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CONDENSED FINANCIAL STATEMENTS

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● CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

At the meeting of the Board of Directors held on August 26, 2020, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for June 30, 2020 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

Condensed financial information regarding financial position and operating results

Condensed financial information and main performance indicators over a period of time - consolidated

	2020	First Half 2019	2019
	In %		
Main performance indicators:			
Return on equity	4.8	11.1	9.4
Return on assets	0.33	0.79	0.70
Ratio of net credit to the public to deposits from the public	82.6	89.3	89.6
Ratio of common equity tier 1 to risk assets	10.08	10.37	10.31
Ratio of total capital to risk assets	13.02	13.31	13.86
Leverage ratio ⁽¹⁾	6.4	7.1	6.9
Liquidity coverage ratio ⁽¹⁾	136.9	133.3	121.2
Efficiency ratio	62.2	63.7	65.2

Main credit quality indicators:

Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.82	1.33	1.38
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.37	1.23	1.25
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.25	0.25	0.23
Ratio of credit loss expenses to the average balance of credit to the public	1.28	0.32	0.40

In NIS millions

Principal statements of profit and loss data for the reporting period:

Net Profit Attributed to the Bank's Shareholders	453	950	1,702
Net interest income	2,918	3,016	5,893
Credit loss expenses	1,188	277	690
Non-financing income	2,090	1,850	3,771
Of which: fees and commissions	1,389	1,439	2,972
Non-financing expenses	3,114	3,100	6,299
Of which: salaries and related expenses	1,618	1,704	3,343
Comprehensive income, attributed to the Bank's shareholders	381	1,126	1,782
Total earnings per share attributed to Bank's shareholders (in NIS)	0.39	0.82	1.46

For footnote see next page.

Condensed financial information and main performance indicators over a period of time – consolidated (continued)

	First Half		2019
	2020	2019	
In NIS millions			
Principal balance sheet data for the end of the reporting period:			
Total assets	282,100	244,313	259,823
Of which:			
Cash and deposits with banks	39,608	21,245	26,044
Securities	40,037	35,470	37,745
Net credit to the public	183,436	172,235	180,467
Total liabilities	262,577	225,645	240,630
Of which:			
Deposits from the public	222,048	192,814	201,450
Deposits from banks	7,717	6,416	6,419
Bonds and Subordinated debt notes	11,377	8,158	13,129
Equity capital attributed to the Bank's shareholders	19,004	18,168	18,678
Total equity	19,523	18,668	19,193
Additional data:			
Share price	1,050	1,457	1,601
Dividend per share	4.19	9.39	21.92
Ratio of fees and commissions to total assets	1.0	1.2	1.2

Footnote:

(1) The ratio is computed in respect of the three months ended at the end of the reporting period.

For details regarding the decision of the Bank's Board of Directors dated April 7, 2020, to discontinue at this stage the distribution of dividends, on the background of the Corona crisis, see Note 18 to the condensed financial statements.

Market share

Based on data relating to the banking industry as of March 31, 2020, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	March 31,	December 31,
	2020	2019
In %		
Total assets	15.9	16.2
Net credit to the public	17.0	17.2
Deposits from the public	15.6	15.9
Net interest income	18.6	18.4
Total non-interest income	32.5	23.2

Development of the Discount share

	Closing price at end of the trading day			Change in the first half of 2020 in %
	August 24, 2020	June 30, 2020	December 31, 2019	
Discount share	1,070	1,050	1,601	(34.4)
The TA 5 Banks index	1,843.39	1,838.62	2,606.44	(29.5)
The TA 35 index	1,410.45	1,342.40	1,683.29	(20.3)
Discount market value (in NIS billions)	12.45	12.22	18.64	(34.4)

Goals and business strategy

The Bank is engaged in realizing the vision of the Bank in accordance with its multiannual strategic plan that was approved in 2014 and updated in 2016 and in 2018, in accordance with market developments.

The meticulous implementation in recent years of the strategic plan led the Bank to consistent and continuous tracks of improved profitability and return on equity, with a significant growth in the credit portfolio and a current distribution of dividends starting with the first quarter of 2018, and everything while maintaining and even improving the capital adequacy. Concurrently, the Bank has achieved a quantum leap in the service of its customers, including in its digital capabilities, which positions it at the front of technology and user experience in the banking industry.

The strategic plan is based on a leading goal – leading in the Bank's customer satisfaction by means of customer adapted banking, and comprises three principal layers:

- Continuation of growth and efficiency;
- a transformation in traditional banking;
- development of innovative banking models.

These layers are expected to continue and lead the strategic thinking at the Bank, while certain of the moves included therein are expected to be accelerated in view of the Corona crisis, as discussed more extensively below.

Acceleration of the efficiency measures

Alongside the management of the Corona crisis and the formation of an outline for the exit from the crisis, the Bank continues in the implementation of the strategic plan and in the realization of the potential in focusing the operations at the Bank and at the Group. In the course of the second quarter, the Management and the Board of Directors held strategic discussions, in which it was resolved to accelerated the efficiency measures and implement an early retirement plan for some 300 employees. See below "Efficiency of the Banking Industry".

Invigoration of the foci in the strategic plan

In light of the significant progress over the last five years in implementing the multiyear strategic plan, and against the background of the changes that have taken place in the banking and financing world and market conditions, the Bank continues to perform a strategic freshening and to construct a multiyear financial plan. This plan will express on the one hand the challenges arising from market conditions, and on the other hand, the opportunities for continued accelerated growth, streamlining processes and improving efficiency, driving innovation and increasing synergy within the Group.

Examination of the plan, as stated, raised the need to consider challenges presented by the Corona crisis and its material implications in the coming years, on the state of the economy, in general, and on the banking sector in particular. This examination is carried out, inter alia, with the aim of forming initiatives intended to assist the Bank in improving its performance in the long run and to support its customers in this difficult period. Completion of this move has become complex and challenging in view of the uncertainty regarding the force of the crisis and the length of time in which it is expected to have an impact.

Concurrently with the updated strategic plan at the Bank, these days the Group's companies are also conducting an examination of the modifications required to their strategic plans in view of the Corona crisis, while continuing to implement the unique strategies defined for them.

Goals of the Strategic Plan

Within the framework of the strategic plan, several financial goals were set, the principal of which are achieving a return on capital of approx. 10% and an efficiency ratio approx. 60% by 2021. In view of the strategic refreshing being conducted, as well as in view of the Corona crisis, as stated, the Bank is updating the multi-annual financial plan and is examining the financial goals, and will update them upon completion of the said financial plan.

Forward-looking information. The main points of the strategic plan presented above include assessments that fall into the category of forward-looking information, such as the estimate of profitability, the efficiency and growth targets that have been set, return on capital, efficiency ratio, and so forth. These assessments are based on the latest information and estimates available to the Bank at date of publishing the reports. The strategic plan is based on assumptions regarding developments in the Israeli economy in the coming years, and also legislative and regulatory initiatives that are currently known, whose enactment is expected with a high degree of probability. Material changes in the state of the economy and the situation of the customer public, legislative and regulatory changes having a material effect, material changes in the competitive landscape and material changes in the security situation could have an impact on the degree to which the targets of the strategic plan are achieved. A further cause of uncertainty arises from the limited ability to accurately forecast the implications of the future processes and their impact on profitability.

For the definition of the term "forward looking information", see "Appendix No. 4 – Glossary".

● CHAPTER "B" – EXPLICATION AND ANALYSIS OF THE FINANCIAL RESULTS AND BUSINESS POSITION

Material trends, occurrences, developments and changes

Management's handling of current material issues

The first half of 2020 was impacted by the Corona virus outbreak in Israel and throughout the world. The spread of the virus has led to a major economic crisis that has affected the economy, including the banking sector and the Discount Group. The Bank's financial base and its capital infrastructure remain stable and are being stringently managed.

The central challenges and issues in the second quarter were:

Outbreak of the Corona virus

General. A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. In March 2020, the World Health Organization announced the Corona virus a "pandemic".

Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households (see below "Principal economic developments"). Following a significant decline in the scope of morbidity in Israel, in the months of May and June, an additional widespread outbreak of the morbidity occurred in July.

Preparations made by the Bank. With the beginning of the crisis, the Bank's Management directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the Bank's President & CEO, managed the different layers of the Bank's operations under the crisis, while closely following developments and adopting measures for the reduction of the different risks and the maintenance of business continuity. The business divisions increased monitoring and control operations over the condition of the credit portfolio and of the financial assets portfolio of the Bank.

Concurrently with the management of the crisis, cross-organization teams, led by the Planning, Strategy and Finance Division, have begun planning the Bank's preparations for exiting the Corona crisis and the initiation of actions in this field.

Customer support. Since the beginning of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared to support its customers in confronting the economic uncertainty and traversing the crisis. Among other measures led by the Bank in the different segments of operation, were:

- Enlarging and increasing accessibility of banking operations on the online channels and the digital, including different services for the business sector, both intended to ease customers' activities and to reduce personal presence of customers at the branches.

- Assistance loans to businesses – designated loan channels for businesses have been developed, including bridging loans for the payment of wages and current expenses, and assistance loans with a repayment deferral mechanism for up to six months. Moreover, the Bank has extended loans to business customers out of loan funds established by the Government – the Small and Medium Business Fund and the Large Business Fund.
- Deferral of repayment of existing loans – upon the request of customers, the Bank has approved deferral/freezing of loan repayments for up to three months with no need to visit the branch.
- Deferral of mortgage principal and interest payments, or of principal sums only (at the option of the borrower), for a period of up to six months with no need to visit the branch.
- Possibility of premature withdrawal of deposits without a commission.
- Initiated issuance to customers of ATM cards and debit cards helping them to cash National Insurance allowances.

At the beginning of August 2020, the Bank enlarged its support of customers offering an additional package of solutions and services, to business and private customers, including:

- Flexible channels regarding mortgages and extension by one year of the mortgage termination date;
- A loan complementing the salary of customers on unpaid leave in an amount of up to NIS 6,000 per each month – five months with no interest charge;
- Introducing the "Togetherness" social project supporting small businesses.

(See below "Activity of the Group according to Principal Segments of Operation – Principal Quantitative Data and Main Developments").

Support for the community. On the background of the crisis, the Bank has committed to assisting various approaches. Among other things, the Bank assisted fifteen hospitals in the purchase of respiration machines and establishment of intensive care stations. Also, the Bank joined El Al Airlines in repatriating Israeli tourists from South America. The Bank and ICC have launched an ambulance for the transportation, of seniors and handicapped persons confined to wheelchairs. At the same time, during the month of March, the Bank decided on advancing payments to suppliers in respect of services rendered to the Bank, in order to help and support the providers of services to the Bank. (See above "Involvement and contribution to the community in Corona days").

Operation and business continuity. The Bank has been defined by the Government of Israel as a provider of essential services to the economy, and as such, continued uninterrupted operation, though in an emergency format, in accordance with guidelines of the Ministry of Health and instructions of the Supervisor of Banks. As a result of the above, a gradual reduction in the scope of operations took place since the middle of March, while focusing on operations defined by the Bank as essential. Operation of the branches has been gradually reduced and a part of the branches were closed to the customer population. In the beginning of May, the Bank is gradually returning to a full format of operation and the chain work of branches of the Bank and of MDB is operating in full since the middle of May.

In order to secure uninterrupted service, the Bank has split units defined as engaged in operations critical to business continuity and units supporting critical operations, as stated, while shift work was introduced in respect of certain operations. In addition, measures have been taken to secure regular cash operations and the increase in the quantity of cash available at the ATMs, where required.

Human resources. During the period in which the Bank operated in an emergency format, in accordance with the guidelines, the staff required to be physically present at the Bank premises has been reduced, while a part of the employees continued to work in a distant working format. The measures relating to this field had been taken in cooperation with the representative committee of employees, and in May 2020 the Bank's Management and the representative committee of employees reached agreement regarding remuneration during the lockdown period (see below "The Human Capital"). As stated, as from the middle of May, the Bank reverted to working at a full format, however, with the steep increase in morbidity as from July, the Bank applied stricter measures for business continuity, reverting to splitting-up the staff, distant working and "capsules".

Reduced capital requirements and discontinuation of dividend distribution. On the background of the spreading of the Corona virus and with the aim of supporting the credit requirements of its customers during this period, The Bank's Board of Directors has decided to modify the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted by the provisional Directive issued by the Supervisor of Banks. At the same time, the Bank's Board of Directors decided to discontinue, at this stage, the distribution of dividends by the Bank.

A rise in the level of risk. The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas. The Bank estimates that exposure has particularly increased with respect to credit risk and operating risk, as follows:

- Credit risk – in view of the growth in borrower quality and in credit portfolio quality risks;
- Operating risk – Due to modifications and changes made to work procedures and controls, stemming from regulatory and internal changes, and in view of the rise in fraud and embezzlement risks, stemming from the transition to digital operations, expanded authorizations, reduction in workforce and transition to distance work. These aspects also have an effect on the increase in cyber risk.

In addition, the risk environment has grown on the background of the present assessment regarding the possible implications of the crisis on the domestic and global economy.

(See below "Risk factors Table").

Growth in credit losses. The Bank estimates that the Corona crisis may continue to affect the condition of borrowers and their repayment ability, although, at this stage, significant uncertainty exists regarding the force of the crisis and the length of time in which it is anticipated to apply its impact. On the background of the above stated, the Bank has decided to increase the group allowance in the first half, in order to reflect the growth in the estimated credit losses for the period, in respect of borrowers affected by the crisis, which as yet have not been identified (namely, borrowers, the information in respect of whom does not, at this stage, require the creation of a specific allowance for credit losses in their respect).

In the second quarter, the Bank maintained an allowance level near that recorded in the first quarter, following the significant increase in the group allowance made by the Bank in the first quarter.

Expenses for credit losses in the amount of NIS 1,188 million were recognized in the first half of 2020, as compared to expenses of NIS 277 million in the corresponding period last year, an increase of 328.9%. This increase stems mostly from the implications of the crisis, and in particular from the increase in the group allowance for credit losses due to the rise in uncertainty in view of the Corona crisis.

It is noted that the expense in respect of credit losses in the first half of 2020, had been examined, inter alia, in comparison with the calculations made under different scenarios conducted by the Bank from time to time.

(See below "Credit loss expenses" in the section "Developments in income and expenses"; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the section "Critical accounting policies and critical accounting estimates").

Effect on the value of the securities portfolio. During March, steep declines took place on the capital markets in Israel and throughout the world, which were expressed in a decrease in the value of the Bank's marketable assets, mostly in the available-for-sale bonds portfolio. The capital markets experienced recovery during the second quarter, offsetting the decrease in the value of the securities portfolio that occurred in the first quarter.

Continuing uncertainty conditions. The economic implications of the Corona crisis depend on the time range for the curbing of the pandemic spread, the forcefulness of the steps taken in Israel and around the world for assistance to and the recovery of the economy, and in the pace of economic recovery and of the return to fulltime activity of the different economic sectors. The uncertainty, as stated, increases in view of the concerns regarding additional waves of the pandemic outbreak and the implications of such additional waves. The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation (including the effect of the decline in the markets). The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, significant uncertainty exists with respect to the force of the crisis and the length of time in which it is expected to have an effect. Accordingly, the Bank estimates that concern exists regarding the continuing impairment in the profitability of the Group, however, at this stage, it is not possible to assess its scope.

Drawing of conclusions. With the end of the first wave and the return to the Corona routine, the Bank has conducted a Group conclusion drawing process, which also provided response to the expectations of the Supervisor of Banks in this respect. Within the framework of the conclusion drawing process, the Bank formed a detailed work plan completing the preparations for possible additional waves of morbidity, which contained reference to aspects of business continuity, customer service (by telephone or digital), distant work, technologies, infrastructure, cyber and more. The treatment of most of the mapped subjects has been completed.

Forward looking information. The Bank estimates regarding the possible implications of the crisis, comprise forward looking information, based upon the information existing in the hands of the Bank at date of preparation of this report. Such estimates may not materialize or may materialize in a different manner than that estimated by the Bank.

Additional Issues

- **The 2020 retirement plan.** The Bank's Management has diligently engaged in the reported period in the preparation of a retirement plan. For additional details, see below "The 2020 retirement plan" under "Efficiency of the banking industry - the regulatory expectations".
- **Malfunction in the PayBox Application.** For details, see below "Operational risks" in "Chapter C - Risks review".
- **Discount Campus.** Construction work on the campus continued in the reported period. For additional details, see the 2019 Annual Report (p. 307-308) and Note 10 B 6 to the condensed financial statements.
- **An early redemption in full of the subordinate capital notes (Series 1).** For details, see Note 9 section 1 (G) to the condensed financial statements.

Principal economic developments

Presented below are the main economic developments that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in the first half of 2020.

Growth. An unprecedented contraction was recorded in the first half of 2020 in the global economic activity and in global trade, following the spreading of the Corona pandemic and the adopted prevention measures. The difficulty in containing the epidemic hinders the return of economic activity to routine, and the growth forecasts of international research bodies have been downgraded accordingly. The product in the US shrank in the second quarter at a steep rate of 32.9% (in annualized terms)- the worst growth data since World War II. Growth in the Eurozone was even worse, and reflected a shrinking of 48.8% in the product (in annualized terms). In Israel, the product shrank by 28.7%, following a reduction of 6.8% in the first quarter (in annualized terms). Concurrently, the labor market suffered an unprecedented shock with the steep increase in unemployment. According to the Bank's estimates, a negative growth of approx. 6% is expected in 2020.

Exchange rates. During March, the foreign currency market recorded exceptional volatility against the background of the steep declines in the markets and the dollar's difficult liquidity situation. The shekel had been devalued at a steep rate, and consequently, the Bank of Israel started to provide liquidity to the market and reduced fluctuations. The shekel strengthened in the second quarter and the Bank of Israel resumed the purchase of foreign currency. In total for the first half, the shekel was devalued against the US dollar at a moderate rate of 0.3%. The Bank estimates that the intervention of the Bank of Israel in the foreign currency market would prevent sharp fluctuations in the exchange rate.

Inflation. The inflationary environment has continued its downward trend, which has become even steeper following the outbreak of the Corona crisis. The annual inflation rate as well as the "core inflation" (excluding energy, fruit and vegetables) are found in the negative territory, and in June amounted to -1.1% and -0.5%, respectively. Inflation contracts for one year were traded at the end of the second quarter at 0.2%. As estimated by the Bank, during 2020 a negative inflation of 0.6% is expected.

Monetary policy. Due to the spread of the crisis, the world's central banks, led by the Fed, have taken unprecedented steps including making steep interest cuts and supplying liquidity to the markets. At the present time, the central banks are focusing on supporting the credit market, with the aim of ensuring the flow of credits to the markets, in order to prevent a much heavier impairment of economic activity. The Bank of Israel is adopting a large number of tools in order to support the economy and the liquidity in the financial markets, including the purchase of government bonds. On July 6, the Bank of Israel introduced additional supporting tools, including the purchase of corporate bonds on the secondary market and renewal of loans to the banks for the purpose of supporting the small and minute businesses. The Bank of Israel emphasizes that it would expand the use of existing tools, including interest tools, and would operate additional tools, to the extent required. The Bank is predicting that the Bank of Israel's interest rate at the end of 2020 will be 0.1%.

Fiscal policy. Concurrently with the operations of the central banks, governments around the world announced wide scale support plans. According to different assessments, the budgetary deficit is expected to amount this year to approx. 13% of the product, in consequence of the economic program announced by the Government and the expected decline in tax revenues.

Financial markets. The world's equity markets have suffered strong jolts as the crisis has worsened though, toward the end of March, began to gradually recover against the background of the steps taken by the central banks and governments. The trend of recovery continued in the second quarter, so that in total for the first half of the year, share indices around the world recorded relatively moderate decrease in prices. The adjustment in share indices in Israel was moderate in relation to the world. Government bonds markets around the world were stabilized in the second quarter. In the local market, the Bank of Israel activity has significantly reduced returns on government bonds.

The third quarter of 2020. The current data for July indicated moderation in global activity, following the quick recovery in the months of May and June (with the exit from the lockdown). The increase in Corona events around the world over clouds the process of recovery. The announcement of the interest rate by the FED at the end of July was not surprising, with the policy remaining unchanged. There are signs that in the next interest rate announcement at the end of September, the FED would declare new future guidelines, indicating the intention to maintain the interest rate at its low level for a very long period of time. In Europe, the heads of the Union reached an agreement for the establishment of a Recovery Fund in an amount of Euro 750 billion. The US dollar continued to weaken globally. Gold is traded at a peak, alongside the continuing positive trend in share indices around the world.

In Israel, economic activity indicators point at the stabilization of economic activity at a low level. The increase in morbidity and the repetition of part of the limitations over cloud the recovery. Concurrently, political uncertainty has increased following the lack of agreement regarding the budget. The negative annual inflation rate was slightly moderated in July, being supported by the recovery in prices of energy. Notwithstanding, Index contract present an inflation rate of 0.1% in one year - a low level compared with the end of June, this in contrast to the global trend.

In its decision of August 24, regarding the interest rate, the Bank of Israel made no changes in policy. In the opinion of the Bank of Israel, activity in the market remained moderate, and the second wave of the Corona pandemic continues to be noticed in the economy.

Forward-looking information. The aforesaid includes, inter alia, assessments of the Bank regarding the future development of primary indicators, which are deemed to be forward-looking information. The aforesaid reflects the assessment of the Bank's Management, taking account of information available to it at the time of preparing the quarterly report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.

For further details, see "Main developments in Israel and around the world in the first half of 2020" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Leading and developing risks

The Bank considers business model risks, cyber and data protection risks, model risks, privacy protection aspects as well as conduct risks, as the most significant developing leading risks. For additional details see the 2019 Annual Report (pp. 20-21).

Macro environment risk. In light of the Corona crisis, the macro environment risk worsened in the first quarter of 2020, in light of the material implications likely to arise from the crisis for the domestic and global economy, as well as for the markets. The crisis has led to increased risk in most of the managed risk sectors and, particularly, with regard to credit risk and operational risk. At this stage, considerable uncertainty exists regarding the severity of the crisis and the length of time over which it is expected to impact the global and domestic economy and the banking sector, including the Discount Group. For additional details see "Outbreak of the Coronavirus" above.

Initiatives concerning the banking sector and its operations

Increase in competition and reduction in concentration Act. The Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation Amendments) Act, 2017, was published in the Official Gazette on January 31, 2017. The Act constitutes the adoption of the recommendations of the Strum Committee, appointed in June 2015 by the Minister of Finance and by the Governor of the Bank of Israel, in order to recommend, inter alia, of ways for attracting new participants in the competition for the supply of prevalent financial services, including by way of separation from banks of the ownership of credit card companies.

In the first stage, within the framework of implementing the Act, the credit card companies Isracard and MAX (formally: Leumi Card) were separated from Bank Hapoalim and Bank Leumi, respectively, and the separation of ownership of the credit card companies from the banks did not apply to the owners of ICC. Only in the second stage will the issue of the separation of ownership in relation to ICC be re-examined. According to the Act, on February 1, 2021, a two-year period will commence during which the Minister of Finance may order ICC to be separated from the banks that currently own it. This and more, if in the past the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, MAX and ICC), so that competition exists now between the companies. Each bank holding control means in a debit card company, is required to divert a part of the business of issuing new cards to its customers to at least one other operating company, with which the bank had no business relations in the past. From the view point of ICC, although there is a reduction in the issue of credit cards to customers of the owner banks, ICC now has the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

The aforementioned could have a material effect on the banking system, including the Bank itself, on the credit card market and on ICC. Nevertheless, at this stage, prior to clarifying the nature, character, scope and timing of all the measures that will be taken, it is not possible to assess the aforesaid effects either in terms of materiality or in terms of quantity.

The additional tax that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of June 30, 2020, is estimated at NIS 57 million.

For details regarding the said Act and additional legislation initiatives concerning the banking sector, see the 2019 Annual Report (pp. 364-369). For details in respect of agreements between ICC and certain banks on the one hand, and between the Bank and MAX on the other hand, see the 2019 Annual Report (p. 287). For details in the matter of "Changes regarding competition in the credit card market", see the 2019 Annual Report (pp. 350-351).

Reduction of the cross-commission rate. The Banking Order (Customer service)(Supervision over cross-clearing service for transactions made by charge cards and for immediate debit transactions), 2018, was published on November 2, 2018, establishing an outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five stages during the coming years, and an outline with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date to a rate of 0.25%. The Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated. For additional details, see the 2019 Annual Report (pp. 285-286).

For details regarding the exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expired on December 31, 2018), published by the Competition Commissioner, see the 2019 Annual Report (pp. 285-286).

Encouraging innovation at banks and at clearing agents. The Supervisor of Banks published a letter on June 23, 2019, which defines the expectations from the banking corporations and clarifies the regulatory viewpoint with the aim of reaching a further stage in the encouragement of innovation. For details regarding the actions taken by the Bank in this respect, see above "The updated strategic plan" and below "Technological improvements and innovation".

Initiatives in view of the Corona crisis. For details regarding regulation in view of the Corona crisis, including regulation moves initiated by the Supervisor of Banks, intended to allow the banking system to fulfill its duty during the period of crisis and thereafter, see "Legislation and supervision" hereunder. For details regarding credit funds established by the State, operated through the banking system for the support of the economy in this period, see below "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments".

