, are to be presented without any set-off against commissions paid to the stock exchange.
- c. Mortgage banks will include in the "**treatment of credit and making of contracts**" item, all commissions relating to the grant of eligibility certificates including surveys and the like.
- d. With regard to remarks and coding of items in the list of commission charges relating to the Note concerning certain operating commissions, vide schedule G.
- e. In this paragraph, income from margins and collection commissions posted during the period of activity according to the measure of collection as presented in a set-off according to paragraph 15(a) will be included.
- f. A banking corporation will disclose separately its income from management fees and life insurance commissions, its income from management fees and apartment insurance commissions and its income from commissions from transferring rent.
Management fees and insurance commissions will not include insurance premiums that have been collected by the Bank for, and remitted to insurance companies.

68. **Net profits (losses) from investments in equity securities**

In this paragraph, there shall be included, in the form set out in Note 22 "net profits (losses) from investments in equity securities" - profits (losses) from the sale of available-for-sale equity securities, realized and unrealized holding gain or loss from adjustments to fair value of trading equity securities, net and income from dividend from investments in available-for-sale, and, trading equity securities.

69. **Other Income**

a. This item will include:

- (1) Rent from buildings and equipment which are not used by the banking corporation, less maintenance and amortization expenses of those buildings and equipment particularized in paragraph 71 and management fees;
- (2) Management fees from affiliated companies which are held companies, parent companies and companies in their control;

Maintenance and amortization of buildings and equipment".

b. Profit (net) from a realization of assets received in respect of the discharge of credits, and classified as "**other assets**", as mentioned in paragraph 30.g. (Loss (net) is to be classified as "**other expenses**" - vide: paragraph 72).

c. Where the income from funds for redundancy pay, retirement compensation, pension and vacation exceed the amounts in respect of previous years and required to supplement the appropriate reserves, the amount of the difference is to be included in this item. (A negative difference, is to be included in the "**salaries and ancillary expenses**" item).

For this purpose:

"**Supplement the reserve**" - means the amount deriving from the surplus of the reserve at the end of the accounting year calculated on the basis of the last monthly salary for such year, over the amount of the current provision for the accounting year and the reserve as at the beginning of the year, less compensation payments during the year.

"**Regular provision**" - means the provision required to cover the liability created in respect of the reporting period, and calculated according to the last monthly salary.

d. The Note shall provide disclosure of the other income, as detailed in the specimen Note in the Schedule.

e. Special banking corporations may present, in the body of the profit and loss statement, the aggregate of the "**operating and other income**" in a single item whilst the breakdown may be shown in the Note.

70. **Salaries and Incidental Expenses** ^{(11/98) (10/07)}

- a. This item is to include the salaries and pension payments including all the elements thereof, as well as all the ancillary expenses, such as payments to National Insurance, regular provisions for redundancy pay, retirement compensation, pension and vacation, and also pension and compensation payments in respect of which no provision has been made in the past.
- b. This item should include also payments for employees not included in an employer-employee relationship including payment for employees " " from another company in the group and also payments in respect of labour services, payable directly to manpower supply companies and other companies (hereinafter: "employees").
- c. Payroll tax imposed according to the Value Added Tax Law, is also to be included.
- d. Where the sums in respect of previous years required to make up the reserves for redundancy pay, retirement compensation, pension and vacation exceed the income from the appropriate funds, the amount of the difference is to be included in this item.
- e. In this paragraph will be included share-based payment transactions to employees pursuant to paragraph 41A of the Reporting Provisions to the Public.

- f. In the Note, there shall be specified separately, the following components:
- 1) Salaries (including bonuses and other payments to employees, such as professional literature allowance, travelling allowance, recreation holiday allowance, vehicle expenses, subsistence allowance, etc);
 - 2) Any benefit consequent upon an issue to the employees;
 - 3) Redundancy payments, savings, pension, advanced training fund rights and vacation;
 - 4) National Insurance, Employers' Tax and Payroll Tax;
 - 5) Other ancillary expenses;
 - 6) Supplementary payments to the reserves in respect of ancillary expenses following changes in wages during the accounting year.