Efficiency of the Banking Industry

Regulatory expectations. The position of the Supervisor of Banks is that the banking industry in Israel is characterized by low efficiency, as compared with banks in the developed countries. One of the key targets defined by the Supervisor of Banks is improvement in bank efficiency, namely – a reduction in bank expenses in relation to income. The object of the Supervisor is that the efficiency obtained by banks would also reach the customers, namely, would reduce the cost of bank services, lead to the shifting of resources to innovation and improvement of banking service, and to the increase in dividends to bank shareholders, who are mainly the public at large in Israel.

On December 17, 2019, the Supervisor of Banks extended the validity of letters regarding operational efficiency of the banking system dated January 12, 2016 and June 13, 2017, within the framework of which banks had been granted certain relief in the matter of capital adequacy, until December 31, 2021. This, in order to enable the banking corporations to implement additional efficiency plans.

The 2020 retirement plan. On August 26, 2020, the Board of Directors approved a retirement plan, following an outline that had been formed by the Bank's Management, on the background of the Corona crisis and the intention to significantly increase the number of retirees over and above the employees expected to reach natural retirement. In view of the above stated, it has been decided to alter the retirement outline at the Bank, in an exceptional and one-time manner, offering retirees preferential terms compared with the usual retirement terms and the terms that had been offered in previous plans.

Following are the principal terms of the early retirement plan and its implications:

- In accordance with the plan, early retirement at preferential terms is being offered to approx. 300 permanent employees of the Bank, belonging to the defined targeted population (ages 50-66);
- Retirees would be offered increased severance pay at the rate of up to 200%;
- Within the framework of the plan, additional rewards are being offered to the focused population (ages 56-60) in relation to the remaining number of years until retirement, to shift/split-up work employees and employees earning a low salary;
- The plan increased the liability stated in the books of the Bank by approx. NIS 253 million (before tax effect; in excess of the cost of the legal severance pay and the surplus balance from a previous plan);
- The total cost of the retirement plan, including severance pay in accordance with the law, is assessed at NIS 553 million (before the tax effect).

The Supervisor of Banks granted the Bank a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 257 million (before taxes; an amount of NIS 169 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2020, and will be gradually amortized, as from the third quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. The effect of the efficiency plan on the ratio of capital tier 1 totaled at approx. 0.1%.

The Bank's Management estimates that all retirees would conclude the retirement process before the end of 2020, and accordingly, the final amount of the settlement, which would be recorded in the profit and loss in the second half of 2020 (including in respect of previous retirement plans) may reach approx. NIS 210 million. The balance would be spread over the average duration of the liabilities, which at present, amounts to approx. thirteen years, in accordance with the accounting principles applying to the Bank.

The planned retirement within the framework of the plan is in addition to natural retirement, totaling approx. 150 employees until the end of 2021 (of which, 34 employees had actually retired by June 30, 2020).

Forward-looking information. The data presented above is considered forward-looking information, within the meaning of the term in the Securities Act, 1968. The scope of the efficiency plan, as well as its effect on profit and loss and on capital adequacy, during the period of the plan and thereafter, are dependent, inter alia, on the extent of employee response to the retirement offer, in accordance with the terms of the plan, in completing the retirement process before the end of 2020, in changes in the discounting rate used for actuarial computations and in other actuarial changes, and in the characteristics of the retiree population (seniority, gender and salary level). Accordingly, the actual effects of the retirement plan may be materially different from the data presented above.

Review by the independent auditors

In their review report of the interim consolidated condensed unaudited financial statements for the three and six months periods ended on June 30, 2020, the independent auditors drew attention to Note 10 B section 5, regarding different proceedings filed against the Bank and against investee companies.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The business results for the first half of 2020 have been materially affected by the Corona crisis and the reaction of the markets.

Net profit attributed to the Bank's shareholders for the first half of 2020 totaled NIS 453 million, compared with NIS 950 million in the corresponding period last year, a decrease of 52.3%.

Net return on Shareholders' equity for the first half of 2020 reached a rate of 4.8%, on an annual basis, compared with a rate of 11.1% for the corresponding period last year, and 9.4% for all of 2019.

The following are the main factors that had an effect on the business results of the Group in the first half of 2020, compared with the corresponding period last year:

- A decrease in net interest income, in an amount of NIS 98 million (3.2%), which was mainly affected by the change in the CPI and the decline in the dollar interest rate, which was offset by the growth in credit to the public in the non-linked segment.
- An increase in credit loss expenses, of NIS 911 million (328.9%). The increase stems mostly from the implications of the Corona crisis, and in particular from the increase in the group allowance for credit losses.
- An increase in the total non-interest income, of NIS 240 million (13.0%), affected mostly by an increase of NIS 291 million in non-interest financing income (72.4%), which stemmed, mostly, from the increase in gains on realization of bonds and from the increase in income from exchange differences and from derivative operations and a decrease of NIS 50 million in fees and commissions (3.5%), mainly from a decrease in fees and commissions on credit cards and account management.
- An increase in operating and other expenses in the amount of NIS 14 million (0.5%), which was mostly affected by other expenses and by an increase in maintenance and depreciation expenses, which were partly offset by the reduction in salaries and related expenses.
- Tax provision of NIS 256 million on earnings in the first half of 2020, compared with NIS 524 million in the corresponding period last year.

Additional details and explanations are presented below.

Net profit attributable to the Bank's shareholders amounted in the second quarter of 2020 to NIS 174 million, compared to NIS 279 million in the first quarter of the year, a decrease at the rate of 37.6%, and compared to NIS 545 million in the second quarter of 2019, a decrease at the rate of 68.1%.

Net return on equity attributable to the Bank's shareholders reached in the second quarter of 2020 an annualized rate of 3.7%, compared to 6.0% in the first quarter of the year and compared to 12.8% in the second quarter of 2019.

The principal factors affecting the Group's business results in the second quarter of 2020, compared to the previous quarter, are:

- An increase in net interest income in the amount of NIS 8 million (0.5%).
- A decrease in expenses for credit losses in the amount of NIS 124 million (18.9%).
- A decrease in non-interest income in the amount of NIS 222 million (19.2%).
- An increase in operating and other expenses in the amount of NIS 52 million (3.4%).
- A provision for taxes on income in the amount of NIS 105 million was recorded in the second quarter of 2020, compared to an amount of NIS 151 million in the preceding quarter.

Developments in Income and Expenses

Developments in certain income statement items in the first half of 2020, compared with the first half of 2019

	For the six months ended June 30,		
	2020	2019	Change in %
	In NIS millions		
Interest income	3,533	3,956	(10.7)
Interest expenses	615	940	(34.6)
Net interest income	2,918	3,016	(3.2)
Credit loss expenses	1,188	277	328.9
Net interest income after credit loss expenses	1,730	2,739	(36.8)
Non-interest Income			
Non-interest financing income	693	402	72.4
Fees and commissions	1,389	1,439	(3.5)
Other income	8	9	(11.1)
Total non-interest income	2,090	1,850	13.0
Operating and other Expenses			
Salaries and related expenses	1,618	1,704	(5.0)
Maintenance and depreciation of buildings and equipment	559	532	5.1
Other expenses	937	864	8.4
Total operating and other expenses	3,114	3,100	0.5
Profit before taxes	706	1,489	(52.6)
Provision for taxes on profit	256	524	(51.1)
Profit after taxes	450	965	(53.4)
Bank's share in profit of associates, net of tax effect	8	11	(27.3)
Net profit attributed to the non-controlling interests in consolidated companies	(5)	(26)	(80.8)
Net Profit attributed to Bank's shareholders	453	950	(52.3)
Return on shareholders' equity, in % ⁽¹⁾	4.8	11.1	
Efficiency ratio in %	62.2	63.7	

Footnote:

(1) On an annual basis.

Developments in certain income statement items in the second quarter of 2020, compared with the first quarter of 2020 and compared with the second quarter of 2019

	2020		2019	Change Q2 2020 compared to	
	Q2	Q1	Q2	Q1 2020	Q2 2019
	In NIS millions			in %	
Interest income	1,742	1,791	2,150	(2.7)	(19.0)
Interest expenses	279	336	555	(17.0)	(49.7)
Net interest income	1,463	1,455	1,595	0.5	(8.3)
Credit loss expenses	532	656	136	(18.9)	291.2
Net interest income after credit loss expenses	931	799	1,459	16.5	(36.2)
Non-interest Income					
Non-interest financing income	276	417	230	(33.8)	20.0
Fees and commissions	650	739	729	(12.0)	(10.8)
Other income	8	-	1	-	700.0
Total non-interest income	934	1,156	960	(19.2)	(2.7)
Operating and other Expenses					
Salaries and related expenses	794	824	857	(3.6)	(7.4)
Maintenance and depreciation of buildings and equipment	274	285	269	(3.9)	1.9
Other expenses	515	422	444	22.0	16.0
Total operating and other expenses	1,583	1,531	1,570	3.4	0.8
Profit before taxes	282	424	849	(33.5)	(66.8)
Provision for taxes on profit	105	151	300	(30.5)	(65.0)
Profit after taxes	177	273	549	(35.2)	(67.8)
Bank's share in profit of associates, net of tax effect	4	4	12	-	(66.7)
Net loss (profit) attributed to the non-controlling interests in consolidated companies	(7)	2	(16)	-	(56.3)
Net Profit attributed to Bank's shareholders	174	279	545	(37.6)	(68.1)
Return on shareholders' equity, in % ⁽¹⁾	3.7	6.0	12.8		
Efficiency ratio in %	66.0	58.6	61.4		

Footnote:

(1) On an annual basis.

Following are details regarding material changes in statement of profit and loss items:

Net interest income. In the first half of 2020, net interest income, amounted to NIS 2,918 million compared with NIS 3,016 million in the corresponding period last year, a decrease of 3.2%. The decrease in the net interest income, in the amount of NIS 98 million, is explained by a negative price impact of NIS 307 million, and a positive quantitative effect in the amount of NIS 209 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).

The interest spread, excluding derivatives, reached a rate of 2.25% in the first half of 2020, compared with 2.56% in the corresponding period last year.

The average balance of interest bearing assets has increased by a rate of approx. 12.7%, from an amount of NIS 216,856 million to NIS 244,474 million, and the average balance of interest bearing liabilities increased by a rate of approx. 11.5%, from an amount of NIS 168,337 million to NIS 187,818 million.

Net interest income according to linkage segments

Distribution of volume of operations according to interest bearing assets, net interest income and interest spread by linkage segments

	For the six months ended June 30					
	2020			2019		
	Volume of activity ⁽¹⁾ in %	Net interest income in NIS millions	Interest spread in %	Volume of activity ⁽¹⁾ in %	Net interest income in NIS millions	Interest spread in %
Unlinked shekels	70.2	2,354	2.69	68.4	2,246	2.97
CPI-linked shekels	8.0	37	(0.30)	8.5	193	(0.46)
Foreign Currency	21.8	527	1.88	23.1	577	2.16
Net interest income and the Interest spread	100.0	2,918	2.25	100.0	3,016	2.56

Footnote:

(1) According to the average balance of the interest bearing assets.

The decline in net interest income stems mostly from the effect of the change in the CPI and from a decline in dollar interest rate, which was offset by the growth in credit to the public in the non-linked segment.

Non-interest financing income amounted in the first half of 2020 to NIS 693 million, compared to NIS 402 million in the corresponding period last year, an increase of 72.4%.

The growth in noninterest financing income stemmed, mostly, from the growth in gains on realization of bonds, from the growth in income from exchange differences and from operations in derivatives (see below "Analysis of the total net financing income").

Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing income from current activity, the net interest income and the non-interest financing income need to be aggregated.

Composition of net financing income

	2020			2019		
	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions					
Interest income	1,742	1,791	1,860	1,751	2,150	1,806
Interest expenses	279	336	381	353	555	385
Net interest income	1,463	1,455	1,479	1,398	1,595	1,421
Non-interest financing income	276	417	145	195	230	172
Total net financing income	1,739	1,872	1,624	1,593	1,825	1,593

Analysis of the total net financing income

	2020			2019		
	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions					
Financing Income from current operations	1,552	1,617	1,586	1,528	1,556	1,529
Effect of CPI	(16)	(24)	(12)	(33)	73	(14)
Net profit from realization and adjustment to fair value of bonds*	142	178	23	65	66	57
Profit (loss) from investments in shares**	7	(8)	5	37	71	10
Adjustment to fair value of derivative instruments	18	6	6	(51)	44	(35)
Exchange rate differences, options and other derivatives*	36	103	16	47	14	40
Net profit on the sale of loans	-	-	-	-	1	6
Total net financing income	1,739	1,872	1,624	1,593	1,825	1,593

*Exchange rate differences in respect of trading bonds are included in the exchange rate differences line

**Of which: income from realizations in Discount Capital in deduction of provision for impairment

(7)	55	6	(19)	(5)	(35)
(3)	-	(1)	14	36	4

Net financing income, amounted to NIS 3,611 million in the first half of 2020, compared to NIS 3,418 million in the corresponding period last year, an increase of 5.6%. The increase in financing income stemmed, mostly, from an increase of NIS 84 million in profit from current operations, from an increase of NIS 197 million in profits from the sale and adjustment to fair value of bonds, and from a growth of NIS 85 million in income from exchange differences, options and other derivatives, which were offset by an expense of NIS 99 million in respect of the impact of the change in the CPI and by a decline of NIS 82 million in gains on investment in shares.

Rates of income and expenses. In the appendices to the quarterly report – Appendix 1 are presented net interest income, with respect to the balance sheet activity. In order to explain the Bank's overall interest spread, the effects of activity in derivatives not for trading (excluding adjustments to fair value and exchange rate differences) needs to also be added.

Interest spread, including derivatives not for trading reached a rate of 1.89% in the first half of 2020, compared with 2.07% in the corresponding period last year.

Net financing income amounted in the second quarter of 2020 to NIS 1,739 million, compared to NIS 1,825 million in the corresponding quarter last year, a decrease at the rate of 4.7%, and compared to NIS 1,872 million in the first quarter of 2020, a decrease at the rate of 7.1%.

The interest spread including non-trading derivatives reached in the second quarter of 2020 a rate of 1.84%, compared to 2.07% in the corresponding quarter last year and compared to 1.96% in the first quarter of 2020.

Development of the net interest income, by regulatory operating segments

	For the three months ended June 30,			For the six months ended June 30,		
	2020	2019	Change in %	2020	2019	Change in %
	In NIS millions			In NIS millions		
Domestic operations:						
Households	492	499	(1.4)	1,011	964	4.9
Private banking	18	19	(5.3)	40	43	(7.0)
Small and minute businesses	362	392	(7.7)	749	770	(2.7)
Medium businesses	93	81	14.8	179	159	12.6
Large businesses	193	191	1.0	388	377	2.9
Institutional bodies	9	8	12.5	18	18	-
Financial management	77	168	(54.2)	99	207	(52.2)
Total Domestic operations	1,244	1,358	(8.4)	2,484	2,538	(2.1)
Total International operations	219	237	(7.6)	434	478	(9.2)
Total	1,463	1,595	(8.3)	2,918	3,016	(3.2)

Credit loss expenses. In the first half of 2020 credit loss expenses in the amount of 1,188 million were recorded, compared with expenses of NIS 277 million in the corresponding period last year, an increase of 328.9%. The increase stems mostly from the implications of the Corona crisis, and in particular from the increase in the group allowance for credit losses. The said growth is in addition to the credit loss expenses in the amount of approx. NIS 50 million, recorded in the Bank's financial statements as at December 31, 2019, in respect of the implications of the Corona virus outbreak, including the price reduction in the markets.

The Bank estimates that the Corona crisis may continue to affect the condition of borrowers and their repayment ability, although, at this stage, significant uncertainty exists regarding the force of the crisis and the length of time in which it is anticipated to apply its impact. On the background of the above stated, the Bank has decided to increase the group allowance in the first half, in order to reflect the growth in the estimated credit losses for the period, in respect of borrowers affected by the crisis, which as yet have not been identified (namely, borrowers, the information in respect of whom does not, at this stage, require the creation of a specific allowance for credit losses in their respect).

In the second quarter, the Bank maintained an allowance level near that recorded in the first quarter, following the significant increase in the group allowance made by the Bank in the first quarter.

Credit loss expenses in the first half were mostly affected by the following factors:

- Recognition of expenses on a group basis in the amount of NIS 976 million, compared to NIS 215 million in the first half of 2019, a growth impacted, mostly, by the increase in the adjustment coefficient of the Bank due to the rise in uncertainty in view of the Corona crisis;
- Recognition of expenses on a specific basis in the amount of NIS 122 million, compared to NIS 45 million in the first half of 2019, a growth impacted, mostly, by the expenses of the Bank in respect of a number of borrowers affected by the crisis;
- Recognition of an expense regarding housing loans, in the amount of NIS 90 million, compared with NIS 17 million in the first half of 2019, an increase of 429%, impacted, mostly, by the additional allowance made on a group basis, for reasons of prudence, with respect to credit, the mortgage repayment of which had been deferred regarding the Corona crisis.

It is noted that, within the framework of assessment of credit losses inherent in the credit portfolio with respect to borrowers affected by the crisis but not yet identified, use was made, inter alia, in deterioration coefficients based on the risk evaluation for the different economic sectors.

It is also noted that the expense in respect of credit losses in the first half of 2020, had been examined, inter alia, in comparison with the calculations made under different scenarios conducted by the Bank from time to time.

For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 14 to the condensed financial statements.

Details of the quarterly development in the credit loss expenses

	For the six months ended		For the year
	June 30,	2019	ended
	2020	2019	December
	31,		
	2019		
	In NIS millions		
On a specific basis			
Change in allowance	69	8	126
Gross accounting write-offs	176	135	275
Collection	(123)	(98)	(220)
Total on a specific basis	122	45	181
On a group basis			
Change in allowance	891	55	168
Gross accounting write-offs	316	308	602
Collection	(141)	(131)	(261)
Total on a group basis	1,066	232	509
Total	1,188	277	690
Rate of credit loss expenses to the average balance of credit to the public ⁽¹⁾	⁽²⁾ 1.28%	0.32%	0.40%

Footnotes:

(1) On an annual basis.

(2) Including an expense in an immaterial amount in respect of credit to banks and governments.

Quarterly development in the credit loss expenses

	2020		2019			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
On a specific basis						
Change in allowance	10	59	84	34	18	(10)
Gross Accounting Write-offs	68	108	78	62	70	65
Collection	(67)	(56)	(50)	(72)	(46)	(52)
Total on a specific basis	11	111	112	24	42	3
On a group basis						
Change in allowance	432	459	69	44	(2)	57
Gross Accounting Write-offs	151	165	148	146	160	148
Collection	(62)	(79)	(68)	(62)	(64)	(67)
Total on a group basis	521	545	149	128	94	138
Total	532	656	261	152	136	141
Rate of credit loss expenses to the average balance of credit to the public ⁽¹⁾ :						
The rate in the quarter:	⁽²⁾ 1.14%	1.42%	0.58%	0.35%	0.32%	0.33%
Cumulative rate since the beginning of the year:	⁽²⁾ 1.28%	1.42%	0.40%	0.33%	0.32%	0.33%

Footnotes:

(1) On an annual basis.

(2) Including an expense in an immaterial amount in respect of credit to banks and governments.

For additional details, see below "Credit to the public" and "Credit risk" in chapter C hereunder.

Fees and commissions in the first half of 2020 amounted to NIS 1,389 million, compared to NIS 1,439 million in the corresponding period last year, a decrease of 3.5%.

Distribution of the fees and commissions

	For the three months ended June 30,			For the six months ended June 30,		
	2020	2019	Change in %	2020	2019	Change in %
	in NIS millions					
Account Management fees	104	115	(9.6)	222	234	(5.1)
Credit cards	301	344	(12.5)	644	669	(3.7)
Operations in securities and in certain derivative instruments	79	82	(3.7)	166	156	6.4
Fees and commissions from the distribution of financial products	33	36	(8.3)	72	71	1.4
Handling credit	46	41	12.2	93	88	5.7
Conversion differences	24	33	(27.3)	60	66	(9.1)
Foreign trade services	11	15	(26.7)	23	30	(23.3)
Net income from credit portfolio services	1	2	(50.0)	2	3	(33.3)
Fees and commissions on financing activities	35	41	(15)	71	81	(12.3)
Other fees and commissions	16	20	(20.0)	36	41	(12.2)
Total fees and commissions	650	729	(10.8)	1,389	1,439	(3.5)

Credit card fees and commissions. The Corona crisis caused a reduction in credit card activity as from the month of March 2020. The decrease in the second quarter amounted to NIS 43 million, which was partly offset by the growth in activity until the outbreak of the crisis.

Ledger fees. The reduction in ledger fee income, mostly recorded in the second quarter of the year, which was also affected by the Corona crisis, reflects a transition to transacting bank operations by means of the online channels.

Salaries and related expenses amounted to NIS 1,618 million in the first half of 2020, compared with NIS 1,704 million in the corresponding period last year, a decrease of 5.0%. Eliminating the effect of certain components as detailed below, a decrease of 3.4% would have been recorded.

Quarterly developments in salaries and related expenses, detailing the effect of certain components

	2020			2019		
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Salaries and Related Expenses - as reported	794	824	815	824	857	847
Awards	(17)	(21)	(59)	(64)	(94)	(69)
Salaries and Related Expenses - Excluding certain components	777	803	756	760	763	778

Other expenses amounted to NIS 937 million in the first half of 2020, compared to NIS 864 million in the first half of 2019, an increase of 8.4%. The growth was mainly affected by the provision for claims in the reported period, in the amount of NIS 71 million, by the increase in commission in the amount of NIS 46 million, impacted mostly from the increase in payments by ICC to business partners, and by the increase in computer expenses in the amount of NIS 17 million, partly offset by a reduction in advertising and marketing expenses of NIS 23 million, and a reduction in long-term benefits of NIS 17 million.

Developments in the comprehensive income

Condensed statement of comprehensive income

	For the six months ended June 30,		Change in %
	2020	2019	
	in NIS millions		
Net Profit attributed to the Bank's shareholders	453	950	(52.3)
Changes in components of other comprehensive income (loss) , attributed to the Bank's shareholders:			
Other comprehensive income (loss) , before taxes ⁽¹⁾	(129)	344	
Related tax effect	57	(168)	
Other comprehensive income (loss) , attributed to the Bank's shareholders, after taxes	(72)	176	
Comprehensive income, attributed to the Bank's shareholders	381	1,126	(66.2)

Footnote:

(1) For details regarding changes in the components of other comprehensive income (loss), see Note 4 to the condensed financial statements.

Other comprehensive loss after taxes amounted to NIS 72 million in the first half of 2020. The main items comprising the other comprehensive income (loss) are:

- Net adjustments in respect of the presentation of available-for-sale bonds at fair value – in the first half of 2020, the returns on the bonds held by the Bank Group decreased, which resulted in other comprehensive income after attribution of tax in the amount of NIS 105 million. Alongside the impact of the aforesaid increase in the fair value, the other comprehensive income was also affected by the realization of bonds at a profit;
- Adjustments from the translation of the New York subsidiary's financial statements – in the first half of 2020, the exchange rate of the shekel against the US dollar depreciated by 0.3%. Accordingly, other comprehensive income was recorded due to an increase in the shekel value of the investments in this subsidiary, in the amount of NIS 14 million;
- Adjustments in respect of employee benefits – employee benefits in respect of their post-retirement rights and other long-term benefits for working employees are calculated, in conformance with the directives of the Supervisor of Banks, using a discount rate derived from the yield of Israeli government bonds plus an average margin of corporate bonds with an (international) rating of AA. In view of the decline that took place in the first half of 2020 in return on bonds, the Bank recorded other comprehensive income of NIS 41 million, after attribution of tax, and also recorded other actuarial losses of NIS 233 million, of which – a total of NIS 166 million after attribution of tax, in respect of the 2020 retirement plan.

Structure and developments of assets, liabilities, capital and capital adequacy

Development of Assets and Liabilities

Total assets as at June 30, 2020, amounted to NIS 282,100million, compared with NIS 259,823 million at the end of 2019, an increase of 8.6%.

Developments in the principal balance sheet items

	June 30, 2020	December 31, 2019	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	39,608	26,044	52.1
Securities	40,037	37,745	6.1
Net credit to the public	183,436	180,467	1.6
Liabilities			
Deposits from the public	222,048	201,450	10.2
Deposits from banks	7,717	6,419	20.2
Securities loaned or sold under repurchase arrangements	174	346	(49.7)
Subordinated debt notes	11,377	13,129	(13.3)
Shareholders' equity	19,004	18,678	1.7
Total equity	19,523	19,193	1.7

Following are details regarding credit to the public, securities and deposits from the public.

Cash and deposits with banks

Deposits from the public increased significantly in the first half of 2020 (see below). In view of the fact that the increase in the balance of credit was lower than the increase in the balance of deposits, the Bank's liquidity surplus increased significantly, part of which was invested in the securities portfolio and the other part increased the Bank's liquidity balances deposited with the Bank of Israel.

Credit to the public

General. Net credit to the public (after allowance for credit losses) as at June 30, 2020 totaled NIS 183,436 million, compared with NIS 180,467 million at the end of 2019, an increase of 1.6%.