71. **Maintenance and amortization of buildings and equipment**

- a. This item will include rent, amortization in respect of buildings and equipment, property taxes (including business tax and municipality taxes) security and other maintenance costs (such as, insurance and repairs), less income from rent and other participations in the maintenance of the buildings and equipment.
- b. Maintenance expenses on buildings not used by the banking corporation, are not to be included in this item, but will be deducted from income from rent with respect to such buildings and the balance shown in the "**other income**" item.
- c. For the purpose of this paragraph, depreciation on buildings and equipment includes losses from impairment of the deduction of losses cancelled following impairment.
- d. If the amount of this item is insubstantial, it may be shown as part of "**other expenses**".

72. **Other Expenses**

- a. There are to be included in this item, all the operating expenses not included in the above items.
- b. The Note will specify, in a single aggregate sum with respect to all the directors jointly, directors' remuneration and ancillary expenses, management fees, service fees and any other benefit for service as director, including any benefit payable to any other person for such service, as well as payment following the retirement of a director from office. Share-based payment transactions to a director will be disclosed separately in the Note. The provisions of this sub-paragraph will not apply to payments and benefits to a manager following the performance of his duties in the banking corporation; such payments and benefits being included in the "**salaries and ancillary expenses**" item.
- c. Where benefits mentioned in sub-paragraph b., are paid by a subsidiary of the banking corporation to a person not being a director of such subsidiary company, this fact, and the amount involved, should be stated in the Note.
- d. This item should include loss on a sale, maintenance expenses and reduction in value of assets received in respect of the discharge of credits and classified as "**other assets**" as mentioned in paragraph 30g.
- d1. This paragraph should include expenses for write-down of goodwill:
 - (1) On the basis of useful lifespan;
 - (2) Losses from impairment.

- e. The Note will provide disclosure of other expenses as detailed in the specimen Note in the Schedule.
- f. Special banking corporations may show, in the body of the profit and loss statement, the aggregate of "**operating and other expenses**" in a single item and the breakdown may be shown in the Note.

73. **Reduction of Issue Expenses**

- a. Share issue expenses should be reduced from the share premium fund, in the issue year. Where no sufficient fund exists and the amount is substantial, the balance of the expenses should be posted to "**unusual expenses**". Where the amount is insubstantial, it will be posted to the "**other expenses**" item in the issue year.
- b. Issue expenses of options to purchase shares are to be reduced, where the options were issued without being linked to other securities, from the proceeds received from the sale of the options. Where the expenses exceed the proceeds, the surplus should be posted to the "**other expenses**" item, in the issue year.
- c. Debt security expenses are to be presented as mentioned in paragraph 61.

73A. **Deferred Expenses and Capitalization Thereof**

Where expenses have been deferred or capitalized, the amount deferred or capitalized should be mentioned and the method of calculation thereof specified according to the items in the profit and loss statement and in the balance sheet and the details of the deferral or capitalization, specified. (Vide also paragraph 33.h(6) - 'Buildings and Equipment').

74. **Provision for Taxes on Profit from Ordinary Operations**

- a. Taxes are to be classified in the Note, as follows:
 - (1) Current taxes;
 - (2) Changes in deferred taxes.

In each of the above components, the taxes are to be specified in respect of the accounting year and in respect of previous years.

For this purpose, current or deferred taxes in respect of the accounting year - means taxes which apply to the results of operations and included in the profit and loss statement for the current period and/or included in the adjusted statement for income tax, for the current period.

- b. The amount of the provision for taxes on income, payable to authorities abroad, is to be specified separately.
- c. Current taxes include:
 - (1) In respect of the accounting year -
 - (a) Provision for taxes on the profit from ordinary operations including profits tax imposed according to the Value Added Tax Law as well as implications on tax in respect of the implementation of the conclusions of the Special Committee appointed by the Income Tax and Property Tax Commissioner for considering tax aspects in connection with doubtful debts in banks (hereinafter: 'the Givoli Committee') (vide paragraph 74.e. below);
 - (b) Reduction in tax liability, following the distribution of dividend, which is to be deducted from the provision for taxes, with the amount of the reduction being specified.
 - (2) In respect of previous years -
Provision for taxes in respect of previous years, including linkage differentials in respect thereof, as well as tax implications in respect of the implementation of the conclusions of the Givoli Committee (vide: paragraph 74.e. below).
- d. (1) Deferred taxes will include:
 - (a) A reserve for deferred taxes for all timing differentials (with the exception of those differentials which, according to Opinion No. 40 of the Institute, no reserve is required to be created);
 - (b) Deferred taxes receivable in respect of timing differentials which it is probable will give rise to a tax saving at the time of conversion;
 - (c) Deferred taxes receivable in respect of losses transferable and in respect of a right transferred to set off tax in those cases where the above tax realization in the foreseeable future is beyond any reasonable doubt.
- (2) Notwithstanding the foregoing:
The creation of deferred taxes receivable (net) in the nominal statements, is not to exceed the current taxes during the reported period, except for special cases where realization of the tax in the foreseeable future is beyond any reasonable doubt;

- (3) The above Provisions in the consolidated statement, relate to a financial statement of each corporation separately.
 - (4) The Note will specify the components of the deferred taxes receivable and the deferred taxes reserve, pursuant to the specimen set out in Note 27.
- e. The following are the reporting rules in respect of the implementation of the conclusions of the Givoli Committee:
- (1) Method of treatment until after five years has elapsed from the end of the fiscal year in which the provision has been made:
 - (a) Where the provision has been fully or partially cancelled otherwise than in consequence of a forgiveness - the tax in respect of the income created is to be calculated according to the tax rate in the current year and is to be included in the item entitled: "current taxes in respect of the accounting year".

The additional tax applicable in respect of the difference between the tax amount mentioned above and the tax amount which would have been payable had the provision not been made at all, plus interest and linkage differentials, is to be included in the item entitled "current taxes in respect of previous years".
 - (b) Method of treatment to be made at the end of this period, where the debt has not been forgiven until then -

The tax in respect of the income created and the additional tax is to be treated as mentioned in sub-paragraph (a) above, and in respect thereof, consideration must be made as to the creation and classification of deferred taxes between the item entitled "deferred taxes in respect of the reported year" and that entitled "deferred taxes in respect of previous years", respectively.
 - (2) Method of treatment following the five year period until the expiration of ten years from the expiration of the year in which the provision was made -
 - (a) Where there is a reasonable probability that the deferred tax mentioned in sub-paragraph (1)(b) above will be realized, the banking corporation will accumulate interest and linkage differentials in respect thereof until the end of ten years from the end of the year in which the provision has been made. The amount accumulated (less the tax applicable) is to be posted to the item entitled "deferred taxes receivable" against "deferred taxes in respect of previous years".
 - (b) Where the provision has been fully or partially cancelled otherwise than in consequence of a forgiveness -

The deferred taxes created as mentioned in sub-paragraph (1)(b) and (2)(a) are to be posted to the item entitled "provision for taxes" in the profit and loss statement. The classification between tax expenses in respect of the accounting year on the one hand and tax expenses in respect of previous years on the other, is to be in accordance with the classification at the time the deferred tax is created.
 - (c) Where the debt has been forgiven during such period -

The tax rebate, together with linkage differentials and interest, is to be posted to the expenses item entitled "current taxes in respect of previous years". Deferred taxes created as mentioned in sub-paragraph (1)(b) and (2)(a) above, are to be posted to the expenses item entitled "deferred taxes in respect of previous years".

- (3) For the purpose of this sub-paragraph, the provision for doubtful debts is also to include the interest on such doubtful debts.
- f. Where the banking corporation has filed objection to an assessment, the difference to which the objection relates, plus linkage, interest and fines, as the case may be, will constitute a contingent liability and be governed by the provisions contained in paragraph 47, *mutatis mutandis*.
- g. A banking corporation will accumulate interest and linkage differentials in respect of surplus advance payments paid for income tax only where there is no uncertainty in connection with the refund of surplus advance payments, including linkage differentials and interest thereon (for example: prior to the date of the publication of the statement, a rebate has been received or agreement reached regarding an assessment in consequence of which the rebate will be received. If it transpires that the agreement does not materialize into a written agreement, a retroactive amendment in respect of such entry is to be made).
- h. The Note will present a reconciliation table, according to the specimen set out in Note 27(2), between the theoretical tax amount which would have applied had the profit from ordinary operations attracted tax according to the statutory tax rate applicable in Israel to a banking corporation, and the provision for taxes on profit from ordinary operations as posted in the profit and loss statement.
The items listed in the reconciliation table is not a closed list and the banking corporation will, to the extent necessary, and at its discretion, add further items. In any event, the item entitled "other" (vide in the paragraphs listed below) will not constitute (in its absolute value) more than 5% of the tax amount based on the average statutory tax rate in the last three years.
The paragraphs in the reconciliation table are to be composed as follows:
- (1) Deduction/addition by reason of inflation.