For details regarding the credit portfolio, see the 2019 Annual Report (pp. 33-36). For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, see "Credit risk" in Chapter C hereunder and in the 2019 Annual Report (pp. 58-73). For details regarding the quality of credit, see Note 14 B 3 to the condensed financial statements and in the 2019 Annual Report (pp. 253).

Composition of credit to the public by linkage segments

Data on the composition of net credit to the public by linkage segments

	June 30, 2020		December 31, 2019		Rate of change in %
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	
Non-linked shekels	135,316	73.8	132,824	73.6	1.9
CPI-linked shekels	18,112	9.9	18,348	10.2	(1.3)
Foreign currency and foreign currency-linked shekels	30,008	16.3	29,295	16.2	2.4
Total net credit to the public	183,436	100.0	180,467	100.0	1.6

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 10.3% compared with December 31, 2019. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US\$184 million, an increase of 2.2% as compared to December 31, 2019. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 1.6% as compared to December 31, 2019.

Composition of credit to the public by regulatory operating segments

Review of developments in the balance of net credit to the public, by regulatory operating segments

	June 30, 2020	December 31, 2019	change in %
	In NIS millions		
Domestic operations:			
Households*	69,622	69,211	0.6
Private banking*	355	326	8.9
Small and minute businesses	37,029	36,837	0.5
Medium businesses	13,539	12,628	7.2
Large businesses	42,180	39,529	6.7
Institutional bodies	638	676	(5.6)
Total Domestic operations	163,363	159,207	2.6
Total International operations*	23,478	23,784	(1.3)
Total credit to the public	186,841	182,991	2.1
Credit loss expenses	(3,405)	(2,524)	34.9
Total net credit to the public	183,436	180,467	1.6
*Of which - Mortgages	39,706	37,159	6.9

The increase in credit to the public in the first half of 2020 reflects growth in the focus points determined in the updated strategic plan. Credit to large business grew by NIS 2,651 million (6.7%) and housing credit grew by NIS 2,547 million (6.9%). On the other hand, a reduction was recorded in credit to households, excluding housing loans, in the amount of NIS 1,996 million (-5.9%).

Composition of the overall credit to the public risk by economic sectors

Developments of total credit to the public risk, by main economic sectors

Economic Sectors	June 30, 2020		December 31, 2019		Rate of change in %
	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	
	in NIS millions	%	in NIS millions	%	
Industry	21,647	7.5	19,982	7.1	8.3
Construction and real estate - construction	32,684	11.3	31,382	11.2	4.1
Construction and real estate - real estate activity	24,469	8.5	22,973	8.2	6.5
Commerce	29,888	10.3	29,056	10.3	2.9
Financial services	25,704	8.9	24,224	8.6	6.1
Private individuals - housing loans	44,344	15.3	41,203	14.7	7.6
Private individuals - other	67,833	23.4	69,385	24.7	(2.2)
Other sectors	42,763	14.8	42,909	15.3	(0.3)
Total overall credit to the public risk	289,332	100.0	281,114	100.0	2.9

The data presented above indicates that in the first half of 2020, the overall risk regarding credit to the public increased by 2.9% compared with the end of 2019. This growth applied mostly to private individuals – housing loans, industry, construction and real estate - real estate activity and financial services sectors. On the other hand, a decreased occurred mostly in the private individuals - other sector.

Development of problematic credit risk

Following are details on credit to the public, as specified in Note 14 to the condensed financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (accruing interest and non-accruing) amounted at June 30, 2020 to NIS 2,039 million, compared to NIS 1,814 million at December 31, 2019, an increase of 12.40%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at June 30, 2020 to NIS 1,445 million, compared to NIS 1,166 million at December 31, 2019, an increase at a rate of 23.93%.

Overall credit risk and the rate of problematic credit risk in principal economic sectors

Economic Sectors	June 30, 2020			December 31, 2019		
	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	21,647	1,024	4.7	19,982	856	4.3
Construction and real estate - construction	32,684	561	1.7	31,382	323	1.0
Construction and real estate - real estate activity	24,469	915	3.7	22,973	705	3.1
Commerce	29,888	764	2.6	29,056	1,048	3.6
Financial services	25,704	359	1.4	24,224	359	1.5
Private individuals - housing loans	44,344	414	0.9	41,203	378	0.9
Private individuals - other	67,833	550	0.8	69,385	566	0.8
Other Sectors	42,763	1,365	3.2	42,909	843	2.0
Total Public	289,332	5,952	2.1	281,114	5,078	1.8
Banks	7,806	38	0.5	5,188	37	0.7
Governments	32,373	-	-	29,904	-	-
Total	329,511	5,990	1.8	316,206	5,115	1.6

In the first half of 2020, the ratio of problematic credit risk to the total credit risk increased. The rate of problematic debts increased mostly in the sectors of construction and real estate - construction, construction and real estate - real estate activity and industry. On the other hand, the rate of problematic debts in the commercial sector decreased.

The balances of the allowance for credit losses

The balance of the allowance for credit losses of credit for the public. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totaled NIS 3,405 million as of June 30, 2020. The balance of this allowance constituted 1.82% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,524 million, constituting 1.38% of the credit to the public as of December 31, 2019.

The balance of the specific allowance for credit losses. The outstanding balance of the specific allowance for credit losses in respect of impaired credit to the public, computed on a specific basis, amounted to NIS 378 million on June 30, 2020, compared to NIS 307 million on December 31, 2019, an increase of 23.1%.

The balance of the group allowance for credit losses. The outstanding balance of the group allowance for credit losses, except for the allowance for credit losses in respect of housing loans, computed in accordance with the extent of arrears, amounted on June 30, 2020 to NIS 2,736 million, compared to NIS 2,010 million as of December 31, 2019, comprising an increase in the current allowance in the amount of NIS 725 million, a rate of 36.1%.

The risk characterization of the credit to the public portfolio

The distribution of expenses and the rate of credit loss expenses in the different economic sectors in relation to the outstanding balance of credit to the public in those sectors

sectors	For the six months ended June 30			
	2020		2019	
	Credit loss expense In NIS millions	Rate of expense %	Credit loss expense (expense reversal) In NIS millions	Rate of expense (expense reversal) %
Industry	51	0.8	28	0.4
Construction and real estate - construction	105	1.3	54	0.7
Construction and real estate - real estate activity	134	1.3	(33)	(0.4)
Commerce	147	1.3	57	0.5
Hotels, hotel services and food	100	6.2	(2)	(0.1)
Transportation and storage	19	0.7	18	0.6
Financial services	5	0.1	(6)	(0.1)
Other Business Services	141	4.6	24	0.8
Public and Community Services	32	0.6	11	0.3
Other Sectors	20	2.0	(30)	0.4
Total Commercial	754	1.3	121	0.2
Private Individuals - Housing Loans	91	0.5	16	0.1
Private Individuals - Other	329	2.1	140	0.9
Total credit loss expenses to the public.	1,174	1.3	277	0.3
Total Governments	14	0.7	-	-
Total credit loss expenses	1,188	1.28	277	0.32

The data presented above indicates that the increase in credit loss expenses in the first half of 2020, focused mostly on the private individuals – other, commerce, other business services, construction and real estate - real estate activity, construction and real estate - construction and hotels and hotel services sectors.

Securities

General. Securities in the Nosrto portfolio totaled NIS 40,037 million as of June 30, 2020, compared with NIS 37,745 million at the end of 2019, an increase of 6.1%. Securities included in the "nostro" portfolio of the Discount Group, the investment in which as of June 30, 2020, amounted to 5% or over of the total amount of the portfolio: "government variable 1121", "government variable 0324", the "shekel government 0330" and the "shekel government 1026" security types, which amounted to approx. 7.4%, approx. 5.2%, approx. 5.1% and approx. 5.0%, of the total portfolio, respectively.

As of June 30, 2020, approx. 66.9% of the portfolio is invested in Government bonds, and approx. 17.3% of the portfolio is invested in bonds backed by mortgages of different federal agencies (Freddie Mac, Fannie Mae, Ginnie Mae) with an "AAA" rating, (of which - approx. 1.6% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE)). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the quarterly report", appendix 2, sections 1-3. For details regarding the segmentation of the investment in government bonds according to principal governments, see "Appendices to the quarterly report" – appendix 3, section 2. For details regarding the Nostro portfolios management policy, see 2019 Annual Report (p. 36).

Composition of the securities portfolio by linkage segments

Composition of the securities portfolio by linkage segments

	December 31,		Rate of change in %
	June 30, 2020	2019	
	In NIS millions		
Non-linked shekels	21,167	20,486	3.3
CPI-linked shekels	1,112	685	62.3
Foreign currency and foreign currency-linked shekels	16,736	15,594	7.3
Shares - non-monetary items	1,022	980	4.3
Total	40,037	37,745	6.1

Securities in foreign currency and in Israeli currency linked to foreign currency increased by 7.3%, compared with December 31, 2019. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency increased by US\$316 million, an increase of 7.0% as compared with December 31, 2019. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms, increased by 5.9% as compared with December 31, 2019.

Composition of the securities portfolio according to portfolio classification

In accordance with directives of the Supervisor of Banks, securities have been classified as follows: held-to-maturity bonds, available-for-sale bonds, investment in share not for trading and trading securities.

Composition of investments in securities according to portfolio classification in accordance with directives of the Supervisor of Banks

	June 30, 2020		December 31, 2019			
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	7,691	8,044	7,691	4,753	4,998	4,753
Available for sale	29,298	30,010	30,010	29,091	29,562	29,562
Trading	1,300	1,314	1,314	2,442	2,450	2,450
Shares						
Available for sale	991	1,021	1,021	935	967	967
Trading	2	1	1	12	13	13
Total Securities	39,282	40,390	40,037	37,233	37,990	37,745

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of June 30, 2020, includes investments in corporate bonds in the amount of NIS 3,952 million (of which an amount of NIS 530 million is held by IDB New York), compared with NIS 3,601 million as of December 31, 2019, an increase of 9.7%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 5 to the condensed financial statements.

Investments in mortgage and asset backed securities

General. Discount Group's securities portfolio as of June 30, 2020 includes investment in mortgage-backed and asset-backed securities, in the amount of NIS 8,023 million, compared to an amount of NIS 7,444 million as at December 31, 2019, an increase of 7.8%. The amount includes investment in mortgage backed securities in the amount of NIS 7,461 million, which are held by IDB New York, compared to an amount of NIS

6,857 million as at December 31, 2019, an increase at a rate of 8.8%. Approx. 92.9% of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of June 30, 2020, the portfolio of mortgage and assets backed securities included unrealized net gains of NIS 173 million, compared with NIS 2 million as of December 31, 2019.

For details regarding the agencies operating under the auspices of the U.S. Governance, see the 2019 Annual Report (p. 38).

CLO. IDB New-York holds secured bonds of the CLO class in a total amount of NIS 534 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds secured bonds of the CLO class in a total amount of NIS 557 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 5 to the condensed financial statements.

Details regarding impairment in value of available-for-sale securities

For details regarding the review of impairment of securities, see "Critical accounting policies and critical accounting estimates" in the 2019 Annual Report (pp. 93-94) and Note 1 D 5 to the financial statements as of December 31, 2019 (pp. 125-127). Based on a review of the impairment of the said securities as of June 30, 2020, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.

As of June 30, 2020, June 30, 2019 and December 31, 2019, unrealized accumulated losses on available-for-sale mortgage and asset backed securities amounted to total amounts of NIS 26 million, NIS 31 million and NIS 28 million, respectively. For additional details, see Note 5 to the condensed financial statements.

Customer assets

Deposits from the public as of June 30, 2020, totaled NIS 222,048 million, compared with NIS 201,450 million at the end of 2019, an increase of 10.2%. In the first half, during which steep declines were recorded in the capital market due to the Corona crisis, deposits from the public increased considerably as a result of redemptions of retail customers' funds, which were previously invested in the capital market, being invested in deposits with the Bank.

Data on the composition of deposits from the public by linkage segments

	June 30, 2020		December 31, 2019		Rate of change in %
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	
Non-linked shekels	150,830	67.9	134,716	66.9	12.0
CPI-linked shekels	4,394	2.0	4,611	2.3	(4.7)
Foreign currency and foreign currency-linked shekels	66,824	30.1	62,123	30.8	7.6
Total deposits from the public	222,048	100.0	201,450	100.0	10.2

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 7.6%, compared with December 31, 2019. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US\$1,304 million, an increase of 7.3% compared with December 31, 2019. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, increased at a rate of 10.1%, compared with December 2019.

Review of developments in the balance of deposits from the public, by regulatory operating segments

	June 30, 2020	December 31, 2019	Change in %
	In NIS millions		
Domestic operations:			
Households	84,993	75,312	12.9
Private banking	17,938	16,368	9.6
Small and minute businesses	40,814	37,022	10.2
Medium businesses	8,009	7,590	5.5
Large businesses	24,640	20,305	21.3
Institutional bodies	17,047	18,076	(5.7)
Total Domestic operations	193,441	174,673	10.7
Total International operations	28,607	26,777	6.8
Total deposits from the public	222,048	201,450	10.2

The ratio of total net credit to the public, to deposits from the public was 82.6% as at June 30, 2020, compared with 89.6% at the end of 2019.

Deposits from the public of the three largest depositor groups amounted as of June 30, 2020, to NIS 4,932 million.

Securities held for customers. On June 30, 2020, the balance of the securities held for customers at the Bank amounted to approx. NIS 164.99 billion, including approx. NIS 1.49 billion of non-marketable securities, compared to approx. NIS 191.4 billion as at December 31, 2019, including approx. NIS 1.61 billion of non-marketable securities, a decrease of approx. 13.8%. For details as to income from security activities, see Note 3 to the condensed financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of June 30, 2020, amounted to NIS 9.12 billion, compared with NIS 11.71 million in December 31, 2019, a decrease of 22.12%. The decrease stems both from both the decline in the investment portfolios and from the decline in prices of securities.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at June 30, 2020, amounting to NIS 19.7 billion, compared with NIS 19.6 as of December 31, 2019, an increase of 0.5%.

Capital and capital adequacy

The instructions. Instructions regarding "Basel III guidelines", which apply as from January 1, 2014, include a requirement for maintaining a minimal ratio of common equity tier 1 of 9%, and a total capital ratio of 12.5%, as well as detailed reference with respect to transitional instructions. For details regarding the requirement concerning housing loans and for details regarding a temporary relief granted with regard to this, see Note 9 to the condensed financial statements, section 1 (b).

Issues of capital instruments. The capital instruments that are permitted to be issued under the Basel III rules, include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument.

Transitional instructions. In accordance with the transitional instructions, capital instruments not recognized any longer as regulatory capital, were recognized as from January 1, 2014, in an amount of up to 80% of their outstanding balance included in the regulatory capital at December 31, 2013, and in each consecutive year this maximum balance is being reduced by an additional 10% until January 1, 2022. In accordance with the above, the maximum balance in 2020 amounts to 20%. The aforesaid instruments are recognized in the amount of the said maximum balance or in their amortized amount, whichever is lower.

Relief regarding retirement plans. The Supervisor of Banks granted the Bank relief regarding its 2016, 2018 and 2020 retirement plans. For further details, see the 2017 Annual Report (pp. 21-22), the 2018 Annual Report (pp. 21-22, 187, 190) and Note 9 to the condensed financial statements, section 1 (c), (d) and (e).

Issuance of deferred debt notes (Series "F" and series "G"). Issuance of debt notes, through Manpikim, in January 2020 and June 2020, increased the total capital ratio by 0.28%.

Full premature repayment of deferred capital notes (Series 1). On April 20, 2020, Manpikim redeemed the capital notes by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,448 million, including interest and linkage increments. All as detailed in Manpikim's immediate report of April 16, 2020 (Ref. No. 2020-01-034486). The early repayment, as stated, has reduced the comprehensive capital ratio by 0.39%. It is noted that in October 2019, the Bank, through Manpikim Company, issued debt notes in the amount of NIS 1,231 million.

Preparations made by the Bank. The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the instructions of the Supervisor of Banks and according to the time schedules published by him, and it is acting towards its implementation.

Provisional Instruction mitigating the capital requirements in order to face the Corona crisis. The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction is to remain in effect for a period of six months, and if required would be extended for an additional period of six months. Following that, banks would be required to present a gradual outline for the renewal of the accumulation of the eroded capital over a period of two years.

Effect of the credit rating of Israel. The credit rating of Israel has an effect on the capital requirements, in view of the fact that the capital requirement in respect of exposure to governments, to public sector entities (local authorities, for instance) and to banks, derives from the credit rating of the State. According to estimates of the Bank, if and to the extent that the credit rating of the State of Israel would decline, this would have a decrease of 0.23% in the Tier 1 capital ratio, in June 30, 2020 terms.

Common Equity Tier 1 goal

The policy approved by the Board of Directors, which reflects the Bank's risk appetite, is to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test.

On December 22, 2019, the Board of Directors, on the basis of ICAAP and SREP processes, adopted a minimum common equity tier 1 target level of 9.9% for 2020.

On the background of the spreading of the Corona virus and with the aim of supporting the credit needs of customers during this period, the Bank's Board of Directors decided on April 7, 2020, to adjust the goal of the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted under the Provisional Instruction published by the Supervisor of Banks (see above).

For details regarding capital planning, see "Capital Adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for perusal on the internet and in the 2019 Annual Report (p. 41).

Impact of the Corona virus on the Bank's capital adequacy

The activity of the Discount Group during the first half of 2020 was conducted under the shadow of the Corona virus crisis, which broke out at the beginning of the first quarter and caused, inter alia, a significant economic crisis. The Corona crisis resulted in a reduction in net profit for the first half of the year, which affected the capital ratio.

The first quarter of the year was characterized by steep drop in capital markets in Israel and globally, which were reflected in a reduction in the value of the Bank's marketable assets. The effect on the Bank's capital reserve was moderated by the offsetting effect of the reduction in liabilities for employee rights. The rises in the markets during the second quarter offset the effects observed in the first quarter. In total for the first half of the year, the value of the available-for-sale bond portfolio increased, however, this increase was offset almost in full by the growth in value of liabilities for employee rights, so that, no material change has taken place in the capital ratio in respect of these changes during the period.

Components of capital

Total capital as at June 30, 2020, totaled NIS 19,523 million, compared with NIS 19,193 million at the end of 2019, an increase of 1.7%.

Shareholders' equity as at June 30, 2020, totaled NIS 19,004 million, compared with NIS 18,678 million at the end of 2019, an increase of 1.7%. The change in shareholders' equity in the first half of 2020 was affected, among other things, by the net earnings during the period, by an increase of NIS 105 million in the component of net adjustment of available-for-sale bonds presented at fair value, net of the tax effect, and from an increase of NIS 14 million in financial statements transactions adjustments and on the other hand, from the net actuarial loss in the amount of NIS 192 million.

Components of the regulatory capital as of June 30, 2020

Ratio of common equity tier 1 as of June 30, 2020, amounted to 10.08%, compared with 10.31% on December 31, 2019.

Total capital ratio as of June 30, 2020, amounted to 13.02%, compared with 13.86% on December 31, 2019.

Components of the regulatory capital as of June 30, 2020

	June 30,		December
	2020	2019	31,
	2019		
	in NIS millions		
1. Capital for Calculating ratio of capital			
Common equity tier 1 after deductions	19,391	18,505	19,009
Additional tier 1 capital after deductions	356	534	534
Tier 1 capital	19,747	19,039	19,543
Tier 2 capital	5,296	4,707	6,021
Total capital	25,043	23,746	25,564
2. Weighted risk assets balance			
Credit risk ⁽²⁾	171,479	159,731	165,883
Market risk	4,127	3,497	2,858
CVA risk	2,235	1,629	1,489
Operational risk	14,514	13,595	14,216
Total weighted risk assets balance	192,355	178,452	184,446
3. Ratio of capital to risk assets			
Ratio of common equity tier 1 to risk assets	10.08	10.37	10.31
Ratio of total capital to risk assets	13.02	13.31	13.86
Ratio of minimum capital required by the Supervisor of Banks			
Ratio of common equity tier 1 ⁽¹⁾	8.19	9.20	9.20
Total capital ratio ⁽¹⁾	11.69	12.70	12.70

Footnotes:

(1) With an addition of 0.19% (June 30, 2019: 0.20%, December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 to the condensed financial statements.

(2) The total weighted balances of the risk assets have been reduced by NIS 228 million (June 30, 2019: NIS 12 million, December 31, 2019: NIS 10 million) due to adjustments in respect to the efficiency plan.

The rise in market risk in the first half of the year stemmed mostly as a result of the allocation of capital in respect of foreign exchange risk, made at the end of the second quarter. The increase in risk assets in respect of CVA risk, stemmed mostly from changes in the interest graphs and their effect on the amount of capital required to be allocated in respect of the New York operation.

Raising of resources

Issuances of tier 2 capital. In October 2019 the Coco bonds issue in a total amount of NIS 1,231 million was completed. On January 7, 2020, an additional Coco issuance was concluded, with an overall scope of NIS 100 million. For additional details, see the 2019 Annual Report (p. 198). On June 21, 2020, an additional Coco issuance was concluded, with an overall scope of NIS 440 million.

Subtraction of regulatory capital instruments in 2020. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2022. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2022. Regulatory capital instruments, which are to be subtracted on January 1, 2021, in accordance with the transitional provisions, amount to NIS 234 million. NIS 1,522 million were deducted in the first half of 2020.

The Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2020 and market conditions, in order to maintain the total capital targets for 2020.

Additional disclosure according to the third pillar of Basel

Within the framework of the "Additional regulatory disclosures" document, a description is given of the principal characteristics of the issued regulatory capital instruments. Within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks" a disclosure is given of The Regulatory capital and management thereof, including the composition of the regulatory capital. The documents are available for perusal on the Magna website of the Israel Securities Authority, on the Maya website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Dividends distribution

On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter.

On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy, according to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%.

The updated dividend policy was approved in view of the Bank attaining its capital outline, the consistent improvement in the business results of the Group, and following the approval by the Supervisor of Banks of the said dividend policy.

It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, in accordance with the Companies Act and directives of the Bank of Israel. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Bank of Israel and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of its customers, the Bank's Board of Directors decided to discontinue at this stage the distribution of dividends until the expiry date of the Provisional Instruction issued by the Supervisor of Banks on March 31, 2020 (see "Capital and capital adequacy" above), and the clarification of the circumstances.

For details of the dividends paid as from the first quarter of 2018, see Note 18 B to the condensed financial statements.

Activity of the Group according to principal Segments of Operation – principal quantitative data and main developments

General

The regulatory operating segments have been defined by the Bank of Israel in the new directives, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments.

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280). However, in accordance with new directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only. Note 13 to the condensed financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.

Concise data regarding operations in the various segments is presented in Notes 12 and 13 to the condensed financial statements.

For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal guidelines, estimates and principles used in the preparation of segment information, see Note 29 to the financial statements as of December 31, 2019 (pp. 221-223).

Changes in the administrative structure. With effect as from January 1, 2020, responsibility for commercial banking was transferred from the Banking Division to the Corporate Division.

Updating of the expense allocation model. Changes were made in the first quarter of 2020, to the expense allocation model used in the preparation of operating segments data, following the process of updating and validating the model. The comparative data has been reclassified accordingly. For additional details, see Note 12 B to the condensed financial statements.

Household Segment (Domestic operations)

The Household segment in the wake of the Corona crisis

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has made arrangements to assist its customers in coping with the economic uncertainty and to beat the crisis. The following are some of the steps that the Bank has led in the Household segment:

- Enlarging and increasing accessibility of banking operations on the online channels and the digital, both intended to ease customers' activities and to reduce personal presence of customers at the branches.
- Assistance loans to households – designated loan channels have been developed in respect of private customers, including bridging loans and all-purpose loans. Moreover, the Bank offered customers the option of loans having a repayment deferral mechanism of principal and interest for a period of up to six months.
- Deferral of repayment of existing loans – upon the request of customers, the Bank has approved deferral/freezing of loan repayments for up to six months with no need to visit the branch.
- Deferral of mortgage principal and interest payments, or of principal sums only (at the option of the borrower), for a period of up to six months with no need to visit the branch. In addition, the Bank allowed extension of validity of the approval in principle for thirty days.
- Possibility of premature withdrawal of deposits without a commission.
- Initiated issuance to customers of ATM cards and debit cards helping them to cash National Insurance allowances.

Enlarging support of customers. In this framework, the Bank offers as from the beginning of August 2020, flexible and unique channels for mortgage loan debtors. The Bank offers grace for a period of twelve months in mortgage repayments, principal sum plus interest and linkage increments. In order to facilitate payments following the period of grace, the Bank may extend the mortgage repayment period by up to twelve additional months. Furthermore, during the grace period the Bank allows flexible repayments, namely, it is possible to apply grace to all installments or to a part thereof, in accordance with the repayment ability of the customer, over the time period of one year (all periods mentioned above include the first period of deferral, to the extent granted).

Private customers are being offered a range of loans at easy terms and at a flexible repayment period. Inter alia, the Bank offers the "salary complementing" loan to customers on unpaid leave or to customers whose income had been impaired. This loan track offers the customer an amount of up to NIS 6,000 per month, for a period of up to five months. In the period in which the "salary complementing" loan is being received, the customer does not pay or accumulate interest, namely, the customer benefits both from the deferment in repayment of the loan and from exemption from interest payments. Only upon completion of receiving the funds does the customer begins to repay the loan, at easy terms of between 24 and 36 installments.