- (2) Income of foreign subsidiaries -
In the unconsolidated statement - the note to the table should specify whether the provision for tax recorded in Israel in respect of foreign subsidiaries includes the effect of the provision for tax for the accounting year of the addition to the equity capital as at the beginning of the year.
In the consolidated statement - the difference between the theoretical tax on subsidiaries abroad (according to the statutory tax rate in Israel) and the provision for the actual tax (provision for tax recorded abroad and the provision for tax recorded in Israel including the effect on the provision for tax for the accounting year of the addition to the equity capital as at the beginning of the year);
- (3) A general provision and supplementary provision for doubtful debts;
- (4) Income exempt from tax and at a limited tax rate;
- (5) Depreciation differentials, adjustment of depreciation and capital profit – tax effect of differences between depreciation expenses recognized for income tax purposes (on a consolidated basis, if relevant) and depreciation expenses entered in the financial statements, depreciation expenses not recognized for tax purposes and differences in respect of capital profit posted to ordinary operations;
- (5A) Deferred taxes in respect of non-financial assets, including deferred taxes created in respect of the adjustment of the balance of the non-financial assets for tax purposes;
- (6) Other non-allowable (non-deductible) expenses;
- (7) Timing differentials in respect of which there are no deferred taxes - including current taxes and various deductibles for tax purposes carried forward to the following years and for which no deferred taxes are to be created;
- (8) Profits tax on payroll tax;
- (9) Taxes in respect of previous years - full tax effect in respect of previous years included in the provision for taxes (current taxes in respect of previous years less / plus deferred taxes in respect of previous years);
- (10) Cancelled;
- (11) Income of subsidiaries in Israel - including where a differential arises from a different statutory tax rate for subsidiaries in Israel; the unconsolidated statement will include the difference in respect of the consolidated service and property companies within the scope of the unconsolidated financial statements);

- (12) Change in the deferred taxes balances following a change in the tax rate;
 - (13) Dividend to shareholders;
 - (14) Others.
- i. The Note will, in addition, include the following particulars concerning the banking corporation and the main companies in the group:
- (1) Last tax year for which a final assessment has been received;
 - (2) Tax amount from previous years which is being contested with the Assessing Officer, with respect to which no provision has been made (including fines, interest and linkage differentials accrued thereon); this being in addition to that stated in sub-paragraphs (d) and (e) of paragraph 47b.1).
 - (3) Balance of the accrued losses for tax purposes and rights to set off future tax, in respect of which no deferred taxes have been recorded, with an itemization of the balances in the banking corporation, the consolidated companies in Israel and consolidated companies abroad, being provided;
 - (4) The average tax rates that have been used in calculating the amounts of the deferred taxes will be set out in accordance with the example contained in Note 27;
 - (5) Changes in the year reported in the balance of deferred taxes not included in the profit and loss statement;
 - (6) The justification for recording deferred taxes receivable, should be specified;
 - (7) The depreciated cost of fixed assets capable of being depreciated and which will not, for tax purposes, be allowed as depreciation or as cost when the assets are realized, and which are regarded as a perpetual difference by reason of which no reserve for deferred taxes is being created, with an itemization of the balance at the beginning of the year, the amount not allowed in the accounting year and the balance as at the end of the year, being itemized.
- j. In Note 1, concerning the accounting policy, the policy in relation to the following matters is to be specified:
- (1) Taxes which may arise in the event of a realization of investments in held (subsidiary) companies;
 - (2) Additional tax in the event of a distribution of dividend by these companies;
 - (3) Additional tax which may apply in the event of a distribution of dividend by the banking corporation or these companies out of income giving rise to benefits according to any law;

- k. If timing differentials exist between the date on which the expense is allowed for the banking corporation as a deductible for tax purposes in respect of the benefit to employees following an issue, and the date on which the benefit is registered in the profit and loss statement as mentioned in paragraph 70.e., the tests for recording deferred tax, as mentioned in sub-paragraph d., above, will be invoked.