Scale of Operations and Net Profit of the Segment

The segment's loss in the first half of 2020 amounted to NIS 91 million, compared to a net gain in the amount of 46 million in the corresponding period last year. The decrease in profit, turning into a loss, has been affected by a steep rise in credit loss expenses.

The credit loss expenses in the first half of 2020 amounted to NIS 414 million, compared to NIS 159 million in the corresponding period last year, an increase at a rate of 160.4%. Most of the increase in expenses stemmed from the increase in the group allowance, on the background of the Corona crisis.

Principal data regarding the household segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	840	900	1,757	1,732	3,561
Credit loss expenses	204	78	414	159	339
Total Operating and other expenses	744	⁽¹⁾ 749	1,487	⁽¹⁾ 1,478	⁽¹⁾ 3,032
Net Profit (Loss) Attributed to the bank's shareholders	(72)	38	(91)	46	95

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the household segment (Domestic operations), including details regarding mortgage activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Private Banking Segment (Domestic operations)

The Private Banking segment in the wake of the Corona crisis

The crisis continues to follow the activity of the segment. Despite the recovery experienced in the markets in Israel and abroad, customers are still wary with respect to investments, also the reduction in the shekel and dollar interest rates impacted the income from the private banking segment.

The investment advisors in this segment continued to provide full support and were available to customers, while strictly following the guidelines of the Ministry of Health.

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2020 amounted to NIS 19 million, compared with NIS 17 million in the corresponding period last year.

Principal data regarding the Private Banking segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	39	34	80	76	152
Credit loss expenses	1	-	2	-	2
Total Operating and other expenses	25	⁽¹⁾ 25	48	⁽¹⁾ 51	⁽¹⁾ 98
Net Profit Attributed to the bank's shareholders	8	6	19	17	34

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Private Banking segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Small and minute businesses Segment (Domestic operations)

The Small and minute businesses segment in the wake of the Corona crisis

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has made arrangements to assist its customers in coping with the economic uncertainty and to beat the crisis. The following are some of the steps that the Bank has led in the small and minute businesses segment:

- Use of digital services for businesses without having to go to a branch – payment of salaries, transfers of large amounts, payment of bills, deposit of checks via the app and additional operational reliefs that have been made available to customers;
- Business assistance loans – special loan tracks have been opened for businesses that have encountered cash flow difficulties and, as part of this, bridging loans for the payment of salaries and ongoing expenses, as well as assistance loans with a mechanism for the deferral of principal payments for up to six months;
- Deferral of existing loan payments – at the customers' request, the deferral/freezing of loan payments has been confirmed for up to three months without having to go to a branch.

Small and Medium Businesses Assistance Fund guaranteed by the Government. The State of Israel by means of the Accountant General at the Ministry of Finance has established a Business Assistance Fund helping businesses to confront the spread of the Corona virus. The State guarantees 85% of each single loan granted in the framework of the Fund, provided that the total amount of the guarantees is limited to a rate of 15% of the total loans extended by a bank within this framework. The Fund grants loans under beneficial terms and in accordance with rules determined by the State.

All the banks within the banking system participate in this Fund. Discount Bank had been allocated on April 1, 2020, a primary amount of NIS 350 million within the framework of the Fund. Since the signing of the agreement with the State, the Bank and MDB have made quick preparations and formed an efficient working interface and ability for providing response to customers in accordance with the terms of the Fund. The first loans within the framework of the Fund were granted already on April 6. The Bank and MDB have received a NIS 3,006 million allocation from the fund. Through August 23, 2020, the two banks approved 7,654 loans, in a total amount of NIS 2,794 million.

A Fund for businesses having intensified risk. On June 21, 2020, the government decided to provide assistance to additional businesses in Israel, which are being rated at a higher risk level than that typifying businesses which obtain loans from the Bank within the framework of the existing channel, and to add a "intensified channel" Fund. In the intensified channel, the State guarantee is divided into two layers, the total amount of the guarantee being limited to a cumulative rate of 60% of total loans extended by the Bank in this intensified channel. In the first layer, a rate of 85% of each single loan extended within the framework of the fund, but the total amount of the guarantee is limited to up to a rate of 15% of total loans extended by the Bank in this framework. In the second layer, in respect of that part exceeding 15%, as stated, the guarantee of the State amounts to 95%.

At this stage, the activity of the Bank and of MDB within the framework of the Fund had not reached a material volume.

The "Togetherness" project. This is a social project introduced by the Bank at the beginning of August 2020, intended to encourage the business activity of its customers, which had been impaired by the Corona crisis. "Togetherness" would connect business customers of the Bank (self-employed and small businesses) to private customers and vice versa. In this framework, the Bank will allocate advertising budgets promoting the its business customers countrywide. Customers joining the project would enjoy at no cost, an advertising package on the local media, which includes inter alia, billboard advertising, advertisement on local and digital radio programs, social network advertising, Google search and more. Business owners would be able to offer discounts from their trading houses to all the Bank's customers by means of the "Discount Key" application.

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2020 amounted to 5 million, compared to an amount of NIS 197 million in the corresponding period last year, a decrease at a rate of 97.5%. The reduction in profit was affected by a steep increase in credit loss expenses.

The credit loss expenses in the first half of 2020 amounted to NIS 371 million, compared to NIS 99 million in the corresponding period last year, an increase at a rate of 274.7%. The increase in expenses stemmed, almost completely, from the increase in the group allowance, on the background of the Corona crisis.

Principal data regarding the Small and minute businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	492	539	1,024	1,060	2,153
Credit loss expenses	181	50	371	99	234
Total Operating and other expenses	325	⁽¹⁾ 335	637	⁽¹⁾ 658	⁽¹⁾ 1,312
Net Profit (Loss) Attributed to the bank's shareholders	(13)	103	5	197	391

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Small and minute businesses segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Medium businesses Segment (Domestic operations)

The medium business segment in the wake of the Corona crisis

Regarding preparations for assistance to customers belonging to this segment, see below "Large business segment". As to loans extended out of the Small Businesses Fund guaranteed by the State, see above "Small and minute businesses segment".

Scale of Operations and Net Profit of the Segment

The loss in the first half of 2020 amounted to NIS 7 million, compared to a profit in an amount of 47 million in the corresponding period last year. The decline in profit down to a loss, was affected by a steep increase in credit loss expenses, which was partly offset by a slight increase in total income.

The credit loss expenses in the first half of 2020 amounted to NIS 117 million, compared to NIS 34 million in the corresponding period last year, an increase at a rate of 244.1%. The increase in expenses stemmed, almost completely, from the increase in the group allowance, on the background of the Corona crisis.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
in NIS millions					
Total income	124	113	239	221	451
Credit loss expenses	65	20	117	34	107
Total Operating and other expenses	71	⁽¹⁾ 58	132	⁽¹⁾ 115	⁽¹⁾ 234
Net Profit (Loss) Attributed to the bank's shareholders	(8)	23	(7)	47	72

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Medium businesses segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Large businesses Segment (Domestic operations)

The large business segment in the wake of the Corona crisis

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared for assisting its customers in confronting the economic uncertainty and in traversing the crisis. Among the other steps led by the Bank in the large business segment and in the middle market banking segment, are:

- Activating a service to encourage customers to use digital business services, including support in conducting transactions on the business website without having to visit a branch;
- Deferring repayments of existing loans – at the request of customers, the deferral/freezing of loan repayments has been approved for a period of up to three months;
- Business managers, business centers and business bankers have initiated activity and maintained ongoing communication with customers for the purpose of assisting them during the crisis period, providing adapted solutions.

Large businesses fund guaranteed by the State. The State of Israel, via the Accountant General at the Ministry of Finance has established a support fund for large businesses hit by the Corona crisis, and which comply with the terms determined by the State, including an annual business turnover exceeding NIS 200 million and employing over one-hundred workers in Israel. The State guarantees 75% of each individual loan extended within the framework of the fund, however, the total amount of guarantees is limited to up to 12% of the total amount of the loans granted by the Bank within this framework. The loans granted by the fund are in accordance with the rules determined by the State. Each single loan is limited in amount to 8% of the turnover of the business and to not more than NIS 100 million.

Additional banks in the banking system participate in the fund. Discount Bank was allocated an amount of NIS 450 million within the framework of the fund. On April 30, 2020, the Bank signed the agreement with the fund and began operations within the framework thereof at the beginning of May. Until August 23, 2020, the Bank had approved five loans in a total amount of NIS 130 million.

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2020 amounted to NIS 48 million, compared to NIS 204 million in the corresponding period last year, a decrease at a rate of 95.7%. The reduction in profit was affected by a steep increase in credit loss expenses.

The credit loss expenses in the first half of 2020 amounted to NIS 209 million, compared to expenses reversal of NIS 31 million in the corresponding period last year. The increase in expenses stemmed, almost completely, from the increase in the group allowance, on the background of the Corona crisis, and partly due to the increase in the specific allowance.

Principal data regarding the Large businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
in NIS millions					
Total income	276	258	563	554	1,114
Credit loss expenses (expenses reversal)	60	(18)	209	(31)	(21)
Total Operating and other expenses	148	⁽¹⁾ 142	275	⁽¹⁾ 274	⁽¹⁾ 550
Net Profit Attributed to the bank's shareholders	40	89	48	204	384

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Large businesses segment (Domestic operations), including details regarding construction and real estate activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Institutional bodies Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The segment's loss in the first half of 2020 amounted to NIS 7 million, compared to NIS 5 million in the corresponding period last year.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
in NIS millions					
Total income	11	9	23	20	48
Credit expenses reversal	(2)	-	(1)	(2)	(5)
Total Operating and other expenses	19	⁽¹⁾ 14	34	⁽¹⁾ 28	⁽¹⁾ 58
Loss Attributed to the bank's shareholders	(4)	(5)	(7)	(5)	(3)

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Institutional bodies segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Financial management Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Total income of the segment in the first half of 2020 amounted to NIS 748 million, compared to NIS 622 million in the corresponding period last year. This growth stems from the increase in noninterest financing income of the Bank, resulting mostly from the rise in gains on realization of bonds and from the rise in income from exchange rate differences and from operations in derivatives.

The net profit in the first half of 2020 amounted to NIS 358 million, compared to an amount of NIS 282 million in the corresponding period last year, an increase at a rate of 26.9%.

Credit loss expenses for the first half of 2020 amounted to NIS 14 million, compared to a negligible amount in the corresponding period last year. The increase in expenses stemmed from the allowance in respect of credit to foreign governments.

Principal data regarding the Financial management segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
in NIS millions					
Total income	362	416	748	622	1,041
Credit loss expenses	14	-	14	-	-
Total Operating and other expenses	92	⁽¹⁾ 90	182	⁽¹⁾ 174	⁽¹⁾ 362
Net Profit Attributed to the bank's shareholders	167	208	358	282	425

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the financial management segment (Domestic operations), including details regarding non-financial companies activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

International operations Segment

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2020 amounted to NIS 128 million, compared to NIS 162 million in the corresponding period last year, a decrease at a rate of 21.0%.

The credit loss expenses in this segment in the first half of 2020 amounted to NIS 62 million, compared to NIS 18 million in the corresponding period last year, an increase at a rate of 244.4%. The increase in expenses stemmed mostly from the Corona crisis.

Principal data regarding the International operations segment

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
in NIS millions					
Total income	253	286	574	581	1,144
Credit loss expenses	9	6	62	18	34
Total Operating and other expenses	159	157	319	322	653
Net Profit Attributed to the bank's shareholders	56	83	128	162	304

During the first half of 2020, IDB New York continued the implementation of its five-year strategy, concurrently with conducting the management of the Corona crisis implications and the smooth transition to distant working. The bank supported its customers in this challenging period, offering them relief with respect to credit. Such relief has been provided within the framework of the Government protection program with respect to wages, in accordance with the US law regarding economic assistance during the Corona crisis. This program offers loans to businesses, which undertake to continue employing their staff, and which under certain circumstances, would be converted into a grant.

For additional details regarding the International operations segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Main Investee Companies

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit For the six months ended June 30,				
	2020		2019		Change in %
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	
Banking Activity:					
Commercial banks:					
In Israel - the Bank	198	43.7	547	57.6	(63.8)
Mercantile Discount Bank	107	23.6	149	15.7	(28.2)
Overseas - Discount Bancorp	126	27.8	150	15.8	(16.0)
Other Activities:					
Israel Credit Cards	10	2.2	56	5.9	(82.1)
Discount Capital	5	1.1	35	3.7	(85.7)
Other financial services	7	1.6	13	1.3	(46.2)
Net profit	453	100.0	950	100.0	(52.3)

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 255 million in the first half of 2020, compared to NIS 402 million in the corresponding period last year, and an income of NIS 796 million in all of 2019.

Following are the major developments in the Bank's main investee companies.

Discount Bancorp, Inc.

Discount Bancorp, Inc. ("Bancorp") is a wholly owned subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp has full ownership and control of Israel Discount Bank of New York (IDB New York). IDB New York is the largest Israeli bank operating overseas. The data presented hereunder in this section have been taken from Bancorp's financial statements.

Discount Bancorp, Inc. – principal data

	Second Quarter		First Quarter		Year 2019
	2020	2019	2020	2019	
In US\$ millions					
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	21	26	43	49	100
Net interest income	62	63	121	127	250
Credit loss expenses	3	1	18	4	9
Non-financing income	11	16	43	33	77
Non-financing expenses	45	45	92	92	190
Principal balance sheet data for the end of the reporting period:					
Total assets	10,336	9,909	10,336	9,909	9,777
Net credit to the public	6,639	6,401	6,639	6,401	6,778
Securities	2,637	2,384	2,637	2,384	2,440
Deposits from the public	8,661	8,191	8,661	8,191	8,164
Total equity	1,132	1,030	1,132	1,030	1,078
In %					
Main performance indicators:					
Return on equity	7.6	10.2	7.9	10.1	9.8
Efficiency ratio	61.6	57.0	56.1	57.5	58.1
Ratio of total capital to risk assets	16.1	15.4	16.1	15.4	15.2
Ratio of credit loss expenses to the average balance of credit to the public	0.15	0.04	0.51	0.12	0.14
Total net return on interest bearing assets	2.59	2.83	2.54	2.85	2.74

The principal factors affecting the business results. The Corona crisis had a material impact on Bancorp's business results. The main factor affecting this was the credit loss expense in an amount of US\$18 million (an increase of US\$14 million, 350%) mostly in the first quarter, as a result of a worsening in several economic indicators related to the Corona crisis. In addition, net interest income recorded a decrease of US\$6 million (4.7%), as a result of cutting interest rates in the United States. On the other hand, a significant increase occurred in non-interest income in an amount of US\$10 million (31.2%), as a result of a rise in income from derivatives, which were affected by the cut in U.S. interest and also by the recording of gains on the realization of local authority bonds.

The contribution of Bancorp to the Bank's business results reached a profit of NIS 126 million in the first half of 2020 (after deducting a provision for taxes of NIS 24 million), compared with NIS 150 million in the first half of 2019 (after deducting a provision for taxes of NIS 26 million).

Distribution of dividend. In March 2020, Bancorp distributed a dividend of US\$15 million.

The annual financial statements of Bancorp and of IDB New York are available for review on the Internet website of IDB New York (IDB Bank). Annual and quarterly financial data is available for review on the Internet website of FDIC.

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("Mercantile Discount") is a wholly-owned and controlled subsidiary of the Bank.

Mercantile Discount Bank – principal data

	Second Quarter		First Quarter		Year
	2020	2019	2020	2019	2019
	In NIS millions				
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	58	82	107	149	305
Net interest income	299	290	616	583	1,201
Credit loss expenses	99	53	197	91	188
Non-financing income	124	111	222	188	367
Non-financing expenses	235	224	476	454	913
Principal balance sheet data for the end of the reporting period:					
Total assets	47,133	37,576	47,133	37,576	44,434
Net credit to the public	32,464	26,960	32,464	26,960	31,967
Securities	4,437	4,694	4,437	4,694	4,806
Deposits from the public	38,036	31,728	38,036	31,728	36,232
Total equity	3,181	2,913	3,181	2,913	3,058
	In %				
Main performance indicators:					
Return on equity	7.5	12.0	6.9	10.9	10.5
Efficiency ratio	55.6	55.9	56.8	58.9	58.2
Ratio of total capital to risk assets	13.68	13.85	13.68	13.85	13.65
Ratio of credit loss expenses to the average balance of credit to the public	1.23	0.79	1.22	0.69	0.69
Total net return on interest bearing assets	2.81	3.34	2.89	3.43	3.40

The principal factors affecting the business results. The Corona crisis has materially affected the business results of MDB. The profit in the first half of 2020, compared to the corresponding period last year, was affected, inter alia, from an increase of NIS 33 million in net interest income; from an increase of NIS 39 million in non-interest financing income, from an increase of NIS 106 million in credit loss expenses and from a growth of NIS 22 million in other expenses.

The increase in net interest income is explained, inter alia, by the rise in the average balance of income generating assets, as a result of concluding the merger with Municipal Bank. The increase in non-interest financing income is explained, primarily, by the gains on realization of securities. The increase in credit loss expenses is explained, primarily, by the growth in the allowances for credit losses on a group basis, and derive mainly from the increase in the allowances for credit losses in respect of customers operating in economic sectors directly impacted by the downturn in Israeli economic activity due to the Corona crisis.

It should be noted that the business results for the first half of 2020 include the operating results of Municipal Bank, which was merged with and into MDB on December 1, 2019.

For details regarding the strategic plan of MDB and the main projects to be carried out within the framework thereof, see the 2019 Annual Report (pp. 51-52).

For details regarding lawsuits and motions for approval of the lawsuits as class action suits and for details regarding additional proceedings, see Note 26 C to the financial statements as of December 31, 2019, sections 12.2, 12.8 and 13.1 (pp. 206-208) and Note 10 B to the condensed financial statements, section 5.1.

The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. appearing under "Mercantile Issuance", and on the website of Mercantile Discount Bank.

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of June 30, 2020, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

Israel Credit Cards – principal data

	Second Quarter		First Quarter		Year
	2020	2019	2020	2019	2019
In NIS millions					
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	23	54	16	91	201
⁽¹⁾ The contribution to the Bank's business results	14	33	10	56	123
Income from credit card transactions	286	333	616	646	1,356
Net interest income	133	130	267	250	505
Non-financing income	(2)	(1)	6	(2)	2
Non-financing expenses	387	385	871	767	1,587
Of which: Credit loss expenses	59	29	164	63	147
Principal balance sheet data for the end of the reporting period:					
Total assets	17,885	17,356	17,885	17,356	19,159
Interest bearing credit to the public	6,355	5,965	6,355	5,965	6,502
Total equity	1,835	1,772	1,835	1,772	1,821
In %					
Main performance indicators:					
Return on equity	5.1	12.4	1.8	10.1	11.0
Efficiency ratio	78.7	77.1	79.5	78.7	77.3
Ratio of total capital to risk assets	14.3	14.6	14.3	14.6	14.0
Turnover of credit card transactions – in NIS millions	24,012	25,997	51,064	50,561	107,096
Number of active cards – in thousands	2,842	2,751	2,842	2,751	2,877

Footnote:

(1) Differences between net income and the contribution to the Bank's business results is derived from

Outbreak of the Corona virus. The activity of ICC is directly affected by the activity on the Israeli economy, accordingly, the measures adopted by the Government following the outbreak of the virus, as well as the changes occurring in consumer behavior, have materially affected the volume of transaction turnover of the company, and are expected to continue and affect it also in the foreseeable future. ICC estimates, that due to the implications stemming from the spreading of the virus and the measures adopted in consequence thereof, material decline may be caused to the company's income and profitability in 2020. ICC is active in reducing nonessential expenses in order to minimize the expected impairment to the financial results of the company.

The spreading of the virus and its implications may have a material effect on the operations of ICC in the customer club field relating to the tourism and aviation business, and in particular on the FlyCard customer club.

The principal factors affecting the business results. The results for the first half were mostly affected by an increase in the allowance for credit losses, in order to reflect the estimated growth in credit losses for the period with respect to borrowers hit by the crisis though not yet identified. Furthermore, the results were adversely affected in the first half as a result of the reduction in collecting commission on foreign operations of Israelis (and respectively, the goals set by the international organizations may not be reached, being dependent on the volume of

impairment), the reduction in cross-commission income stemming from the volume of operation, and the reduction in clearing commission income on transactions of tourists in Israel. At this stage, in view of the uncertainty regarding the length of the recovery period of the Israeli economy, it is not possible predict the day on which the company would resume the scope of activity and profit, that had existed prior to the outbreak of the crisis.

The business results of ICC for the reported period, compared to the corresponding period last year, were mainly affected by an increase in expenses, affected mostly by the growth in credit loss expenses, amounting to NIS 164 million, compared to NIS 60 million in the corresponding period last year (160.3%), in addition, a growth occurred in sales and marketing expenses (NIS 10 million; 4.4%).

Goals and business strategy. On the background of the changes occurring in the financial world and in market conditions, ICC continues in refreshing its multi-annual strategic plan (see the 2019 Annual Report, pp. 52-53). This plan would reflect, on the one hand, the challenges stemming from market conditions, and on the other hand, the opportunities existing for the realization of the goals contained in the present plan.

In reviewing the plans, as stated, the need arose to refer to the challenges presented by the Corona crisis and its significant implications in the coming years on the economic situation in general, and on the credit card sector, in particular. This review is, inter alia, conducted with the aim of forming initiatives that would support ICC in improving its performance over a period of time and support its customers in this complicated period. It is clarified that the success of the plan depends on a number of factors, the realization of which is uncertain.

For details regarding activity in the credit card field in Israel, see in the 2019 Annual Report (pp. 284-289, 348-354) in the chapter "Corporate governance, audit and additional details regarding the business of the Banking Corporation and management thereof", and Note 17 to the condensed financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, see Note 26 C to the financial statements as of December 31, 2019, sections 12.1 and 12.5 (pp. 206-207) and Note 10 B sections 4.1 and 4.4 to the condensed financial statements.

The annual and quarterly financial statements of ICC are available for review on the Internet website of the company.

Discount Capital Ltd.

Discount Capital Ltd., a wholly owned and controlled subsidiary of the Bank, is engaged in investment in companies, in private investment funds and venture capital funds and mezzanine, investment banking in the field of securities distribution and in the underwriting and management of public offerings of securities (through a subsidiary).

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the first half:	2020	2019	Change in %
Net profit attributed to the shareholders	5.1	44.9	(88.6)
The contribution to the Bank's business results ⁽¹⁾	5.4	35.4	(84.7)

	March 31, 2020	December 31, 2019	Change in %
Principal balance sheet data for the end of the reporting period:			
Total assets	1,598.7	1,621.0	(1.4)
Total equity	828.1	829.7	(0.2)

Footnote:

⁽¹⁾ Differences between net income and the contribution to the Bank's business results is derived from differences in the implementation of generally accepted accounting principles

For details regarding realization of investments, see "Non-financial companies" below under "Activity of the Group by regulatory operating segments – additional details".

Realizations in 2020. No significant realization took place in the first half of 2020. Discount Capital estimates that following the Corona crisis, no significant realizations are expected in the second half of 2020.

In the first half of 2020, Discount Capital participated, via its subsidiary, in 23 public offerings and in 13 private transactions, amounting to approx. NIS 11.1 billion. This, compared with 25 public offerings and 7 private transactions, amounting to approx. NIS 8.25 billion, in the corresponding period last year.

● CHAPTER "C" – RISKS REVIEW

General description of the risks and manner of management thereof

Risk profile of the Discount Group

For details regarding the risk profile of the Discount Group, see the 2019 Annual Report (pp. 54-55). For details regarding Risk Management Principles, see the 2019 Annual Report (pp. 55-58).

Disclosures in accordance with the third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management, as well as in other fields. Qualitative and quantitative disclosure regarding the various risks above and below in this Chapter, is presented in the 2019 Annual Report (pp. 54-91) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2019 annual report together with the Report for the second quarter of 2020 (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Credit Risks

General

The Otzar system (new credit and attachments management system). For details, see the 2019 Annual Report (p. 59).

Adoption of updates to the generally accepted accounting principles at banks in the U. S. – allowances for credit losses – the Bank's preparations. It is noted, that due to the Corona crisis, the planned progress in the assignments of the project has been delayed, including a delay in choosing a technological solution, inter alia, due to the restrictions on the presence in person of foreign suppliers. Notwithstanding, the Bank estimates that the initial implementation of the rule would take place on the due date.

Credit risks and the manner of management thereof

Preparations by the Bank in the wake of the Corona crisis – credit risk

As part of the Bank's arrangements for coping with the Corona crisis, the Bank is keeping in regular contact with borrowers for the purpose of assisting them in getting through the crisis, inter alia, by means of deferral of loan repayments and loan tracks that are part of the government assistance program.

The economy has not yet resumed full business activity, unemployment is rising and economic growth is at low ebb. The crisis may affect the condition of borrowers and their repayment ability and at this stage considerable uncertainty exists as to the force of the crisis and the length of time in which it is expected to have an effect.

This situation requires increased alertness, risk assessment and quick response ability, and therefore the Bank has put into action a business continuity plan, and reports, controls and monitors with increased frequency, exposure of borrowers in all lines of business of the Bank inter alia, in the different economic sectors, within the framework of specific discussions regarding the condition of sensitive borrowers in difficulty, by means of sectorial reviews and the monitoring of the credit portfolio from the aspect of the Corona implications, while following regulatory developments. Furthermore, the Bank uses advanced analysis tools and is studying different scenarios, which are being updated from time to time, as part of the strategy for the preparation and management of credit risk.

Debts whose terms have been changed within the framework of coping with the Corona virus

On April 21, 2020, the Supervisor of Banks issued a letter regarding the main supervisory emphasis with regard to the handling of debts, within the framework of the supervision policy for encouraging banking corporations to operate cautiously in order to support borrowers that are unable or that are likely to be unable to meet their contractual payment obligations due to the impact of the Corona virus outbreak.

The letter specifies the terms which, when met, a change in terms for borrowers not in arrears, due to the Corona crisis, will not be considered a troubled debt restructuring. For further details, see Note 1 E 2 to the condensed financial statements. The letter specifies, inter alia, with regard to debts that were in arrears prior to granting a deferral, that the state of the calculated arrears will be frozen for the repayments deferral period, except in the case of a debt classified as an impaired debt or a debt subject to an accounting write-off. It is noted that, possibly, were it not for the stay in the count of the default days regarding the deferred repayments, as stated above, the balance of debts in arrears as of June 30, 2020, would have been higher. It is further noted that in light of the contribution made by the different Government support measures for households and businesses (such as: unpaid leave, grants and credit) and even the deferral of repayments itself, all in aid of the economic survival of households and businesses, any changes in the scope of such measures may affect the repayment ability of borrowers in the future.

Following are details regarding the number of deferral applications submitted and the volume of loans in respect of which deferral has been approved.

Deferral applications by monthly distribution

	2020					Until August 21
	March	April	May	June	July	
Deferral requests	48,616	31,861	7,212	4,370	4,601	2,143
Balance of loans in deferral, in NIS millions (cumulative balance)	8,861	16,388	17,771	18,341	18,852	19,352

The data in the above Table indicates that the volume of applications for deferral of repayments declined as from May 2020, both as regard the number of applications and as regard their monetary volume.

Presented below are details regarding the balance of debts for which deferral of payments has been granted, in accordance with the Supervisor of Banks' letter, until June 30, 2020 and until August 21, 2020. Deferral of repayments has been granted both for private customers (including mortgages) and also for commercial customers.

The balance of a debt whose terms have been changed, within the framework of coping with the Corona crisis, which has not been classified as troubled debt restructuring

June 30, 2020													
in NIS millions													
Credit to the public	Total deferred loans		Of which: Debts, the repayment of which has been deferred						Of which: Debts, the deferred repayment period of which has terminated				
	Outstanding debt	Number of loans	Outstanding debt	Ratio out of the total debt deferred	Problematic debts	Ratio out of the total debt that is still deferred	Non-problematic debts	Ratio out of the total debt that is still deferred	Outstanding debt	Ratio out of the total debt deferred	Of which: problematic debts	Of which: non problematic debts	Of which: non problematic debts in arrears
Large businesses	1,351	299	1,269	93.9%	-	-	1,269	100.0%	82	6.1%	-	82	-
Medium businesses	779	615	626	80.4%	9	1.4%	617	98.6%	153	19.6%	7	146	16
Small businesses	6,500	29,232	5,550	85.4%	156	2.8%	5,394	97.2%	950	14.6%	21	929	110
Private individuals	1,862	48,633	1,722	92.5%	36	2.1%	1,686	97.9%	139	7.5%	4	135	2
Housing loans	7,849	48,210	7,129	90.8%	40	0.6%	7,089	99.4%	719	9.2%	-	719	-
Total	18,341	126,989	16,296	88.9%	241	1.5%	16,055	98.5%	2,043	11.1%	32	2,011	⁽¹⁾ 128

Footnote:

(1) Including a balance in the amount of approx. NIS 121 million in which the arrears do not exceed 30 days and an amount of approx. NIS 7 million in which the arrears exceed 30 days.

August 21, 2020													
in NIS millions													
Credit to the public	Total deferred loans		Of which: Debts, the repayment of which has been deferred						Of which: Debts, the deferred repayment period of which has terminated				
	Outstanding debt	Number of loans	Outstanding debt	Ratio out of the total debt deferred	Problematic debts	Ratio out of the total debt that is still deferred	Non-problematic debts	Ratio out of the total debt that is still deferred	Outstanding debt	Ratio out of the total debt deferred	Of which: problematic debts	Of which: non problematic debts	Of which: non problematic debts in arrears
Large businesses	1,445	318	684	47.3%	-	-	684	100.0%	761	52.7%	-	761	4
Medium businesses	856	638	216	25.2%	-	-	216	100.0%	640	74.8%	17	623	39
Small businesses	6,724	29,591	2,414	35.9%	75	3.1%	2,339	96.9%	4,310	64.1%	114	4,196	286
Private individuals	2,056	49,742	939	45.7%	18	1.9%	921	98.1%	1,118	54.4%	28	1,090	42
Housing loans	8,271	48,768	3,181	38.5%	19	0.6%	3,162	99.4%	5,089	61.5%	-	5,089	47
Total	19,352	129,057	7,434	38.4%	112	1.5%	7,322	98.5%	11,918	61.6%	159	11,759	⁽¹⁾ 418

Footnote:

(1) Including a balance in the amount of approx. NIS 240 million in which the arrears do not exceed 30 days and an amount of approx. NIS 178 million in which the arrears exceed 30 days.

In the course of the crisis period and until August 21, 2020, the Bank and MDB allowed the deferral of loan repayments in respect of credit in the amount of NIS 19,352 million, of which, housing loans in the amount of NIS 8,271 million.

Until August 21, 2020, in respect of 61.6% of all loans, and in respect of 61.5% of housing loans, the deferral period had ended and repayment of the principal sum had begun. Of the outstanding balance of the loans, the deferral period in respect of which had ended, loans in the amount of NIS 159 million were classified as problematic (1.33%). Of the outstanding balance of the loans, the deferral period in respect of which had ended, loans in the amount of NIS 418 million are in arrears (3.5%), of which NIS 240 million in arrears of up to 30 days until that date and NIS 178 million are in arrears for over 30 days, as of that date. The segment that has the highest rate of loans classified as problematic and loans in arrears is the small business segment.

It is noted that borrowers, in respect of whom, as of August 21, the deferral period regarding their loans had ended, may apply for an additional deferral. It is also noted that the deferral period in respect of loans in a considerable amount, ended in the period of June to August 2020. The short period of time that has passed since the end of the deferral period, cannot serve, at this stage, as a basis for unequivocal conclusions regarding trends. In view of the force of the economic crisis and the uncertainty regarding anticipated economic developments, it is possible that the volume of debts that would end up as problematic and the volume of debts that would end up as debts in arrears, might be higher than the volumes indicated at this stage.

For details regarding Credit risks and the manner of management thereof, see the 2019 annual report (pp. 58-73).

Monitoring the exposure of the credit portfolio to the Corona crisis

As stated, since the outbreak of the crisis, the business divisions have increased monitoring and control operations regarding the condition of the Bank's credit portfolio. The monitoring and control operations are conducted in congruence with the assessed risk level of customers and the sectors in which they operate. The products of monitoring and control, as stated, serve the Management and the Board of Directors in their discussions regarding the Bank's credit portfolio in the shadow of the Corona crisis.

The Bank estimates that the Crisis has impacted nearly all economic sectors, though there are differences in the level of vulnerability of the different sectors to the Corona crisis.

The economic sectors, in which the Bank is involved, have been classified in accordance with the assessment of their vulnerability to the Corona crisis: high, moderate and low.

According to estimates of the Bank, the following sectors are of a relatively high vulnerability:

Economic sector	Vulnerability characteristics resulting from the Corona crisis
Diamond industry	A sector highly exposed to the global supply chain from the import and export aspects, which have been significantly affected by the impact on global economic activity. Additionally, global recession causes a reduction in demand for diamond products.
Real estate activity	The income producing real estate sector (office premises and commercial centers) experienced a lengthy shutdown leading to initiated discounts granted by property owners, and to the growing change process in the balance of power between property owners and tenants.
Commerce	The reduction in consumer buying power, stemming from the negative economic sentiment, alongside the unemployment rate (including employees on unpaid leave) that had increased to a historically high level in correlation with the performance of the sector over a period of time.
Trade in building material	An import inclined sector exposed to the effect of the global supply chain, alongside local stores for the sale of building materials that may be affected mostly by the demand aspect and by the reduction in the buying power of consumers, as stated.
Conveying services, storage and transportation	This sector suffered an impact both from airline companies, the operation of which has been suspended for a long time, and from public transportation companies that experience a considerable reduction in the number of passengers due to traffic restrictions and increasing morbidity.
Hotels, hospitality and catering services	The lengthy lockup that has caused a complete shutdown of operations of companies in this sector, alongside a gradual resumption of activity, that has not yet reached the level of activity prior to the crisis, significantly increased the level of risk in this sector.
Other business services	This sector includes providers of services, such as: travel agents, lawyers, accountants, business consultants, advertisers, marketing agents, etc., the deterioration/shutdown of economic activity on the part of users of such services, reduces their scope of operation and increases the risk level.
Private individuals	The high unemployment rate increases uncertainty regarding the ability of repayment of debts, alongside the impact on buying power.
Financial services	This sector includes, inter alia, companies engaged in providing off-banking credit services and financial leasing, which may suffer from shortage of credit from the financing bodies. In addition, there is an increase in the level of risk applying to financed customers, who even before the crisis applied to these companies due to the difficulty to receive finance from the more traditional sources.
Oil products industry	A steep decline in demand for oil products led to impairment in profitability of the refining sector. Even after the removal of restrictions and resumption of activity in the "Corona routine", low refining margins and low demand for a part of the products, might adversely affect profits of the sector.

Furthermore, in the Bank's opinion, the level of vulnerability of small businesses is relatively higher than that of large businesses.

It is noted that, within the framework of assessment of credit losses inherent in the credit portfolio with respect to borrowers affected by the crisis but not yet identified, use was made, inter alia, in deterioration coefficients based on the risk evaluation for the different economic sectors.

It is noted that the classification of the different sectors in accordance with the level of vulnerability is based on internal assessments of the Bank. The classification of sectors according to the different levels of vulnerability is used to focus attention on the more vulnerable areas, although a given sector may include credit having different levels of vulnerability, a significant part thereof may be different from the estimated level of vulnerability, namely: there are credits of a low risk level in sectors classified as highly vulnerable, while on the other hand, there are credits highly sensitive to the crisis in sectors of a low vulnerability classification.

Concurrently with the sector examination, a specific examination of borrowers has been made from the aspect of exposure to Corona. Borrowers identified as exposed to the Corona impact, had been classified in a similar way according to the estimated exposure level ("Corona watch list"). Further to the above stated, it is noted that there is not necessarily a correlation between the classification of customers in the above manner and the assessed classification of the sectors to which they belong.

See below "Credit risk by economic sectors".

Credit quality and problematic credit risk

Problematic credit risk and non performing assets

	June 30, 2020				December 31, 2019			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
In NIS millions								
Credit risk in Credit Granting Rating⁽¹⁾								
Balance sheet credit risk	120,074	37,285	28,706	186,065	119,625	34,684	31,778	186,087
Off-balance sheet credit risk	45,158	3,714	35,724	84,596	44,021	3,344	35,466	82,831
Total credit risk in Credit Granting Rating	165,232	40,999	64,430	270,661	163,646	38,028	67,244	268,918
Credit risk not in Credit Granting Rating:								
1. Not problematic	5,633	2,006	2,528	10,167	2,178	2,097	1,450	5,725
2. Problematic								
Special Mention ⁽³⁾	1,580	175	221	1,976	1,476	153	235	1,864
Substandard	965	237	122	1,324	653	225	136	1,014
Impaired	⁽⁴⁾⁽⁵⁾ 1,887	2	197	2,086	⁽⁴⁾ 1,635	-	189	1,824
Total problematic ⁽²⁾	4,432	414	540	5,386	3,764	378	560	4,702
Total balance sheet credit risk	10,065	2,420	3,068	15,553	5,942	2,475	2,010	10,427
Off-balance sheet credit risk	1,858	925	335	3,118	938	700	131	1,769
Total credit risk not in Credit Granting Rating	11,923	3,345	3,403	18,671	6,880	3,175	2,141	12,196
Of which: non-impaired debts in arrears of 90 days or more ⁽³⁾	79	394	45	518	62	359	57	478
Total overall credit risk of the public	177,155	44,344	67,833	289,332	170,526	41,203	69,385	281,114
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	⁽⁴⁾⁽⁵⁾ 1,378	2	112	1,492	⁽⁴⁾ 1,068	-	108	1,176

Footnotes:

- (1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (2) Impaired, Substandard or Special Mention credit risk.
- (3) Including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears and are in arrears of 90 days or more.
- (4) Including non-accruing corporate bonds in the amount of NIS 47 million (December 31, 2019 – non-accruing corporate bonds of NIS 10 million).
- (5) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

It should be noted that the increase in the amount of non-problematic credit, which is not classified as performing, is due mainly to giving expression to the higher credit risk in light of assessing the effect of the Corona crisis on economic activity in economy.

Changes in balances of impaired debts

	Three months ended June 30					
	2020			2019		
	Commercial	Private	Total	Commercial	Private	Total
In NIS millions						
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the period	2,109	197	2,306	1,453	177	1,630
Debts classified as impaired during the period	178	80	258	202	63	265
Debts no longer classified as impaired	(59)	-	(59)	-	-	-
Impaired debts written off	(48)	(60)	(108)	(71)	(55)	(126)
Impaired debts settled	(337)	(18)	(355)	(51)	(14)	(65)
Other	(3)	-	(3)	(3)	-	(3)
Balance of impaired debts as of end of the period	⁽¹⁾ 1,840	199	2,039	1,530	171	1,701
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the period	874	155	1,029	1,024	148	1,172
Debt restructurings performed during the period	59	30	89	76	20	96
Debts that have again been classified to unimpaired due to a following restructuring	-	-	-	-	-	-
Restructured troubled debt written off	(7)	(15)	(22)	(8)	(15)	(23)
Restructured troubled debt settled	(127)	(14)	(141)	(67)	(7)	(74)
Other	(9)	-	(9)	(16)	1	(15)
Balance of restructured troubled debts at the end of the period	790	156	946	1,009	147	1,156
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the period	307	67	374	152	61	213
Increase in allowances	89	51	140	62	37	99
Collections and write-offs	(88)	(48)	(136)	(41)	(38)	(79)
Balance of allowance for credit losses as of end of the period	308	70	378	173	60	233

Footnote:

(1) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

Changes in balances of impaired debts (continued)

	Six months ended June 30					
	2020			2019		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the year	1,625	189	1,814	1,478	155	1,633
Debts classified as impaired during the period	931	169	1,100	373	153	526
Debts no longer classified as impaired	(69)	-	(69)	(3)	-	(3)
Impaired debts written off	(128)	(121)	(249)	(108)	(107)	(215)
Impaired debts settled	(512)	(38)	(550)	(203)	(30)	(233)
Other	(7)	-	(7)	(7)	-	(7)
Balance of impaired debts as of end of the period	⁽¹⁾ 1,840	199	2,039	1,530	171	1,701
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the year	885	158	1,043	1,094	131	1,225
Debt restructurings performed during the period	207	59	266	139	63	202
Debts that have again been classified to unimpaired due to a following restructuring	(10)	-	(10)	-	-	-
Restructured troubled debt written off	(27)	(33)	(60)	(16)	(28)	(44)
Restructured troubled debt settled	(252)	(28)	(280)	(182)	(19)	(201)
Other	(13)	-	(13)	(26)	-	(26)
Balance of restructured troubled debts at the end of the period	790	156	946	1,009	147	1,156
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the year	241	66	307	169	54	223
Increase in allowances	245	99	344	136	83	219
Collections and write-offs	(178)	(95)	(273)	(132)	(77)	(209)
Balance of allowance for credit losses as of end of the period	308	70	378	173	60	233

Footnote:

(1) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

Several financial ratios used to evaluate the quality of the credit portfolio

	June 30, 2020	June 30, 2019	December 31, 2019
Ratio of balance of impaired credit to the public to balance of credit to the public ⁽¹⁾	1.09%	0.97%	0.99%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.28%	0.26%	0.26%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public ⁽²⁾	1.82%	1.33%	1.38%
The ratio of the balance of the group allowance for credit loss, to the balance of credit to the public	1.47%	1.08%	1.10%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	166.99%	136.27%	139.14%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.06%	1.60%	1.81%
Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms) ⁽³⁾	1.28%	0.32%	0.40%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms)	0.25%	0.25%	0.23%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public (in annualized terms)	13.39%	18.46%	15.69%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over	133.16%	107.61%	110.12%
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.37%	1.23%	1.25%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.77%	0.60%	0.64%

Footnotes:

- (1) The increase in the ratio of the balance of impaired credit to the public to the balance of credit to the public stems, mostly, from the increase in impaired credit.
 (2) The increase in the ratio of the balance of allowance to the balance of credit to the public stems, mostly, from the increase in the allowance for credit losses.
 (3) The increase in the ratio of the expense to the average balance stems, mostly, from a sharp rise in the allowance for credit loss expense.

In light of the impact of the Corona virus on businesses and households in Israel, it is expected that credit loss expenses will rise. The above portfolio quality indices were impacted in the reported period by the Corona virus outbreak.

Credit risk by economic sectors

Presented below are data regarding credit risk by economic sectors. So that more of the relevant sectors can be examined, against the background of the Corona virus crisis, the format of the table has been expanded in the present quarter.

It should be noted that the increase in the amount of non-problematic credit, which is not classified as performing, is due mainly to giving expression to the higher credit risk in light of assessing the effect of the Corona crisis on economic activity in economy.

Credit risk by economic sectors – consolidated

June 30, 2020								
	Total Credit Risk ⁽¹⁾⁽⁸⁾⁽⁹⁾	Of Which : Credit Performance Rating ⁽⁴⁾	Of Which: Problematic ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired ⁽¹⁰⁾	Credit Losses ⁽³⁾		
						Periodic Loss Expenses	Net Accounting Write-Offs during the Period	Balance of Allowance for Credit Losses
in NIS millions								
Industry	14,967	13,857	685	425	175	54	(10)	312
Construction and Real Estate - Construction ⁽⁶⁾	32,483	31,543	561	379	192	106	11	340
Construction and Real Estate - Real Estate Activity	12,686	12,071	241	374	151	69	(4)	163
Commerce	22,719	21,293	517	909	219	153	34	549
Hotels, Hotel Services and Food	2,049	1,802	117	130	43	80	(2)	72
Transportation and Storage	6,143	5,634	284	225	130	16	4	140
Financial Services ⁽⁷⁾	15,149	14,225	359	565	302	4	2	94
Other Business Services	7,711	6,966	134	611	72	132	23	196
Public and Community Services	9,156	8,954	123	79	12	18	-	48
Other Business Services	7,986	7,383	436	167	393	19	10	150
Total Commercial	131,049	123,728	3,457	3,864	1,689	651	68	2,064
Private Individuals - Housing Loans	44,090	40,756	408	2,926	2	90	6	290
Private Individuals - Other	65,835	62,443	543	2,849	197	325	128	905
Total Public	240,974	226,927	4,408	9,639	1,888	1,066	202	3,259
Banks in Israel and Government of Israel	31,153	31,153	-	-	-	-	-	-
Total Lending Activity in Israel	272,127	258,080	4,408	9,639	1,888	1,066	202	3,259
Total Public - Lending Activity Outside of Israel	48,358	43,734	1,544	3,080	293	108	26	435
Banks and Governments Outside of Israel	9,026	8,988	38	-	38	14	-	15
Total Lending Activity Outside of Israel	57,384	52,722	1,582	3,080	331	122	26	450
Total	329,511	310,802	5,990	12,719	2,219	1,188	228	3,709

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 195,374 million, NIS 39,015 million, NIS 832 million, NIS 5,857 million, NIS 88,433 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
- (3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Includes housing loans in the amount of NIS 204 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (7) Including mortgage backed securities in the amount of NIS 6,301 million, issued by GNMA and in the amount of NIS 626 million, issued by FNMA and FHLMC.
- (8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,293 million.
- (9) The balance of commercial debts includes housing loans in the amount of NIS 203 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (10) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

Credit risk by economic sectors – consolidated (continued)

June 30, 2019								
	Total Credit Risk ⁽¹⁾⁽⁸⁾⁽⁹⁾	Of Which : Credit Performance Rating ⁽⁴⁾	Of Which: Problematic ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired	Credit Losses ⁽³⁾		
						Periodic Credit Loss Expenses	Net Accounting Write-Offs during the Period	Balance of Allowance for Credit Losses
in NIS millions								
Industry	14,357	13,548	475	334	191	17	15	242
Construction and Real Estate - Construction ⁽⁶⁾	30,988	30,327	314	347	138	59	13	239
Construction and Real Estate - Real Estate Activity	11,738	11,231	300	207	258	(25)	(11)	84
Commerce	20,171	19,402	346	423	219	42	34	341
Hotels, Hotel Services and Food	1,963	1,747	137	79	111	2	2	18
Transportation and Storage	6,777	6,591	73	113	60	18	12	72
Financial Services ⁽⁷⁾	16,048	15,709	300	39	299	-	1	97
Other Business Services	7,397	6,736	83	578	38	24	19	79
Public and Community Services	5,283	5,141	17	125	9	7	2	19
Other Business Services	7,971	7,736	98	137	69	(27)	1	136
Total Commercial	122,693	118,168	2,143	2,382	1,392	117	88	1,327
Private Individuals - Housing Loans	38,102	34,891	347	2,864	-	17	6	196
Private Individuals - Other	64,428	61,761	541	2,126	171	143	126	665
Total Public	225,223	214,820	3,031	7,372	1,563	277	220	2,188
Banks in Israel and Government of Israel	26,177	26,175	-	2	-	-	-	-
Total Lending Activity in Israel	251,400	240,995	3,031	7,374	1,563	277	220	2,188
Total Public - Lending Activity Outside of Israel	44,667	41,577	1,300	1,790	191	-	(6)	312
Banks and Governments Outside of Israel	7,260	7,187	73	-	73	-	-	1
Total Lending Activity Outside of Israel	51,927	48,764	1,373	1,790	264	-	(6)	313
Total	303,327	289,759	4,404	9,164	1,827	277	214	2,501

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 180,847 million, NIS 34,542 million, NIS 683 million, NIS 4,264 million, NIS 82,991 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
- (3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 109 million.
- (7) Including mortgage backed securities in the amount of NIS 5,727 million, issued by GNMA and in the amount of NIS 892 million, issued by FNMA and FHLMC.
- (8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,132 million.
- (9) The balance of commercial debts includes housing loans in the amount of NIS 228 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit risk by economic sectors – consolidated (continued)

	December 31, 2019							
	Total Credit Risk ⁽¹⁾⁽⁸⁾⁽⁹⁾	Of Which : Credit Performance Rating ⁽⁴⁾	Of Which: Problematic ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired	Credit Losses ⁽³⁾		
						Periodic Credit Loss Expenses	Net Accounting Write-Offs during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	13,646	12,961	564	121	179	24	23	242
Construction and Real Estate - Construction ⁽⁶⁾	31,156	30,661	323	172	207	82	13	265
Construction and Real Estate - Real Estate Activity	12,254	11,907	248	99	192	(37)	(22)	85
Commerce	21,600	20,972	482	146	205	125	69	393
Hotels, Hotel Services and Food	1,868	1,691	132	45	108	3	3	16
Transportation and Storage	6,823	6,585	275	(37)	70	70	22	119
Financial Services ⁽⁷⁾	14,020	13,645	359	16	300	(4)	1	92
Other Business Services	7,553	7,242	126	185	46	65	40	100
Public and Community Services	9,011	8,910	50	51	9	11	6	29
Other Business Services	8,348	8,165	123	60	91	(23)	2	136
Total Commercial	126,279	122,739	2,682	858	1,407	316	157	1,477
Private Individuals - Housing Loans	40,964	37,809	372	2,783	-	28	7	205
Private Individuals - Other	67,335	65,196	565	1,574	189	312	252	709
Total Public	234,578	225,744	3,619	5,215	1,596	656	416	2,391
Banks in Israel and Government of Israel	27,806	27,806	-	-	-	-	-	-
Total Lending Activity in Israel	262,384	253,550	3,619	5,215	1,596	656	416	2,391
Total Public - Lending Activity Outside of Israel	46,536	43,174	1,459	1,903	321	34	(20)	356
Banks and Governments Outside of Israel	7,286	7,249	37	-	36	-	-	1
Total Lending Activity Outside of Israel	53,822	50,423	1,496	1,903	357	34	(20)	357
Total	316,206	303,973	5,115	7,118	1,953	690	396	2,748

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 189,214 million, NIS 36,765 million, NIS 531 million, NIS 4,545 million, NIS 85,151 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
- (3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 91 million.
- (7) Including mortgage backed securities in the amount of NIS 5,656 million, issued by GNMA and in the amount of NIS 711 million, issued by FNMA and FHLMC.
- (8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,845 million.
- (9) The balance of commercial debts includes housing loans in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Exposure to Foreign Countries - consolidated

The Country	As of June 30						As of December 31		
	2020			2019			2019		
	exposure		Total	exposure		Total	exposure		Total
	balance sheet ⁽²⁾	Off-balance sheet ⁽²⁾⁽³⁾		balance sheet ⁽²⁾	Off-balance sheet ⁽²⁾⁽³⁾		balance sheet ⁽²⁾	Off-balance sheet ⁽²⁾⁽³⁾	
In NIS millions									
United States	16,025	8,542	24,567	⁽⁸⁾ 15,743	7,098	22,841	⁽⁸⁾ 16,236	8,094	24,330
Other	7,867	⁽⁵⁾ 5,443	13,310	6,116	⁽⁵⁾⁽⁷⁾ 5,371	11,487	5,966	⁽⁵⁾ 5,451	11,417
Total exposure to foreign countries⁽⁴⁾	23,892	13,985	37,877	21,859	12,469	34,328	22,202	13,545	35,747
Of which - Total exposure to the PIGS countries ⁽⁴⁾	11	168	179	19	293	312	19	340	359
Of which - Total exposure to LDC countries ⁽⁶⁾	607	96	703	591	163	754	577	203	780
Of which - Total exposure to countries having liquidity problems	77	18	95	34	41	75	16	34	50

Notes:

- (1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
- (2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.
- (3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
- (4) Portugal, Italy, Greece and Spain.
- (5) Including the transfer of credit risk to a consortium of international insurers, as of June 30 2020 in the following countries: Switzerland – an amount of NIS 2,160 million and Germany – an amount of NIS 1,991 million, as of June 30 2019 in the following countries: Switzerland – an amount of NIS 2,198 million and Germany – an amount of NIS 1,853 million, and as of December 31 2019 in the following countries: Switzerland – an amount of NIS 2,098 million and Germany – an amount of NIS 1,830 million.
- (6) The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.
- (7) Reclassified - improvement of the classification, taking into account the guarantees granted.
- (8) Reclassified – improvement of data.