74A. Specific Groups in the Profit and Loss Statement (12/97) (9/02)

- a. The profit and loss statement after "ordinary profit after taxes" will be classified and presented in the following groups:
- (1) The share of the banking corporation in profits or losses of included companies after the effect of tax; if the included companies had profits or losses of the types set out in paragraphs (4)-(5), the share of the corporation in those profits or losses will be prescribed within the framework of those sub-paragraphs;
 - (2) The minority interest in consolidated companies; if the minority had an interest in the profits or losses of the types set out in sub-paragraphs (4)-(5), that interest will be deducted from the profits or losses presented in those sub-paragraphs;
 - (3) Net profit from ordinary operations;
 - (3A) Net profit (loss) from terminated activity.
 - (4) Profit from extraordinary operations, after taxes;
 - (5) The cumulative effect of changes in accounting rules or in the manner they are implemented, as at the beginning of the period in which the change was made, after deduction of taxes on income by reason thereof, specifying the tax amount deducted; if the change in accounting rules or the manner they are implemented necessitates re-presentation of the comparative figures for the previous periods, the particulars according to the provisions of paragraph 77.c., are to be set out;
- b. The groups of the items in the profit and loss statement are to be totalled and the total captioned "net profit" or "net loss";
- c. The profit or loss per share is to be presented.

74B. Terminated activities (9/02)

Accounting treatment for "terminated activity" will be made according to the rules set out in Accounting Standard no. 8 of the Israel Accounting Standards Board. For this purpose it is clarified:

- a. Where there is "terminated activity":
- (1) The term "profit from ordinary operations" will be replaced by "profit from continuing operations" in the profit and loss statement.
 - (2) In the balance sheet the item "assets attributable to terminated activity (in the X sector)" will be presented after the item "other assets" and "liabilities attributable to terminated activity (in sector X)" will be presented after "other liabilities".
- b. The disclosure format will be based on Schedule B to the Standard, with the necessary adjustments to the banking corporation's activity, including adjusting the format of the balance sheet, profit and loss statement and cashflow report.

75. Profit from Extraordinary Operations, after Tax (9/02)

- a. There are to be included in this group of items, income and expenses of a substantial aggregate amount and which derive from operations or events having a different character to the ordinary operations of the banking corporation, and which are not of a recurring nature and which were not taken into account in evaluating the ordinary activity of the banking corporation.
- b. In this item, there are to be included:
 - (1) Deleted;
 - (2) Deleted;
 - (3) Profits or losses falling in the category of other special items, after deduction of taxes on the income in respect thereof.
- c. Profits and losses as mentioned in sub-paragraph a., from a sale of assets, are to be detailed in the following groups:
 - (1) Investments in companies held - each investment separately, specifying the profit or loss deriving from a share issue to a third party, in the hands of the companies held or from any other change in the capital structure thereof;
 - (2) Other assets - each asset separately;
- d. Particulars concerning the nature and composition of the amounts presented according to sub-paragraph b., including the following details, are to be set out:
 - (1) The banking corporation's share in the profits and losses of included companies and which have been included in the amounts presented in the foregoing sub-paragraphs.
 - (2) The minority interest in profits and losses of consolidated companies, deducted from the amounts presented in the foregoing sub-paragraphs.
- e. The Note will specify the amounts for tax deducted from each of the items according to sub-paragraph b.

76. Cumulative Effect of Changes in Accounting Rules

- a. If any change has occurred in the accounting rules or in the manner in which they are applied in any of the reported years comprised in the statements, in comparison to the previous reported year - the changes will be explained, the arguments therefor specified including the effect thereof, in figures, on the report before deduction of taxes on income, on the net profit, on earnings per share and on the other items contained in the statements will be specified, where the effect of the change is material.