Credit Exposure to Foreign Financial Institutions

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure in respect of foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure in respect of investment in asset backed securities and in respect of potential off-balance sheet exposure.

The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks in accordance with the risk profile of each customer and the approved credit facilities.

In view of the Corona crisis, the Bank conducts a follow-up of the scope of exposure, and collects the credit exposure in banks having a high rating.

As seen from the data presented above regarding "Exposure to foreign countries", The Bank's direct exposure to countries at risk is not material.

For details regarding the manner of managing credit risk applying to foreign financial institutions, see the 2019 Annual Report (pp. 64-65).

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 90% of the exposure as of June 30, 2020, is to financial institutions rated "A-" rating or higher, compared with about 87% as of December 31, 2019.

The states in respect of which the Bank has exposure as stated above as of June 30, 2020, include, inter-alia, the United States, Great Britain and Canada.

In the first half of 2020, no loss on impairment of securities was recorded in respect of exposure to financial institutions.

Details of present credit exposure to foreign financial institutions on a consolidated basis

	Balance sheet credit risk ⁽²⁾⁽⁴⁾⁽⁵⁾	Present off balance sheet credit risk ⁽³⁾⁽⁴⁾	Present credit exposure ⁽⁴⁾
In NIS millions			
As of June 30, 2020			
Present credit exposure to foreign financial institutions ⁽¹⁾⁽⁶⁾			
External credit rating ⁽⁷⁾			
AAA to AA-	894	3	897
A+ to A-	4,549	510	5,059
BBB+ to BBB-	307	74	381
BB+ to B-	57	19	76
Not rated	177	26	203
Total present credit exposure to foreign financial institutions	5,984	632	6,616
Balance of problematic bonds	38	-	38

As of December 31, 2019			
Present credit exposure to foreign financial institutions ⁽¹⁾⁽⁶⁾			
External credit rating ⁽⁷⁾			
AAA to AA-	667	102	769
A+ to A-	2,750	468	3,218
BBB+ to BBB-	401	6	407
BB+ to B-	3	8	11
Not rated	155	27	182
Total present credit exposure to foreign financial institutions	3,976	611	4,587
Balance of problematic bonds	37	-	37

- Notes:
- (1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
 - (2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under agreements to resell and other assets in respect of derivative instruments.
 - (3) Mainly guarantees, including guarantees securing third party indebtedness.
 - (4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
 - (5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 11 to the condensed financial statements.
 - (6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 5 to the condensed financial statements).
 - (7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

In addition to the exposure presented in the above table, as of June 30, 2020 and December 31, 2019 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 150 million and NIS 94 million, respectively.

Credit risk in housing loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 199 million as of June 30, 2020 and NIS 184 million as of December 31, 2019).

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demand.

The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income, together with a scenario of a rise in unemployment and in interest rates, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. Notwithstanding the above, there are indications on the local market regarding a moderation in demand for new residential units not included in the "price for the house purchaser" program. At the same time, with the progress made by the "price for the house purchaser" program, an increase is noted in mortgage loans granted in this segment, which is reflected in the general increase in new mortgage loans in the second quarter of 2020,

compared to the second quarter of 2019, at a rate of approx. 25%. For details regarding the measures taken by the Group, see 2019 Annual Report (p. 66).

The volume of the Group's housing loan portfolio as of June 30, 2020, amounted to NIS 39,909 million (December 31, 2019 - NIS 37,392 million).

For details regarding the deferral of housing loan payments, against the background of the Corona crisis, see "Preparations by the Bank in the wake of the Corona crisis – credit risk" above.

Certain risk characteristics of the Group's housing loans portfolio

	June 30, 2020	December 31, 2019
	%	
Rate of housing loans financing over 75% of the value of the property	1.7	2.0
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	8.6	8.8
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio ⁽¹⁾	59.1	59.2

Footnote:

(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

Amount of loans and average financing ratios

	For the six months ended June 30, 2020	For the year ended December 31, 2019
Average amount of loan (in NIS thousands)	861	800
Average financing ratio for housing loans (in %)	55.2	54.7
Average financing ratio for general purpose loans (in %)	24.7	28.2

Division of housing credit balances according to size of credit to borrowers

	June 30, 2020		December 31, 2019	
	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Credit limit net⁽¹⁾⁽²⁾ (in NIS thousands)				
Up to 1,200	30,919	78.0	29,342	78.9
Between 1,200 and 4,000	8,228	20.8	7,408	19.9
Over 4,000	469	1.2	434	1.2
Total	39,616	100.0	37,184	100.0

Of which:

Housing loans that were granted abroad	199	184
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Footnotes:

(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 293 million (31.12.2019: NIS 208 million).

(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 203 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2019: NIS 233 million).

Volume of problematic debts in housing credit

As at	Balance of credit to the public ⁽¹⁾⁽⁵⁾	Balance of problematic credit ⁽¹⁾	Balance of allowances for credit losses ⁽²⁾⁽³⁾	Ratio of problematic debt
	In NIS millions			
June 30, 2020	39,909	⁽⁴⁾ 415	80	1.0
December 31, 2019	37,392	⁽⁴⁾ 378	78	1.0

Footnotes:

- (1) Recorded amount.
- (2) As at June 30, 2020 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 77 million, and also an allowance over the extent of arrears in an amount of NIS 3 million (as of December 31, 2019: NIS 74 million and NIS 4 million, respectively).
- (3) Not including group allowance in an amount of NIS 211 million, which constitutes 0.54% of the credit balance in respect of which an allowance in accordance with the extent of arrears was not made (as at December 31, 2019: NIS 129 million), as well as NIS 2 million in respect of other group allowance.
- (4) Including an amount of NIS 21 million, defined as problematic credit, which is not in arrears (December 31, 2019: NIS 19 million).
- (5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 203 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2019:NIS 233 million).

Distribution of housing credit granted, according to financing ratios and as a ratio of credit granted

	For the six months ended June 30,				For the year ended	
	2020		2019		December 31,	
	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Loan to value (LTV) ratio⁽¹⁾						
Up to 45%	1,235	26.8	1,070	28.3	2,265	27.8
Between 45% and 60%	1,650	35.7	1,372	36.4	2,906	35.6
Over 60%	1,733	37.5	1,333	35.3	2,980	36.6
Total	4,618	100.0	3,775	100.0	8,151	100.0

Footnote:

- (1) The loan to value (LTV) ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

Data regarding developments in housing credit balances according to linkage segments

	Non-linked credit		CPI linked credit		Foreign currency linked credit			Total Housing Credit ⁽¹⁾⁽²⁾
	Fixed interest	Variable interest	Fixed interest	Variable interest	Fixed interest	Variable interest	% of total Housing Credit	
	In NIS millions		In NIS millions		In NIS millions		% of total Housing Credit	
	% of total Housing Credit		% of total Housing Credit		% of total Housing Credit		% of total Housing Credit	
As at June 30, 2020	11,181	15,874	4,632	7,749	45	135	0.5	39,616
As at December 31, 2019	10,199	14,889	4,597	7,332	21	146	0.4	37,184

Footnotes:

- (1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 203 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2019:NIS 233 million).
- (2) The balance of credit is after deduction of allowance for credit losses of NIS 293 million (December 31,2019: NIS 208 million).

Most of the loans are granted for an initial period of up to 25 years. The average period of the loan at the Bank is slightly lower than that of the industry.

The outstanding balance as of June 30, 2020 of the housing loans portfolio according to the present period to maturity of over 20 years, amounted to approx. NIS 16 billion, and comprised 49% of the total housing loans portfolio (as of December 31, 2019, the balance amounted to NIS 14.5 billion, comprising 45% of the total housing loans portfolio).

Composition of loans granted for housing purposes, divided by the ratio of repayments to earnings

	For the six months ended June 30,				For the year ended December 31,	
	2020		2019			
	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Ratio of payment to income (PTI) ⁽¹⁾						
Up to 40%	4,194	99.6	3,392	99.6	7,266	99.6
Over 40%	18	0.4	15	0.4	31	0.4
Total	4,212	100.0	3,407	100.0	7,297	100.0

Footnote:

(1) The amount of loans granted do not include loans secured by a mortgage on a residential unit, balloon loans and bullet loans.

Credit risk of private individuals (excluding housing credit risk)

General. The data presented in this item comprise data of operation in Israel, excluding housing loans, and they include the Bank and MDB. Certain data relating to credit to private individuals at ICC is presented separately hereunder, in accordance with available data of ICC.

Definitions. Following are the definitions used in the preparation of this report:

Amount of income per account – average income of a recurring pattern from salaries, annuities, transfers and deposits, after elimination of exceptional amounts.

Balance-Sheet credit upper limit – in accordance with the reporting to the Supervisor of Banks under Reporting to the Supervisor of Banks Directive No. 836 – current account balances, credit cards and loans. Excluding non-utilized facilities of current account and credit cards.

"Financial assets portfolio" – the financial assets portfolio related to the account of the customer: financial deposits (including current account balance), securities portfolio and other financial assets.

Development in balances

Distribution by customer's fixed income and by financial assets portfolio related to the account

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	June 30, 2020				
Level of income to the account					
Excluding permanent income to the account	1,405	144	1,549	566	2,115
Less than NIS 10 thousand	4,876	955	5,831	3,417	9,248
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,005	1,550	5,555	3,448	9,003
Greater than NIS 20 thousand	2,911	2,366	5,277	4,216	9,493
Total	13,197	5,015	18,212	11,647	29,859
	December 31, 2019				
Level of income to the account					
Excluding permanent income to the account	1,507	198	1,705	541	2,246
Less than NIS 10 thousand	5,072	948	6,020	3,379	9,399
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,394	1,567	5,961	3,251	9,212
Greater than NIS 20 thousand	3,692	2,442	6,134	3,909	10,043
Total	14,665	5,155	19,820	11,080	30,900

Additional quantitative characteristics

Distribution by the average remaining period to maturity

	June 30, 2020	December 31, 2019
	Balance of loans	
	in NIS millions	
Fixed maturity date		
Up to 1 year	1,573	1,591
Over 1 year and up to 3 years	4,968	5,210
Over 3 years and up to 5 years	4,339	4,648
Over 5 years	2,370	2,482
Total	13,250	13,931

It is noted that the above Table presents the distribution relating only to loans, while the remaining Tables present distribution relating to the maximum balance-sheet credit, which includes also current account balances and credit cards.

Distribution by size of credit to the borrower

	June 30, 2020	December 31, 2019
	in NIS million	
Balance sheet credit upper limit (NIS thousands)		
Up to 40	3,649	3,942
Between 40 and 150	9,549	10,227
Over 150	5,014	5,651
Total	18,212	19,820

Distribution by exposure to changes in interest rates

	June 30, 2020	December 31, 2019
	in NIS million	
Fixed interest credit	5,241	6,071
Variable interest credit	12,971	13,749
Total	18,212	19,820

Distribution of collateral securing the credit

	June 30, 2020	December 31, 2019
	Total collateral	
	in NIS millions	
Type of collateral		
Liquid financial assets	1,479	1,514
Other collateral	947	821
Total	2,426	2,335

Development of problematic credit risk in respect of private individuals

	December		Change in	Rate from total balance-sheet to credit to the public	
	June 30, 2020	31, 2019		June 30, 2020	December 31, 2019
	in NIS million		%	%	
Problematic credit risk	236	262	(9.8)	0.7	1.3
Of which: impaired credit risk	131	133	(1.1)	0.4	0.7
Debts in arrears of 90 days or more	45	57	(21.1)	0.1	0.3
Net accounting write-offs	67	150	⁽¹⁾ (10.4)	⁽¹⁾ 0.4	0.8
Balance of allowance for credit losses	511	401	27.4	1.6	2.0

Footnote:

(1) On an annual basis.

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles, pledged (in the Bank and MDB), amounted to NIS 989 million at June 30, 2020, as compared to NIS 956 million, as of December 31, 2019.

Quantitative data regarding credit granted to private individuals in ICC

A growth at the rate of 0.2% was recorded in the first half of 2020 in the balance of interest bearing credit granted to private individuals, compared to an increase of 15.1% in 2019. This credit amounted as of June 30, 2020, to NIS 5,470 million, and comprises 63.1% of total credit to private individuals at the responsibility of ICC, most of which is credit carrying variable interest rates regarding credit transactions, revolving credit card transactions, loans, designated credit for the purchase of vehicles and other transactions. The remaining credit to private individuals amounted to NIS 3,203 million, as compared to NIS 3,653 million as of December 31, 2019 (a decrease of approx. 7.7%), reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.

Credit losses in respect of private individuals amounted in the first half to NIS 147 million, compared to NIS 61 million in the corresponding period last year. The growth in credit losses in this quarter stemmed mainly from the expected implications of the spreading of the Corona virus on the quality of the credit portfolio.

Additional details

Background

Credit products. The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans.

The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short periods (mostly up to five years). The market share of loan operations conducted outside the branch premises rises gradually year by year and constitutes a central layer of the total consumer credit activity.

Credit underwriting. Over the years, the Bank has developed advanced models for the assessment of risk relating to a customer seeking credit. The underwriting processes in respect of consumer credit at the Bank are accompanied by wide use of the model products and are conducted in accordance with the Bank's credit policy, carefully modifying the product to the needs of the customer.

Credit underwriting at the branches is comprised of two layers: the one – underwriting under authority, performed at the discretion of an authorized factor using indications and products of models as to the risk rating of the customer, his repayment ability, as well as additional indications required in accordance with the customer's risk and the amount of the loan. The other – automatic underwriting, being performed generally in the case of loans in relatively small amounts and in accordance with the recommendation of the model, which takes into consideration the risk level of the customer, his repayment ability and the past experience of the Bank with the borrower.

Development of the risk

Starting with the previous decade, the credit granted to households doubled its ratio in the credit portfolios of the five large banking groups. At the beginning of 2016, credit to households comprised nearly one half of the total credit portfolio of the banking industry in Israel. Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.

Confronting the Corona crisis. With the outbreak of the crisis, the Bank has made the necessary adjustments to the automated models of risk, to the credit decision supporting models and to the credit policy.

In order to assist customers, the Bank has devised processes for the deferral/freezing of loan repayments, while granting a sweeping exemption from operating fees and commissions charged for such actions. At the same time, singular credit products have been structured, adapted to this crisis period and to the uncertainty in the market.

Risk mitigating measures

Determining underwriting thresholds. Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.

Models and analytical tools. The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time in accordance with market changes, state of the borrowers and additional factors.

Effective measurement. All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.

The fairness principle

In accordance with guidelines of the Supervisor of Banks, criteria for the initiation and marketing of credit to the private individual customer population were defined, in respect thereof the Bank is permitted to initiate offers for the granting of credit. The rules are based upon the risk level of the customer as well as on the advisability of accepting the loan on the part of the customer.

The approach to the customer is made according to conversation scenarios that include proper disclosure of the loan terms, needs of the customer and his characteristics as well as mention of the assets and liabilities stated in the customer's account.

It is noted that the fairness principle as regards the customer, has been defined both as part of the risk appetite of the Discount Group and as part of the credit underwriting policy regarding private customers.

The principle of fairness and decency as regards debtors is being applied both while they are being handled under the responsibility of the managing branch as well as after passing them on for legal proceedings by the law offices engaged by the Bank. The guideline is to try and reach an arrangement with each debtor in default, which meets his capabilities and his repayment ability.

Monitoring and control

The Bank performs on a current basis, control over the quality of underwriting, adherence to policy rules and proper disclosure rules. Control is performed by means of compliance officers in the business units, credit controllers and the internal audit.

Current monitoring is also performed with respect to the quality of the consumer credit portfolio at the Bank.

With the outbreak of the Corona crisis, the Bank increased the monitoring and control of the portfolio, including the ongoing monitoring of the deferral/freezing of loan repayments.

The collection centers have been guided to reduce to the extent possible debt collection operations, including the instigating of collection proceedings against new debtors, to be renewed following the return to normal.

Credit risk in relation to the construction and real estate sector

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate and Infrastructure wing in the Corporate Division, which possesses a high level of expertise and considerable experience in this field. In this area, the Bank operates subject to the regulatory limitation and in accordance with mitigating instructions determined by the Supervisor of Banks, within the framework of the Provisional Instruction, in order to enable confronting the Corona crisis, according to which banks may increase the volume of credit extended to the construction and real estate sector, so that the rate of credit in this sector shall not exceed 24% of total credit, and after deduction of indebtedness of national infrastructure projects, shall rise from 20% to 22%. In order to allow banks to revert to a rate of 20% upon expiry of the Provisional Instruction, the mitigation shall continue to apply for an additional period of 24 months, on condition that the rate of indebtedness shall not exceed the rate existing at date of expiry of the Instruction. The Bank conforms to the said limits and also to internal limits serving as alert levels.

Moreover, the credit policy for the sector focuses on financing activities in Israel, while giving priority to long-established borrowers having a high level of financial strength, with whom the Bank has positive business experience. The financing of entrepreneur residential construction projects and income generating real-estate projects is conducted by the closed loan method, under minimum requirements, including equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more – for a fuller explanation, see hereunder “Construction and Real Estate Activity” under “Additional Details Regarding the Business of the Banking Corporation and Management Thereof”.

Total credit and percentage of problematic credit in the construction and real estate sector

Sector	June 30, 2020			December 31, 2019		
	Credit for the public ⁽¹⁾⁽²⁾ in NIS million	Of which: the problematic credit ⁽¹⁾⁽²⁾	Rate of problematic credit %	Credit for the public ⁽¹⁾⁽²⁾ in NIS million	Of which: the problematic credit ⁽¹⁾⁽²⁾	Rate of problematic credit %
Income generating real estate	11,727	230	2.0	11,363	244	2.1
Construction – general building contracting	2,347	112	4.8	2,186	126	5.8
Residential projects financing	25,096	78	0.3	24,294	55	0.2
Acquisition of building land	6,303	116	1.8	5,605	26	0.5
Subcontracting	2,471	116	4.7	2,615	137	5.2
Civil engineering work	2,827	22	0.8	2,858	30	1.0
Other	5,159	176	3.4	4,602	83	1.8
Total⁽²⁾	55,930	851	1.5	53,523	701	1.3

Footnotes:

(1) Balance-sheet and off-balance-sheet credit to the public, excluding financial derivatives.

(2) The data in this table are more expansive than the data reported according to economic sectors, in conformity with the Bank's internal reporting, and include additional activities correlating largely with the activities in the construction and real estate sector. The data in the table include activity in Israel only.

As shown in the table above, most of the growth is in the financing of residential projects, which is adequate with the Bank's credit policy. For details regarding the purchase of a policy to insure against credit risk related to Sale Act guarantees and performance guarantees and with respect to the purchase of credit risk insurance in the real estate field, see the 2019 Annual Report (p. 337).

Credit risk in respect of leveraged finance

Definition of leveraged finance. Defined as credit for the finance of capital transactions by corporations, granted at a high financing ratio and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.

Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by. Following are data regarding credit risk pertaining to leveraged finance as of June 30, 2020. The disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

The Bank's exposure to leveraged finance according to economic sector

Sector	June 30, 2020				December 31, 2019			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
	In NIS millions							
Mining & Quarrying	131	-	131	-	-	-	-	-
Construction and real estate	-	-	-	-	78	62	140	-
Communication and Computer Services	522	1	523	-	-	-	-	-
Other Business Services	123	-	123	-	147	-	-	-
Total	776	1	777	-	225	62	140	-

Exposure to leveraged finance as of June 30, 2020 amounted to NIS 776 million, compared to NIS 225 million at December 31, 2019, an increase of 244.9%. The said increase stemmed, mainly, from changes in financial ratios causing present credit to be defined as leveraged finance.

The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts. The off-balance sheet exposure in respect of leverage finance transactions as of June 30, 2020, amounted to NIS 1 million (December 31, 2019 – NIS 62 million).

For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Additional disclosure regarding credit risk in respect of significant exposure to borrower groups

As at June 30, 2020, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.

Market Risks

Market risks are presented in this review on a Group basis that includes the Bank, Mercantile Discount Bank, IDB New York, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.

For general details regarding market risks, see the 2019 Annual Report (pp. 73-81).

Financial crisis in the markets

A financial crisis developed in the markets in the course of March, in view of the spreading of the Corona virus around the world. Following this crisis, material long-term changes occurred in markets around the world and in Israel, which led to the disruption of the correlation between the different risk factors following unprecedented fluctuations in general, and in interest rates in particular, the opening of spreads in securities, and concurrently, liquidity pressure in foreign currency and specific lack of liquidity in the bond market. During the second quarter, the fluctuations have been toned down in view of the support of the market provided by the central banks.

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments

	June 30 2020			June 30 2019			December 31 2019		
	Israeli currency	Foreign currency ⁽²⁾	Total	Israeli currency	Foreign currency ⁽²⁾	Total	Israeli currency	Foreign currency ⁽²⁾	Total
	In NIS millions								
Net adjusted fair value ⁽¹⁾⁽³⁾	9,368	5,571	14,939	10,428	5,076	15,504	10,885	5,375	16,260
Of which: the banking book	8,431	5,958	14,389	9,433	5,291	14,724	11,087	5,862	16,949

Footnotes:

- (1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
- (2) Including Israeli currency linked to foreign currency.
- (3) Not including liabilities in respect of leasing.

The impact of scenarios of changes in interest rates on the net adjusted fair value

	June 30 2020			June 30 2019			December 31 2019		
	Israeli currency	Foreign currency ⁽⁴⁾	⁽⁵⁾ Total	Israeli currency	Foreign currency ⁽⁴⁾	⁽⁵⁾ Total	Israeli currency	Foreign currency ⁽⁴⁾	⁽⁵⁾ Total
In NIS millions									
Parallel changes									
A parallel increase of 1%	48	460	508	14	(62)	(48)	70	(89)	(19)
Of which: the banking book	30	471	501	(28)	(38)	(66)	61	(76)	(15)
A parallel decrease of 1%	100	(406)	(306)	88	(195)	(107)	99	(74)	25
Of which: the banking book	116	(416)	(300)	131	(234)	(103)	98	(93)	5
Non-parallel changes									
Curving ⁽²⁾	(321)	134	(187)	(230)	26	(204)	(256)	(13)	(269)
Flattening ⁽³⁾	337	(89)	248	216	(88)	128	217	(47)	170
Interest rise in the short-term	306	101	407	180	(65)	115	217	(144)	73
Interest decline in the short-term	(298)	(161)	(459)	(142)	26	(116)	(202)	25	(177)

Footnotes:

- (1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
- (2) Curving – decline in interest in the short-term and increase in interest in the long-term.
- (3) Flattening – increase in interest in the short-term and decline in interest in the long-term.
- (4) Including Israeli currency linked to foreign currency.
- (5) After offsetting effects.

Following are the principal changes between exposure to interest at June 30, 2020 and the exposure at December 31, 2019:

A parallel increase of 1% in foreign currency. As of June 30, 2020, the estimated effect of an increase of 100 basis points on the capital in foreign currency amounted to a profit of approx. NIS 460 million, as compared to a loss of approx. NIS 89 million at December 31, 2019. Most of the difference stems from the change in the interest environment in the U.S. and its impact on sensitivity to a rise in the interest rate at IDB New York. In view of the steep decrease in the interest rate in the U.S., occurring in the first half of the year, a part of the deposits have reached the "interest floor" – the minimum rate of interest paid on certain deposits with no relation to the market rate. In view of the fact that the market rate of interest at the end of the second quarter was found below the "interest floor", the assumption is that in a scenario of a rise in interest, the interest on such deposits does not rise and does not increase the interest expense in a manner creating growth in the net interest income.