- b. The Supervisor of Banks may direct that accounting changes in respect of previous years will be included by adjusting the balance of the accrued profit as at the beginning of the current account period and adjusting the comparative data of the previous years comprised in the financial statements, in the manner explained in paragraph 77.c.

77. Income and Expenses in Respect of Previous Years

- a. Only corrections of errors in material amounts are to be regarded as income and expenses in respect of previous years, where such corrections relate to previously defined periods, and which relate to business activities for such periods, and which do not derive from economic events occurring after such periods, and not being corrections of evaluations or provisions made during the course of business.
- b. As a rule, income and expenses in respect of previous years, necessitate re-presentation of the financial statements as if these expenses and income had been included in the original periods to which they relate.
- c. Where a comparative figure has been re-presented in the statements -
 - (1) The nature of the re-presentation is to be explained - the arguments for this detailed and the effect thereof specified, in figures, on each of the items represented in the statements, on the net profit and on earnings per share, for each of the previously reported years for which data is included in the statements;
 - (2) There must be itemized, the balance of the profit or loss as at the beginning of the earliest reported year in which the data relative thereto was included in the statements, as recently reported, and the aggregate effect on the profits and losses in the years preceding the earliest reported year, of which data is included in the statements;

77A. Change in Accounting Assessment

If an accounting assessment has been changed in the reported year and such change has a material effect on the statements or on statements in reporting years, or any of them, in the future, the nature of the change will be explained, the arguments therefor set out and the effect thereof in figures specified on the balance sheet items and on the profit and loss statement, including earnings per share.

Such disclosure will also be provided where an accounting assessment has been changed in the last quarter of the reporting year, and the change has a material impact on that quarterly statement or in reporting periods in the future.

78. **Earnings per Share**

A banking corporation will present the earnings per share in the profit and loss statement and in the Note to such statement, in accordance with Israel Accounting Standard no. 21 of the Israel Accounting Standards Board (hereinafter: "Standard 21") subject to the following changes:

- (a) Paragraph 8 of Standard 21 will not apply to a financial statements of a banking corporation.
- (b) For purposes of applying Standard 21, the term "earnings from continuing activities" as used in this Standard will be replaced and the term "net earnings from ordinary activities" will be used. Banking corporations will prepare Note 28A. Earnings per ordinary share, pursuant to its own prevailing circumstances. To the extent necessary, banking corporations will add information that is not required in the format of Note 28A in order to comply with the requirements of Standard 21.

79. **Main Operating Segments** (12/01)

- a.
 - (1) A banking corporation will disclose separately information regarding each operating sector which meets the requirements of sub-paragraph b) or derives from a combination of two or more of these segments according to sub-paragraph c) and the quantitative conditions set out in sub-paragraph d). In sub-paragraph e., other situations are set out in which separate information is to be disclosed of operating segments.
 - (2) The disclosure will include information as set out in sub-paragraphs f. - j.
 - (3) A banking corporation which publishes consolidated financial statements, may present the information required according to this paragraph on a consolidated basis only. In such a case, any reference contained in the paragraph to "the financial statements" should be read as "consolidated financial statements".
 - (4) A banking corporation may add information that could contribute to understanding its activities, in addition to that required in this paragraph.
 - (5) With respect to this paragraph:
"segment revenues" - total earnings from financing activity before provision for doubtful debts, plus the sum of operating and other revenues.
"segment results" - the difference between all the revenues and the expenses imputed to the segments;
 - (6) In Note 29, a sample format for implementing that required under this paragraph is set out.
- b.
 - (1) An operating segment is a component of a banking corporation that meets the following three characteristics:
 - (a) Engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same banking corporation).
 - (b) Whose operating results are regularly reviewed by the management and board of directors to make decisions about resources to be allocated to the segment and assess its performance.
 - (c) For which separate financial information is available.
 - (2) An operating segment may engage in business activities for which it has yet to earn revenues.
 - (3) Not every part of the banking corporation is necessarily an operating segment or part of an operating segment. For example, the corporation's management or certain functional departments may not earn revenues or own revenues that are only incidental to the activities of the banking corporation and would not be operating segments. For the purposes of this paragraph, a pension plan and other postretirement benefit plans are not considered operating segments.

- (4) If the management and the board of directors use more than one set of segment information, other factors may help to identify the set that will constitute the banking corporation's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them and the information presented to the board of directors.

The characteristics in this paragraph may apply to more than one set of components of an organization but if there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

The characteristics in this paragraph may apply to two or more overlapping sets of components for which managers are held responsible. For example, there may be an organization in which certain managers are responsible for different products and services worldwide, while other managers are responsible for specific geographic areas. In that situation, the components based on products and services would constitute the operating segments.

- c. Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and if the segments are similar in each of the following areas:

- (1) The nature of the products and services.
- (2) The characteristics of the customers for the products and services of the sectors.
- (3) The methods used to distribute the products or provide the services.

- d. Separate reporting will be provided for each operating segment that meets any of the following quantitative thresholds:

- (1) The segment's reported revenues, including intersegment transactions, are 10% or more of the combined revenue, including intersegment transactions, of all the reported segment operations.
- (2) The absolute amount of the segment's results is 10% or more of the greater, in absolute amount, of (1) the combined reported profit of all operating segments that did not report a loss or (2) the combined reported loss of all segments that did report a loss.
- (3) The segment's assets are 10% or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be separately disclosed.

- e. (1) A banking corporation may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments to produce a reportable segment only if the operating segments share a majority of the aggregation criteria listed in sub-paragraph (c).

- (2) If total of external revenue reported by operating segments constitutes less than 75% of total revenue in the financial statement, additional operating segments shall be identified as reportable (even if they do not meet the criteria in sub-paragraph d) until at least 75% of total revenue in the financial statement is included in reportable segments.
 - (3) Information about other business activities and operating segments that are not reportable shall be combined and reported in an "all other" category separate from other reconciling items in the reconciliations required by sub-paragraph (i). The sources of the revenues included in the "all other" category shall be described.
 - (4) If management judges an operating segment identified as a reportable segment in the immediately preceding period to be of continuing significance, information about that segment shall continue to be reported separately in the period even if it no longer meets the criteria for reportability in sub-paragraph (d).
 - (5) If an operating segment is identified as a reportable segment in the current period due to the quantitative thresholds, prior-period segment data presented for comparative purposes shall be restated to relate to the newly reportable segment as a separate segment even if that segment did not satisfy the criteria for reportability in sub-paragraph (d) in the prior period unless it is impracticable to do so. For this purpose, information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.
 - (6) There may be a practical limit to the number of reportable segments that a banking corporation separately discloses beyond which segment information may become overly detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with this sub-paragraph increases above 10, the banking corporation should consider whether a practical limit has been reached.
- f. The following information should be disclosed:
- (1) Factors used to identify the banking corporation's reportable segments including the basis of the banking corporation's organization (for example, whether management has chosen to organize the banking corporation around differences in customer characteristics, products and services, geographic areas, or a combination of factors and whether operating segments have been aggregated).
 - (2) Characteristics of each reportable segment, including types of products and services from which each reportable segment derives its revenues.
 - (3) A banking corporation will report detailed data about each reportable segment in Note 29 format.
 - (4) It is recommended in addition to provide separate disclosure of the nature and sum of any revenue and expense items of a segment included in the paragraphs enumerated in Note 29 format, the size, nature or frequency of which are such that their disclosure is relevant to an explanation of the periodic performance of each segment.

- g.
 - (1) Segment information will be prepared according to the accounting rules adopted for the purpose of making and presenting the banking corporation's financial statements.
 - (2) If amounts have been allocated to a segment's reported data, these sums will be allocated on a reasonable basis. Where sums in the reports have been allocated to the management and board of directors, the allocations in the segment's reported data should be made in the same manner.