A parallel decrease of 1% in foreign currency. As of June 30, 2020, the estimated effect of a decrease of 100 basis points on the capital in foreign currency amounted to a loss of approx. NIS 406 million, as compared to a loss of approx. NIS 74 million at December 31, 2019. The change results mostly from the "interest floor" on a part of the IDB New York deposits described above. In view of the steep decrease in interest occurring in the U.S. in the first half, in a scenario of a decrease in the interest rate, the interest on a part of the deposits remains fixed at the "interest floor" level, while the interest on loans decreases in full.

A parallel decrease of 1% in Israeli currency. During the first quarter, in light of the change in the interest environment, the Bank updated the minimum interest rates used in calculating interest scenarios, whereby, starting from the calculation as of March 31, 2020, the minimum interest rate for balance-sheet items is -1% and, for off-balance-sheet items, the minimum interest rate has been canceled in relation to a minimum interest rate of 0%, which was used in the representative calculations for the comparative data. This change, in a scenario of a decrease, reduced the sensitivity to a decline in the interest rate by an amount of approx. NIS 100 million, in relation to the sensitivity that had existed prior to the said change. Namely, the change in sensitivity to a decline in the interest rate at June 30, 2020, as compared to the sensitivity at the end of 2019, was higher by approx. NIS 100 million.

The impact of scenarios of changes in interest rates on net interest income and on non-interest financing income

	June 30 2020			June 30 2019			December 31 2019		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
In NIS millions									
Parallel changes									
A parallel increase of 1%	893	67	960	598	30	628	682	76	758
Of which: the banking book	881	65	946	588	41	629	662	75	737
A parallel decrease of 1%	(1,021)	(78)	(1,099)	(664)	-	(664)	(862)	(82)	(944)
Of which: the banking book	(1,012)	(74)	(1,086)	(655)	(11)	(666)	(851)	(81)	(932)

Sensitivity of the income is calculated on the basis of various assumptions regarding the effect of a change in interest on the return on assets and the cost of the deposits (Beta) and application of minimum interest levels for pricing.

The rise in sensitivity of the income to changes in interest in the first half of 2020 stemmed from an increase in the volume of current account deposits, which were used to increase credit, to acquire securities and to enlarge liquidity balances, and due to the minimum interest levels becoming effective whereby, in a rising interest scenario, the increase in expenses would have been partial.

For additional quantitative and qualitative details about the interest risks, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd.

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

Fair value of financial instruments. Most of the Bank's balance sheet financial instruments do not have a quoted "market price" as they are not traded on an active market. Accordingly, in accordance with the directive, the fair value is estimated using accepted pricing models, and in particular through the calculation of the present value of the discounted cash flows using a discount interest rate appropriate to the level of risk embodied in the instrument.

The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.

The assessment of the present value of future cash flows was done in accordance with the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.

Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements as of December 31, 2019 (pp. 268-269).

Following are certain updates as of June 30, 2020:

- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 2 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 1 million (compared to NIS 2 million and NIS 1 million, respectively, as of March 31, 2020);
- Cash flows in respect of mortgages have been evaluated on the basis of an early redemption forecast based on a statistical model. Discounting the said cash flows in accordance with expected redemption dates instead of the contractual redemption dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 264 million (compared to NIS 316 million as at March 31, 2020);
- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 4.10 years on June 30, 2020, compared to 3.49 years, taking into consideration the forecast for early redemptions (compared to 3.96 years and 3.32 years, respectively, as of March 31, 2020);
- Cash flows in respect of deposits were evaluated on the basis of an early redemption forecast based on a statistical model. Discounting the said cash flows in accordance with expected redemption dates instead of the contractual redemption dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 21 million (compared to NIS 24 million at March 31, 2020);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 2.96 years on June 30, 2020, compared to 2.76 years, taking into consideration the forecast for early redemption (compared to 2.77 years and 2.57 years, respectively, as of March 31, 2020).

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 C to the financial statements as of December 31, 2019 (pp. 268-269).

The net changes in fair value, in the different linkage segments, stem from the active management of the active capital and the decision to move it in accordance with returns expected in the different linkage segments.

No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

Sensitivity analysis according to data used for interest exposure management (hereinafter: "economic exposure")

The data presented above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the calculation of the table "Exposure to interest rate changes", which is presented within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:

- (a) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices;
- (b) Items relating to liabilities for employee rights are included in the economic measurement in the CPI-linked segment, while in the accounting measurement they are presented in the unlinked segment;
- (c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;
- (d) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;
- (e) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.

Effect of hypothetical changes in interest rates of 100 base points on the Group's economic value

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
In NIS millions					
June 30, 2020					
An increase of 100BP in interest rates	(336)	(83)	418	42	41
A decrease of 100BP in interest rates	383	68	(338)	(36)	77
December 31, 2019					
An increase of 100BP in interest rates	(263)	(107)	(136)	25	(481)
A decrease of 100BP in interest rates	441	93	(40)	(8)	485

The changes between the effect of the changes in interest in this table and the changes presented in the table "the impact of scenarios of changes in interest rates on the net adjusted fair value" shown above are due mainly to the use of different discounting curves in the two measurements, as set forth above. This effect is expressed primarily in the non-linked segment, as there is a significant gap in the results in this segment when use is made of the cost of credit rather than using the transfer price, this is because most of the interest exposure derives from the credit portfolio. In the dollar segment (including foreign currency) there is no material gap between the two tables, since most of the interest exposure in this segment derives from the deposits, which are not affected by the gap between the transfer price and the cost of credit. In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

Value at Risk (VaR)

The VaR for the overall balance sheet. The VaR serves as one of the evaluation tools for measuring the Group's banking book exposure to market risks. The VaR for the Group's entire portfolio (the banking book and the trading portfolio) is calculated at monthly intervals. The Bank uses the historic method as a basis for measuring the Value at Risk, at a confidence level of 99% and with a horizon of one month.

A deviation from the limitation set by the Board of Directors (3% of the equity) was reported in the course of the second quarter. This, following the deviation created for March 31, 2020, as a result of the steep increase in the volatility level of most of the parameters of the model. Following the specific rise in levels of volatility, which is expected to affect the results of the model in the coming years, the Board of Directors approved the updating of the model, so that the VaR would be computed on the basis of the volatility values, net of the observations of March. No deviations from the limits were recorded during the second quarter, net of the month of March.

Furthermore, in July 2020, the Board of Directors approved the change in the VaR limits status for the alert levels. (Alert levels are design to warn decision makers as to a high/ exceptional risk level, though in contrast to limits, deviation there from indeed requires discussion but does not require a change in exposure).

Details of the exposure in terms of Total VaR

	For the period ended on			
	30.06.2020		31.03.2020	
	End of reporting quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
In %				
Actual exposure	4.2%	5.9%	6.9%	6.9%
Limitation set by the Board of Directors	3.0%	3.0%	3.0%	3.0%

For further details, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which was published as part of the 2019 annual report and which is available for perusal as aforesaid (pp. 61-62).

Replacement of foreign interest benchmarks (base rates) and its repercussions

General. On March 20, 2019, the Supervisor of Banks addressed a letter to the banking corporations, in which they are requested to prepare for the anticipated discontinuation of the publication of interest benchmarks existing around the world and their replacement with other benchmarks. On February 13, 2020, the Supervisor of Banks published a letter regarding disclosure of the preparations made with respect to the discontinuation of the use of the LIBOR rate, on the background of disclosure guidelines published by the SEC in the matter.

The main risks and the Bank's preparations therefor. The discontinuation of the use of LIBOR and the transition to alternative interest indices create various risks - operational, IT systems, the Bank-customer relations, financial and legal, that arise from the Bank's operations with its customers. The Bank is making preparations to identify the risks, inter alia, by means of mapping all the relevant contracts and exposures.

The Bank is continuing preparations to manage and mitigate the identified risks. Inter alia, the booklet "General conditions for the opening and management of accounts with the Bank", has been updated, so as to allow in the future the definition of the alternative interest base to be determined. The updating of the text of the definition is presently made to all relevant documents signed by customers. Moreover, the Bank mailed a written notice to Bank customers regarding the expected change and the preparations made in respect thereof.

Material exposures. The Bank has various contracts that continue beyond 2021 which relate to LIBOR.

Discount's exposure to the LIBOR interest rate in respect to exposures that will continue beyond 2021

	June 30, 2020		December 31, 2019	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	2,289	12,232	2,204	10,108
Deposits	-	-	12	43
Securities	38	1,169	16	548
Total	2,327	13,401	2,232	10,699
Derivatives (volume transactions)	1,458	76,865	1,269	72,699

The Table includes data of Discount Bank and MDB.

For additional details, see the 2019 Annual Report (p. 79).

Inflation and exchange rate risk

Exposure to base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency). For details regarding assets and liabilities according to linkage terms, see Note 32 to the financial statements.

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the capital as of June 30, 2020.

Effect of hedging relations and transactions in derivative instruments on the exposure. The exposure in the CPI-linked segment is created due to an excess of applications in relation to sources in this segment. In order to hedge the exposure in the CPI-linked segment, the Bank makes use of contracts on the consumer price index. As a general rule, the Bank's policy is not to create an exposure to foreign currency exchange rates in its ongoing activity. Coverage of the built-in foreign currency position, which arises from the investment in IDBNY, was canceled several years ago, in order to reduce the sensitivity of the capital ratio to changes in exchange rates.

The Bank's capital sensitivity of changes in exchange rates

Segment	June 30, 2020 in NIS millions			
	10%	5%	-5%	-10%
USD	362	179	(172)	(345)
EUR	(16)	(8)	15	31
Other Foreign Currencies	(14)	7	(6)	(12)

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks.

Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of June 30, 2020.

Sensitivity of the capital to changes in the CPI

Scenario	June 30, 2020 in NIS millions	
	Increase 3%	Decrease 3%
	81	(94)

This effect has been computed as the difference between the net fair value based on the "known" CPI, including off-balance sheet items, and the net fair value after raising/reducing the CPI by 3%.

For quantitative and qualitative details about share price risk, see the 2019 Annual Report (pp. 80-81) and in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Liquidity and financing risks

Liquidity risk is a risk to the stability of the Group, stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk. In addition, the regulatory coverage ratio is being examined and managed on a current basis, as required by Proper Conduct of Banking Business Directive No. 221.

No deviation from the said restrictions was recorded in the first half of 2020.

For further details regarding the management of the Liquidity and financing risks, see the 2019 Annual Report (pp. 81-84).

Liquidity coverage ratio

As of the second quarter of 2020, the liquidity coverage ratio of the Discount Group, on the basis of 74 observations average, stood as of June 30, 2020, at 136.94%, compared with 121.2% as of December 31, 2019, higher than the minimum requirements according to the instructions. The growth in the liquidity ratio in the second quarter stemmed, mainly, from the growth in the Bank's liquidity surplus.

For additional details, see Note 9 to the condensed financial statements.

Liquidity and the raising of resources in the Bank

Transferability of liquidity within the Group. The transfer of liquidity between the Group companies and the Bank is based on the money price mechanism established at the Bank. As stated, the subsidiary companies may not rely upon the transfer of liquidity where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty.

During the first half of 2020, the Bank maintained liquid assets in a volume larger than that of its liabilities and its internal liquidity model indicated a significant liquidity surplus.

In March, in light of the spread of Corona virus, steep declines were seen in the Israeli and global capital markets, which led to significant percentages of capital market funds being redeemed and being transferred to customers' accounts at the Bank. This trend is reflected in an increase of approx. NIS 9 billion in retail deposits. At the same time, institutional depositors withdrew deposits held at the Bank in an amount of approx. NIS 2 billion. An additional growth in the balance of deposits with the Bank was recorded in the second quarter, though at a significantly lower scope compared to the growth recorded in the first quarter.

On June 22, 2020, the Bank, through Discount Manpikim Ltd. issued bonds of the CoCo class in the amount of approx. NIS 440 million. For additional details, see Note 23 to the condensed financial statements.

An analysis of the changes during the quarter in deposits from the public according to linkage bases reveals that most of the growth during the period is due to a rise in the scope of the non-linked deposits.

Deposits from the public

	June 30, 2020	June 30, 2019	December 31, 2019	Change compared to		Change compared to	
				June 30, 2019		December 31, 2019	
				In NIS millions	in %	In NIS millions	in %
Non-linked shekels	121,693	102,595	107,645	19,098	18.6	14,048	13.1
CPI-linked shekels	4,478	4,694	5,446	(216)	(4.6)	(968)	(17.8)
Foreign currency and foreign currency linked shekels	35,802	30,612	33,068	5,190	17.0	2,734	8.3
Total	161,973	137,901	146,159	24,072	17.5	15,814	10.8
Foreign currency and foreign currency linked shekels - In US\$ millions	10,329	8,584	9,568	1,745	20.3	761	8.0

Deposits from Banks

	June 30, 2020	June 30, 2019	December 31, 2019	Change compared to		Change compared to	
				June 30, 2019		December 31, 2019	
				In NIS millions	in %	In NIS millions	in %
Non-linked shekels	2,319	1,939	1,330	380	19.6	989	74.4
CPI-linked shekels	35	130	36	(95)	(73.1)	(1)	(2.8)
Foreign currency and foreign currency linked shekels	592	288	396	304	105.6	196	49.5
Total	2,946	2,357	1,762	589	25.0	1,184	67.2

For additional details regarding liquidity risks and the management thereof, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd., and also Note 15 regarding assets and liabilities according to linkage terms.

For additional details regarding financial risk, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Operational Risks

For details regarding operational risks and the manner of management thereof, including in the matter of business continuity, see the 2019 Annual Report (pp. 84-85) and the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

Malfunction in the PayBox Application. Following a malfunction in the installation of a server for the PayBox payment application ("PayBox"), partial information regarding users of PayBox has leaked out. The malfunction was rectified within a few hours since discovery. Based on the enquiry made, the said information included a part of the items of information existing in PayBox, though it did not include items of information the use thereof might cause users direct financial damage.

PayBox is being operated separately from the Bank's computer systems and from the Bank's regular banking services. The server, in which the malfunction had been discovered, is not connected to the operation of the Bank, and the malfunction as a whole has no relation to the accounts held with the Bank and to other information existing in the hands of the Bank with respect to customers holding accounts with the Bank. The Bank estimates that no material effect on the Bank is expected as a result of the malfunction.

A notice regarding this event has been delivered to users of PayBox.

All as detailed in an immediate report dated January 29, 2020 (reference no. 2020-01-009258), the information provided in it is included herewith by way of reference.

For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 10 B section 5.3 to the condensed financial statements.

The Bank has conducted a conclusion drawing process in order to ensure that a failure of this kind is not repeated, and its implementation is at an advanced stage.

Compliance risks

Prohibition of money laundering and terror financing

Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity and indemnity letters signed by the State of Israel.

Following extension, the letter of indemnity and letter of immunity shall continue in effect until May 31, 2021. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

For further details regarding compliance risks including Discount Group's activities with banks acting in the Palestinian Authority, see the 2019 Annual Report (pp. 88-89).

Legal risks

The Bank has recently formed an updated policy for the management of the legal risk, in which the management of the legal risk is differentiated from the regulatory risk management, which is to be conducted by the Group Management and Regulation Division of the Bank. Regulatory risk focuses on identifying and monitoring legislation processes and drafts issued by the Bank of Israel, bringing them on time to the attention of the relevant functions at the Bank, in order to appropriately analyze the effect of such processes upon the Bank, and ensure the existence of the required preparations by the Group. The updated policy was approved on August 11, 2020, by the Risk Management Committee of the Board, and would be tabled for approval of the Board of Directors at one of its upcoming meetings.

For additional details regarding legal risks, see the 2019 Annual Report (pp. 87-88).

Other risks

For additional details regarding other risks, see the 2019 Annual Report (including: Cross-border risks – pp. 85-86; Information technology risks – p. 86; Strategic risk – p. 87; Reputation risk – p. 87; Data and cyber protection risks – p. 87; Environmental risks – p. 87; Conduct risks – p. 89; for details regarding Risk Factors Table, see the 2019 Annual Report, pp. 89-92).

Risk Factors Table

The Corona crisis and its domestic and global implications have led to an increase in risk in most of the managed risk areas.

With respect to the credit risk and the operational risk, the evaluation of the effect of the risk has been raised from "medium" to "medium-high", mostly due to the following factors:

- Credit risk – in view of the growth in risk for borrower quality risk credit portfolio quality;
- Operational risk – in view of the modifications and changes made to processes and controls, deriving from regulatory and internal changes, and in view of the rise in fraud and embezzlement risk, deriving from the transition to digital operation, extension of authorizations, reduction in manpower and transition to distance work. These aspects affect also the growth in cyber risk (though it remained at the level of "medium-high").

In addition, the rating of the risk environment has been raised from medium-high to high, against the background of the current assessment regarding the potential implications of the crisis on the domestic and global economy.

As stated, an increase is also identified in the remaining risk areas, though no changes have been made to the evaluated risk level, which remained at the level presented in the risk factor table shown in the 2019 Annual Report (pp. 90-92).

It is noted that the Management and the Risk Management Division are conducting an ongoing and tight follow-up of developments in the crisis and the risks stemming there from, while modifying the risk appetite, operations, risk management processes and controls.

● CHAPTER "D" – ACCOUNTING POLICY AND CRITICAL ACCOUNTING ESTIMATES, CONTROLS AND PROCEDURES

Critical Accounting Policies and Critical Accounting Estimates

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2019, pp. 117-135) and according to instructions and guidelines of the Supervisor of Banks.

The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.

Implementation by management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, sometimes requires various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.

Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.

The Bank's Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its knowledge and professional judgment.

A summary review of evaluations and assessments made regarding "critical" matters is included in the 2019 Annual Report (pp. 92-97).

Allowance for credit losses – allowances on a group basis

As stated in the 2019 annual report (pp. 92-93), the process of assessing the loss inherent in the credit portfolio is based on significant assessments involving uncertainty and on subjective assessments. Accordingly, a change in the estimates or assessments might have a significant effect on the allowance for credit losses presented in the Bank's financial statements.

The Corona crisis has created an extreme situation of uncertainty: the force of the crisis and the period of time in which it is expected to have an effect; concerns regarding further waves of the outbreak of the pandemic and its implications, including changes in the form and scope of the preventive measures; long-term changes in the labor market, in consumption patterns and scope; changes in scope of government support (such as: unpaid leave, assistance to households and the business sector); changes in the fiscal policy, etc.

In light of the said uncertainty, the evaluation process has become complex and challenging in the reported period. This, inter alia, in view of the lack of valid models and reliable past data, such as those used in the evaluation process in conventional periods.

These matters are particularly relevant in relation to the group allowance, due to the necessity to assess the inherent credit losses with respect to borrowers harmed by the crisis but not yet identified – by means of updating the adjustment coefficient, so as to reflect the damage assessment, under exceptional conditions of uncertainty.

Within the framework of the assessment, the parameters used in the calculation were made tighter, in accordance with the latest macroeconomic data evaluations (an unemployment average of 14% at the end of 2020 and a decline in the GDP at the rate of 7%¹) and with deterioration coefficients that are based on an assessment of the risk of the various economic sectors. Also conducted was a study of the possible effect on segments of business customers and a study of the effect of possible deferral of credit repayments on borrowers, and a certain additional allowance has been recorded regarding the inherent risk, based on a subjective assessment. It is noted that in view of the uncertainty and in order to challenge the allowance, use has been made of scenarios, tested by the Bank in computations for the purpose of capital allocation and credit losses, using a methodology that connects macro-economic indices to losses of the Bank. The basis used by the methodology for the calculation of the loss, is the internal risk assessments of the Bank with the addition of the effect of the change in the macro-economic indices.

¹ The rates noted are the rates estimated at date of assessment of the loss inherent in the credit portfolio. It is noted that the Bank updates from time to time the assessment of the parameters in accordance with changes in circumstances.

It should be noted that the process of determining the allowances for credit losses on a group basis, particularly in the circumstances described above, is sensitive to possible changes in the subjective estimates or assessments, whereby a potential deviation in these factors might cause a significant divergence in the amount of the allowances for credit losses on a group basis.

Over time, as the level of uncertainty diminishes and as additional information regarding the chances of collecting from borrowers becomes available to the Bank, the assessments will be adjusted accordingly.

Sensitivity tests. In accordance with the guidelines of the Supervisor of Banks, the Bank has made an assessment of the effect of changes in the principal macro-economic parameters, which may be reasonably assessed, on the computation of the group allowance as of June 30, 2020, with respect to the Bank and the principal subsidiaries in Israel: the model for calculating stress scenarios applying at the overall level of the portfolio, served as a basis for the evaluation.

As stated, in computing the allowance actually made, an annual unemployment average rate of 14% and a reduction in the product of 7%, had been assumed.

The Bank estimates that a growth of 1.5% in the rate of unemployment in December 2020 and a reduction of additional 2% in the rate of the GDP at the end of 2020, would cause an increase of between NIS 260 and 280 million in the allowance for credit losses.

The Bank estimates that a decrease of 1.5% in the average unemployment rate in December 2020 and an increase of 2% in the rate of the GDP at the end of 2020, would cause a reduction of between NIS 370 and 390 million in the allowance for credit losses.

It is emphasized that the actual allowance is affected by many and different variables, sectorial and macro-economic, as well as subjective assumptions. Moreover, sensitivity tests are intended to examine changes in prevalent and normal reality situations, and their validity deteriorates in situations of extreme uncertainty, such as the Corona crisis. In view of the above stated, the forecasting ability of the sensitivity calculation of the allowance required in actual fact, given the economic parameters at the rates stated above, is rather limited. It is further emphasized that these effects are not linear, and therefore it is not possible to draw from the above assessments the effect, which another change in the principal economic parameters mentioned above, might have.

It is further emphasized that in the absence of a defined and uniform model for the assessment of the group allowance required in circumstances of uncertainty, as described above, and in view of the fact that in the circumstances of the matter, the process of determining the allowance involves assessments and subjective assumptions, extra caution should be taken when examining the sensitivity tests presented above and when making a comparison of the matter between banks.

Measurement of financial instruments according to their fair value

The credit risk. In light of the heightened credit risk, arising primarily from the Corona crisis, the Group has recorded an expense of NIS 16 million in the first half of 2020, compared to a negligible expense in the corresponding period last year.

Adjustments made to assets and liabilities in respect of derivative instruments

	June 30, 2020	December 31, 2019
	in NIS millions	
Assets in respect of derivative instruments	5,866	4,558
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(18)	(10)
Liabilities in respect of derivative instruments	6,078	4,866
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	14	6

For additional details regarding the measurement of financial instruments according to their fair value, see the 2019 Annual Report (pp. 93-96).

Employee Rights

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of June 30, 2020. For details regarding the computation of the actuarial provision amount that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority's "deep market" guideline, see the actuarial assessment appended to the annual report for 2019.

Presenting the actuary's opinion for perusal. The opinion of the Actuary² is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the 2020 Second Quarter Report (this Report).

The actuarial valuation as of June 30, 2020, as compared with the valuation as of March 31, 2020, was impacted, primarily, by the significant decrease in the discount rate due to the effects of the Corona crisis on the bond markets. Most of the change is due to a significant decrease in the international margin and to a decline in the yield to maturity of index-linked government bonds. It should be noted that, in the period proximate to the reporting date through a date adjacent to the Report's publication date, a trend of stability has been evident in the discount rates. The reversal of the trend in the second quarter, reduced almost completely the positive reserve, which was created in the first quarter.

From a half-yearly viewpoint, the change in the interest rate remained positive, though not as significant as in the first quarter.

Controls and Procedures

Disclosure controls and procedures

The Bank's President & CEO and its Chief Accounting Officer have evaluated in conjunction with the Bank's Management, the efficiency of the controls and procedures relating to disclosure at the Bank as of the end of the reporting period. Based on this evaluation, the President & CEO and Chief Accounting Officer have reached the conclusion that as of the end this period, the controls and procedures relating to disclosure at the Bank operate efficiently in order to record, process, summarize and report the information that the Bank is required to disclose in its quarterly report, in accordance with the directives of the Supervisor of Banks in the matter of reporting to the public and at such date indicated therein.

² The English translation of the Opinion is available for perusal at the Bank's website.



Changes in Internal Control

During the second quarter of 2020, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably expected to materially affect, the Bank's internal control over financial reporting, besides the shifting of many employees to working from home, as part of the measures taken for business continuity during the Corona crisis. The said shift had an effect upon the format of conducting control and in particular on the documentation thereof, which required applying alternative means of documentation.

Shaul Kobrinsky
Chairman of the Board of Directors

Uri Levin
President & Chief Executive Officer

August 26, 2020



Internal Control over Financial Reporting

- 81 President & CEO's
certifications
- 82 Chief Accountant's
certification



Certification

I, Uri Levin, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 2020 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
 - b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
 - c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
 - d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

August 26, 2020

Uri Levin
President & Chief Executive Officer

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 2020 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
 - (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
 - (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
 - (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.


Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Joseph Beressi
Senior Executive Vice President
Chief Accountant

August 26, 2020



Condensed Financial Statements

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Review Report of the independent auditors to the shareholders of Israel Discount Bank Ltd.

Introduction

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at June 30, 2020 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and six months periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for these interim periods in accordance with Israeli GAAP regarding financial reporting for this interim period and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of Review

We have conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel, and a review standard applied in the review of banking institutions according to the guidelines and directives of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with the instructions and directives of the Supervisor of Banks.