- h. At a minimum, the following details should be disclosed:
 - (1) The basis of accounting of any transactions between reportable segments.
 - (2) Policy for allocation of the items included in the segment information (such as policies for allocation of general expenses and joint asset allocation policy, where this is necessary for understanding the information of the operating segments).
 - (3) The nature of any changes from prior periods in the allocation methods and measurement methods and the effect, if any, of those changes.
 - (4) The nature and effect of any asymmetrical allocations to segments. For example, a banking corporation might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

- i. Disclosure shall be given to all items of the following reconciliations:
 - (1) The total of all reportable segments' revenues to the banking corporation's financial statement revenues.
 - (2) The total of the reportable segments' results to net profit in the banking corporation's financial statement.
 - (3) Total reportable segments' assets to the banking corporation's financial statement assets.
 - (4) Total of the reportable segments' liabilities to the banking corporation's financial statement liabilities.
 - (5) Total reportable segments' amounts for every other significant item of information disclosed to the financial statements' amount.All significant reconciling items shall be separately identified and described.

- j.
 - (1) If a banking corporation changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods shall be restated unless it is impracticable to do so. Accordingly, a banking corporation shall restate those individual items of disclosure than it can practicably restate. Following a change in the composition of its reportable segments, the banking corporation shall disclose whether it has restated the corresponding items of segment information for earlier periods.

- (2) If a banking corporation has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change, and if segment information for earlier periods is not restated to reflect the change, the banking corporation shall disclose in the year in which the change occurs segment information for the current period under both the old basis and new basis of segmentation unless it is impracticable to do so.
- k. This sub-paragraph relates to all banking corporations, including those that have a single reportable segment. The information required below need be provided only if it is not provided in other information provided under this paragraph (for example, where a segment is reported on revenues from essentially different products or services, or where a segment holds assets in different geographic areas or revenues are reported from customers in different geographic areas).
- (1) A banking corporation will disclose the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. The amounts of revenues reported shall be based on the financial information used to produce the financial statements. If providing the information is impracticable, that fact shall be disclosed.
 - (2) (a) A banking corporation shall disclose the following geographic information unless it is impracticable to do so:
 - (1) Revenues from external customers;
 - (2) Net earnings;
 - (3) Aggregate assets.
 - (b) Amounts attributable to the banking corporation's country of residence should be presented separately, as should the amounts attributable to foreign countries. If the amounts attributable to a particular foreign country are material, separate disclosure of this should be provided.
 - (c) Interim totals should be supplied of geographic information in relation to groups of countries having similar economic characteristics.
 - (d) A banking corporation shall disclose the basis for attributing revenues from external customers and attributing total assets to the various countries.
 - (e) The amounts reported shall be based on the financial information that is used to produce the financial statements.
 - (f) If providing the geographic information is impractical, that fact shall be disclosed.

79A. Information about major customers (12/01)

- (a) A banking corporation shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10% or more of the banking corporation's revenues, the banking corporation shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The banking corporation need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer.
- (1) A group of business entities known to be under common control shall be considered as a single customer and the government of Israel, a government corporation, a local authority and foreign government, each shall be considered as a single customer.
- (2) Revenues - bear the meaning set out in paragraph 79.a.(5) "Segment Revenues".
- (b) The disclosure required according to this paragraph may be provided on a consolidated basis only.

79B. Condensed Statements according to Main Activity Segments (1/03)

In the Note, there should be included condensed financial statements of the corporation according to the structure of the banking group pursuant to the model set out in the Note, and this should be drawn up as follows:

- (1) The amounts to be presented opposite the balance sheet items will be after all adjustment and set off operations carried out for the purpose of consolidating the financial statements. Balances in respect of inter-company activity within the banking group will be presented separately as assets or liabilities "from inter-company activity".
- (2) Regular banking activity in Israel, will include the amounts relevant to the bank's offices and the offices of the consolidated banking corporations in Israel only.
- (3) Banking activity abroad will include the amounts relevant to the bank's offices abroad, and the offices of consolidated banking corporations abroad, and classified as follows:
- (a) The bank;
- (b) Consolidated corporations engaged in regular banking activity;
- (c) Other consolidated corporations.

79C. Earmarked deposits, credits and deposits from earmarked deposits

Where the balance of the earmarked deposits is material, including also where the balance exceeds 5% of the aggregate deposits in the balance sheet, the banking corporation will provide disclosure of the balances of earmarked deposits and credits and deposits from earmarked deposits according to the format contained in Note 29A.

In this case, a description will be given of the main characteristics of the activity.