Emphasis of a matter

Without qualifying our above conclusion, we call attention to the Note 10 B section 5 regarding different proceedings filed against the Bank and against investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

August 26, 2020

Condensed Consolidated statement of profit and loss

	Unaudited				Audited	
	Notes	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2020	2019	2020	2019	2019
in NIS millions						
Interest income		1,742	2,150	3,533	3,956	7,567
Interest expenses		279	555	615	940	1,674
Net interest income	2	1,463	1,595	2,918	3,016	5,893
Credit loss expenses	6,14	532	136	1,188	277	690
Net interest income after credit loss expenses		931	1,459	1,730	2,739	5,203
Non-interest Income						
Non-interest financing income	3	276	230	693	402	742
Fees and commissions		650	729	1,389	1,439	2,972
Other income		8	1	8	9	57
Total non-interest income		934	960	2,090	1,850	3,771
Operating and other Expenses						
Salaries and related expenses		794	857	1,618	1,704	3,343
Maintenance and depreciation of buildings and equipment		274	269	559	532	1,098
Other expenses		515	444	937	864	1,858
Total operating and other expenses		1,583	1,570	3,114	3,100	6,299
Profit before taxes		282	849	706	1,489	2,675
Provision for taxes on profit		105	300	256	524	932
Profit after taxes		177	549	450	965	1,743
Bank's share in profit of associates, net of tax effect		4	12	8	11	16
Net profit:						
Before attribution to non-controlling interests		181	561	458	976	1,759
Attributed to the non-controlling interests		(7)	(16)	(5)	(26)	(57)
Net Profit Attributed to the Bank's Shareholders		174	545	453	950	1,702
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	3A	0.15	0.47	0.39	0.82	1.46

The notes to the condensed financial statements form an integral part thereof.

Shaul Kobrinsky
Chairman of the Board of Directors

Uri Levin
President & Chief Executive Officer

Joseph Beressi
Senior Executive Vice President,
Chief Accountant

August 26, 2020

Condensed Consolidated statement of comprehensive Income

	Unaudited				Audited
	For the three months ended		For the six months ended		For the year
	June 30,	June 30,	June 30,	June 30,	ended
	2020	2019	2020	2019	December 31,
	in NIS millions				
Net profit before attribution to non-controlling interests	181	561	458	976	1,759
Net profit attributed to non-controlling interests	(7)	(16)	(5)	(26)	(57)
Net profit attributed to the Bank's shareholders	174	545	453	950	1,702
Other comprehensive income (loss), before taxes:					
Net adjustments for presentation of available-for-sale bonds at fair value	629	194	148	567	790
Financial statements translation net adjustments	(104)	(65)	14	(178)	(283)
Adjustments of liabilities in respect of employee benefits ⁽²⁾	(635)	(9)	(292)	(52)	(259)
Net profit (loss) in respect of cash flows hedge	(1)	3	-	4	4
Other comprehensive income (loss), before taxes	(111)	123	(130)	341	252
Related tax effect	11	(59)	57	(167)	(176)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	(100)	64	(73)	174	76
Other comprehensive loss attributed to non-controlling interests	(3)	(1)	(1)	(2)	(4)
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	(97)	65	(72)	176	80
Comprehensive income, before attribution to non-controlling interests holders	81	625	385	1,150	1,835
Comprehensive income, attributed to non-controlling interests holders	(4)	(15)	(4)	(24)	(53)
Comprehensive income, attributed to the Bank's shareholders⁽¹⁾	77	610	381	1,126	1,782

Footnotes:

(1) See Note 4.

(2) Reflects mostly adjustments in respect of actuarial assessments as of the end of the period of defined benefits pension plans and amortization of amounts recorded in the past in other comprehensive income.

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

Condensed Consolidated Balance Sheet

		Unaudited		Audited
	Note	June 30, 2020	June 30, 2019	December 31, 2019
in NIS millions				
Assets				
Cash and deposits with banks		39,608	21,245	26,044
Securities (of which: 9,586 ,4,059 , 2,897 respectively, pledged to lenders)	5	40,037	35,470	37,745
Securities borrowed or purchased under agreements to resell		832	683	531
Credit to the public	6,14	186,841	174,553	182,991
Allowance for credit losses	6,14	(3,405)	(2,318)	(2,524)
Net credit to the public		183,436	172,235	180,467
Credit to Governments		4,219	3,495	3,515
Investments in associates		154	173	171
Buildings and equipment		2,648	2,467	2,577
Intangible assets and goodwill		164	160	164
Assets in respect of derivative instruments	11	5,856	4,263	4,545
Other assets		5,146	4,122	4,064
Total assets		282,100	244,313	259,823
Liabilities and Equity				
Deposits from the public	7	222,048	192,814	201,450
Deposits from banks		7,717	6,416	6,419
Deposits from the Government		232	190	181
Securities lent or sold under agreements to repurchase		174	536	346
Bonds and Subordinated debt notes		11,377	8,158	13,129
Liabilities in respect of derivative instruments	11	6,064	4,345	4,839
Other liabilities ⁽¹⁾		14,965	13,186	14,266
Total liabilities		262,577	225,645	240,630
Shareholders' equity		19,004	18,168	18,678
Non-controlling interests		519	500	515
Total equity		19,523	18,668	19,193
Total Liabilities and Equity		282,100	244,313	259,823

Footnote:

(1) Of which NIS 289 million, NIS 182 million and NIS 223 million, as of June 30, 2020, June 30, 2019 and December 31, 2019, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

The notes to the condensed financial statements form an integral part thereof.

Condensed Statement of Changes in Equity

	Capital reserves				Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity	Non-controlling interests holders in consolidated subsidiaries	Total equity
	Paid up Share capital	Share premium	Other reserves	Total paid up share capital and reserves					
in NIS millions									
A. For the three months ended June 30, 2020 and 2019 (unaudited)									
Balance at March 31, 2020	676	4,174	211	5,061	(456)	14,324	18,929	515	19,444
Net Profit for the period	-	-	-	-	-	174	174	7	181
Transactions with minority	-	-	(2)	(2)	-	-	(2)	-	(2)
Other comprehensive loss , net after tax effect	-	-	-	-	(97)	-	(97)	(3)	(100)
Balance at June 30, 2020	676	4,174	209	5,059	(553)	14,498	19,004	519	19,523
Balance at March 31, 2019	676	4,174	215	5,065	(450)	13,003	17,618	527	18,145
Net Profit for the period	-	-	-	-	-	545	545	16	561
Dividend paid	-	-	-	-	-	(60)	(60)	-	(60)
Dividend to non-controlling interests holders in consolidated companies	-	-	-	-	-	-	-	(42)	(42)
Other comprehensive income , net after tax effect	-	-	-	-	65	-	65	(1)	64
Balance at June 30, 2019	676	4,174	215	5,065	(385)	13,488	18,168	500	18,668
B. For the six months ended June 30, 2020 and 2019 (unaudited)									
Balance at December 31, 2019 (audited)	676	4,174	215	5,065	(481)	14,094	18,678	515	19,193
Net Profit for the period	-	-	-	-	-	453	453	5	458
Dividend paid	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	(6)	(6)	-	-	(6)	-	(6)
Other comprehensive loss, net after tax effect	-	-	-	-	(72)	-	(72)	(1)	(73)
Balance at June 30, 2020	676	4,174	209	5,059	(553)	14,498	19,004	519	19,523
Balance at December 31, 2018 (audited)	676	4,174	215	5,065	(561)	12,647	17,151	518	17,669
Net Profit for the period	-	-	-	-	-	950	950	26	976
Dividend paid	-	-	-	-	-	(109)	(109)	-	(109)
Dividend to non-controlling interests holders in consolidated companies	-	-	-	-	-	-	-	(42)	(42)
Other comprehensive income, net after tax effect	-	-	-	-	176	-	176	(2)	174
Balance at June 30, 2019	676	4,174	215	5,065	(385)	13,488	18,168	500	18,668
C. For the year of 2019 (audited)									
Balance at December 31, 2018	676	4,174	215	5,065	(561)	12,647	17,151	518	17,669
Net Profit for the year	-	-	-	-	-	1,702	1,702	57	1,759
Dividend paid	-	-	-	-	-	(255)	(255)	-	(255)
Dividend to non-controlling interests holders	-	-	-	-	-	-	-	(56)	(56)
Other comprehensive income net after tax effect	-	-	-	-	80	-	80	(4)	76
Balance at December 31, 2019	676	4,174	215	5,065	(481)	14,094	18,678	515	19,193

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

Condensed Consolidated Statement of Cash Flows

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	in NIS millions				
Cash Flows from Operating Activities					
Net profit before attribution to non-controlling interests in consolidated companies	181	561	458	976	1,759
Adjustments necessary to present cash flows from current operations:					
Bank's share in undistributed profits of associates.	(5)	(11)	(9)	(10)	(14)
Depreciation of buildings and equipment (including impairment in value)	119	112	236	219	466
Provision for impairment in value of securities	9	5	17	9	31
Credit loss expenses	532	136	1,188	277	690
Gain on sale of credit portfolio, net	-	(1)	-	(7)	(7)
Profit on sale of available-for-sale bonds and shares not for trading	(88)	(103)	(282)	(149)	(250)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(52)	1	(96)	15	2
Non realized gain on adjustment to fair value of shares no for trading	(8)	(15)	-	(18)	(39)
Gain from realization at an investment in investee companies	-	(13)	-	(13)	(13)
Gain on realization of buildings and equipment	(5)	(6)	(5)	(8)	(42)
Net deferred taxes	(342)	23	(383)	24	(115)
Severance pay – increase in excess of provision over the deposits	536	27	353	94	336
Net change in current assets:					
Assets in respect of derivative instruments	1,900	(858)	(1,311)	(537)	(816)
Trading securities	1,473	(282)	1,289	284	(252)
Other assets	837	181	123	(266)	(40)
Effect of changes in exchange rate on cash and cash equivalent balances	12	(28)	(69)	(109)	(145)
Accrual differences included in investment and financing activities	349	(132)	(64)	908	1,440
Net change in current liabilities:					
Liabilities in respect of derivative instruments	(1,813)	947	1,225	1,096	1,590
Other liabilities	(40)	210	(713)	422	1,049
Adjustments in respect of exchange rate differences on current assets and liabilities	(81)	(53)	53	(126)	(185)
Dividends received from associates	2	7	9	7	13
Net Cash Flows from Operating Activities	3,516	708	2,019	3,088	5,458

The notes to the condensed financial statements form an integral part thereof.

Condensed Consolidated Statement of Cash Flows (continued)

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	in NIS millions				
Cash Flows to Investing Activities					
Net change in Deposits with banks	(584)	(7)	(634)	14	42
Net change in Net credit to the public	222	(908)	(4,989)	(4,467)	(8,930)
Net change in Credit to the Governments	541	108	727	357	571
Net change in Securities borrowed or purchased under agreements to resell	(344)	139	(301)	91	243
Acquisition of held-to-maturity bonds	(42)	(109)	(3,536)	(612)	(766)
Proceeds from redemption of held-to-maturity bonds	29	82	481	1,023	1,715
Purchase of available-for-sale bonds and shares not for trading	(5,019)	(3,771)	(10,462)	(7,138)	(13,133)
Proceeds of sale of available-for-sale bonds and shares not for trading	5,445	4,854	9,578	7,515	10,739
Purchased credit portfolios	(1,243)	(2,190)	(2,730)	(2,839)	(4,162)
Gain on sale of credit portfolio	-	199	121	202	940
Proceeds of redemption of available-for-sale bonds	1,204	522	2,157	1,556	3,197
Purchase of shares in associates	-	-	-	(62)	(62)
Business combinations - see Annex A	-	-	-	-	449
Net Proceeds of the sale of investments in associates	-	26	-	26	27
Acquisition of buildings and equipment	(154)	(129)	(315)	(249)	(592)
Proceeds from sale of buildings and equipment	9	6	9	20	65
Net Cash Flows to Investing Activities	64	(1,178)	(9,894)	(4,563)	(9,657)
Cash Flows from Financing Activities					
Net change in Deposits from banks	379	1,446	1,299	(470)	(488)
Net change in Deposits from the public	8,176	1,823	21,393	2,495	7,453
Net change in Deposits from the Government	(4)	(61)	51	(67)	(76)
Net change in Securities borrowed or purchased under agreements to resell	(717)	(102)	(172)	(590)	(780)
Issuance of subordinated debt notes	441	-	541	-	3,899
Redemption of subordinated debt notes	(2,138)	(208)	(2,285)	(403)	(1,327)
Dividend paid to the shareholders	(49)	(60)	(49)	(109)	(255)
Dividend to non-controlling interests	-	(42)	-	(42)	(56)
Net cash flows from Financing Activities	6,088	2,796	20,778	814	8,370
Increase (decrease) in cash	9,668	2,326	12,903	(661)	4,171
Cash balance at beginning of period	29,074	18,606	25,777	21,549	21,549
Effect of changes in exchange rate on cash and cash equivalent balances	(36)	18	26	62	57
Cash balance at end of period	38,706	20,950	38,706	20,950	25,777
Interest and taxes paid and/or received					
Interest received	1,479	1,829	3,598	3,794	7,576
Interest paid	(292)	(377)	(723)	(761)	(1,712)
Dividends received	5	14	15	15	26
Taxes on income paid	(259)	(325)	(460)	(577)	(1,265)
Taxes on income received	-	-	202	36	37

The notes to the condensed financial statements form an integral part thereof.

Appendix A – merger with Municipal Bank

	Audited For the year ended December 31 2019 in NIS millions
Acquired assets and liabilities and cash paid, as of merger date:	
Acquired cash	1,142
Assets (excluding cash)	5,811
Liabilities	(6,264)
Identified assets and liabilities	689
Goodwill and customer relations	4
Total cost of acquisition	693
Consideration paid in cash	693
Less Acquired cash	(1,142)
Net cash flow from the merger with Municipal Bank	(449)

Appendix B - Non-cash asset and liability activity during the reported period

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	in NIS millions				
Recognition of a right-of-use asset in consideration for a leasing liability	16	-	761	-	-
Purchase of fixed assets	3	9	3	17	9
Lending of securities	113	(447)	(2,009)	1,113	173

The notes to the condensed financial statements form an integral part thereof.

Notes to the Condensed Financial Statements

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1. Accounting Policies

- A. General.** Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of June 30, 2020, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in associates. The interim financial statements do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2019 and the accompanying notes. The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2019 except as detailed in section E hereunder.
- B.** The interim financial statements were approved for publication by the Bank's Board of Directors on August 26, 2020.
- C. Principles of financial reporting.** The interim financial statements are prepared in accordance with accounting principles determined in directives of the Supervisor of Banks applying to the preparation of an annual financial report of a banking corporation, with required changes in the circumstances of the matter, and in accordance with U.S. GAAP applying to financial reporting for interim periods, and the reporting principles determined in directives and guidelines of the Supervisor of Banks. In most of the subjects, the Supervisor's instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).
- D. Use of assessments and discretion.** In preparing the interim financial statements in accordance with the rules, instructions and guidelines, as stated, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments. Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.
- E. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks**
Starting with the period beginning January 1, 2020, the Bank implements accounting standards and instructions as detailed hereunder:
- (1) Leasing (see section 1 below);
 - (2) The Corona virus outbreak –supervisory emphasis (see section 2 below).

Following is a description of the changes adopted in these interim financial statements and a description of the manner and effect of the initial implementation, if at all:

1. **Leasing.** A circular was published on July 1, 2018, in the matter of the reporting of leases by banking corporations and credit card companies in accordance with U.S. GAAP. The circular adopts the U.S. GAAP on this subject, and inter alia, the relating presentation, measurement and disclosure rules determined in Topic 842 of the Codification regarding leases.

The Bank decided to adopt the alternative transitional method for the adoption of the leasing Standard, determined in Amendment No. 2018-11 to the Codification, according to which, the initial implementation would be on the date of adoption and not as from the beginning of the earliest period presented, with the adjustment of the cumulative effect on the opening balance of retained earnings during the adoption period.

The initial implementation and its effect. The Standard is being applied as from January 1, 2020 and thereafter. Application of the Standard has resulted in a NIS 759 million increase in the balance of right-of-use assets and to a corresponding increase in the balance of lease liabilities at date of initial implementation. Moreover, the adoption of the Standard has resulted in a decrease in the common equity tier 1 ratio by 0.04%.

It is noted that the effective date for the United States has been deferred for non-public companies, to the annual report for 2022 and to the interim reports during 2023, accordingly, the implementation of the Standard by IDB New York is also deferred. The effect of the implementation of the Standard is not expected to be material (the growth in risk assets is estimated at approx. US\$131 million).

2. **The Corona virus outbreak –supervisory emphasis.** On April 21, 2020, the Supervisor of Banks issued a letter regarding the main supervisory emphasis with regard to the handling of debts, within the framework of the supervision policy for encouraging banking corporations to operate cautiously so as to stabilize borrowers that are unable or that are likely to be unable to meet their contractual payment obligations due to the impact of the Corona virus outbreak.

1. Accounting Policies (continued)

Inter alia, the letter included the following guidelines:

- Classification of troubled debt restructurings due to changes in the loan terms – when a banking corporation acts to stabilize borrowers that are not in arrears on their existing loans, but are encountering financial or operational difficulties in the short term as a result of the Corona outbreak; such action will generally not be considered a restructuring of a troubled debt, particularly if all the following conditions are met: the change was made due to the Corona virus outbreak, the borrower was not in arrears on the date when the plan for changing the terms was implemented and the change is for a short time.

For this purpose, it was clarified that borrowers will be considered to be borrowers that are not in arrears if they are in arrears of less than 30 days in relation to the contractual terms at the time of implementing the plan for the changes.

- Housing loans – For housing loans for which a minimal allowance has to be calculated in accordance with the extent of arrears method, the deferral of principal or interest payments for a short time, in respect of such a loan that was not a problematic debt prior to the deferral date, in general, does not require the debt to be classified as a restructured debt.
- Determining the state of the arrears – with regard to debts that were not in arrears prior to this and for which a deferral has been granted due to the Corona virus outbreak, these will not be required to be classified as debts in arrears due to the deferral. For debts that were in arrears prior to granting the aforesaid deferral, the state of the calculated arrears will be frozen during the payment deferral period, unless the debt has been classified as an impaired debt or unless it was subject to an accounting write-off.
- Classification of problematic debts, including impaired debts not accruing interest income, and accounting write-offs – during the period of short-term arrangements, these loans will generally not be reported as non-performing impaired loans. The exception to this will be debts regarding which new information has come to hand regarding a deterioration in the chances of their settlement; with respect to these, the Bank will act in accordance with the Public Reporting Directives with regard to the classification of problematic debts and accounting write-offs.

F. New accounting standards and new Directives of the Supervisor of Banks in the period prior to their implementation

1. **Allowances for current expected credit losses (CECL).** On July 4, 2019, the Supervisor of Banks published a draft regarding "application of U.S. GAAP with respect to expected credit losses", which includes the integration of the new rules in the public reporting instructions, deferring the initial date of application of the new rules to January 1, 2022, and the parallel operation as from January 1, 2021. A draft update of the public reporting directives was published on July 19, 2020, within the framework of which, inter alia, the date of the parallel run was deferred from January 1, 2021, to a date no later than June 30, 2021. Furthermore, the Supervisor of Banks published a draft "FAQ file in the matter of application of the new rules regarding expected credit losses", which is intended to assist banking corporations in the process of preparation for the implementation of the new rules.

The said drafts were published in continuation of the letter of the Supervisor of Banks dated March 28, 2018, in which it was required, inter alia, to apply the accounting principles accepted by U.S. banks in the matter of allowances for credit losses (ASU 2016-13).

The Bank has begun preparations for the implementation of the instructions. At this stage, the Bank is unable to assess their impact.

2. **Changes in disclosure requirements for fair value measurements.** The U.S. Financial Accounting Standards Board ("FASB") published on August 28, 2018, Standards ASU 2018-13 and ASU 2018-14, regarding disclosure framework – changes in disclosure requirements for fair value measurements, comprising an update of Topic 820 of the Codification regarding fair value measurement and defined benefit plans, being an update of subtopic 715-20 of the Codification regarding Compensation—Retirement Benefits—Defined Benefit Plans, respectively. These updates were published as part of the framework project for the review of disclosures of the FASB, which mainly focuses on the improvement of effectiveness of disclosure in notes to financial statements, including the reduction in costs involved in the preparation of the required notes. The provisions of the amendments shall be implemented as from January 1, 2021. The Bank estimates that the implementation of the said provisions is not expected to have a material impact, except for changes in disclosure.

2. Interest Income and Expenses

	Unaudited			
	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
	in NIS millions			
A. Interest Income⁽²⁾				
Credit to the public	1,544	1,920	3,145	3,518
Credit to the Governments	21	27	41	48
Deposits with the Bank of Israel and cash	7	11	21	21
Deposits with Banks	4	13	15	25
Bonds ⁽¹⁾	162	175	300	336
Other assets	4	4	11	8
Total interest income	1,742	2,150	3,533	3,956
B. Interest Expenses⁽²⁾				
Deposits from the public	(187)	(365)	(433)	(640)
Deposits from the Government	-	-	(1)	(1)
Deposits from banks	(14)	(15)	(34)	(36)
Securities lent or sold under agreements to repurchase	(2)	(5)	(5)	(10)
Bonds and subordinated debt notes	(76)	(170)	(141)	(251)
Other liabilities	-	-	(1)	(2)
Total interest expenses	(279)	(555)	(615)	(940)
Net interest income	1,463	1,595	2,918	3,016
C. Details of the net effect of hedge derivative instruments on interest income and expenses⁽³⁾:				
Interest Income	16	(1)	15	(1)
Interest expenses	4	(4)	6	(4)
D. Accrual basis, interest income from bonds:				
Held-to-maturity	24	44	44	80
Available-for-sale	137	123	250	238
Trading	1	8	6	18
Total included in interest income	162	175	300	336
Footnotes:				
(1) Interest Income generated by mortgage backed securities (MBS) - in US \$ millions	11	11	22	22
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	38	40	76	82
(2) Including the impact of hedge relations.				
(3) Details of the effect of hedge derivative instruments on subsection A+B.				

3. Non-interest Financing Income

	Unaudited			
	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
	in NIS millions			
A. Non-interest financing income (expenses) from operations not for trading purposes				
From operations in derivative instruments				
Net expenses in respect of derivative instruments ⁽⁴⁾	(643)	⁽⁸⁾ (264)	(51)	⁽⁸⁾ (768)
Total from operations in derivative instruments	(643)	(264)	(51)	(768)
From investments in bonds:				
Gains on sale of available-for-sale bonds ⁽³⁾	87	63	277	101
Losses on sale of available-for-sale bonds ⁽³⁾	(1)	-	(1)	-
Provision for impairment of available-for-sale bonds ⁽³⁾	(2)	-	(5)	-
Total from investments in bonds	84	63	271	101
Net exchange rate differences	691	277	214	787
Net profit (losses) from investments in shares:				
Gains on sale from non trading shares	3	40	8	48
Losses on sale from non trading shares	(1)	-	(2)	-
Provision for impairment of non trading shares	(7)	(5)	(12)	(9)
Dividends from non trading shares	3	7	6	8
Unrealized profits ⁽⁷⁾	8	15	-	18
Profit on sale of shares and activities of associates	-	13	-	13
Total from investment in shares	6	70	-	78
Net profit in respect of loans sold	-	1	-	7
Total non-interest financing income from operations not for trading purposes	138	147	434	205
B. Non-interest financing income (expenses) from operations for trading purposes⁽⁵⁾:				
Net income in respect of non trading derivative instruments	86	⁽⁸⁾ 84	163	⁽⁸⁾ 212
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value ⁽¹⁾	51	(2)	97	(18)
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value ⁽²⁾	1	1	(1)	3
Total from trading operations⁽⁶⁾	138	83	259	197
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:				
Interest rate exposure	124	⁽⁸⁾ 78	103	⁽⁸⁾ 221
Foreign currency exposure	14	⁽⁸⁾ 4	158	⁽⁸⁾ (27)
Share exposure	-	1	(2)	3
Total according to risk exposure	138	83	259	197
Total non-interest financing income	276	230	693	402

Footnotes:

(1) Of which, a part of the profit (loss) relating to trading bonds that are still on hand at balance sheet date	29	(4)	14	7
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	(1)	1	(1)	1
(3) Reclassified from accumulated other comprehensive income, see Note 4: Of which, net profit from investments in bonds.	84	63	271	101
(4) Excluding the impact of hedge relations.				
(5) Including exchange rate differences from trading operations.				
(6) For interest income on investments in trading bonds, see Note 2, above.				
(7) Including profits and losses on measurement at fair value of shares with readily determinable fair value, as well as upward or downward adjustments of shares without readily determinable fair value.				
(8) Reclassified – classification of exchange differences in respect of derivatives.				

3A. Earnings Per Share

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
in NIS millions					
Earnings per share					
Total net income, attributed to bank's shareholders	174	545	453	950	1,702
In Thousand					
Earnings per share:					
Weighted average of shares of NIS 0.1 par value:					
Balance at the beginning and end of the period	1,164,017	1,164,017	1,164,017	1,164,017	1,164,017
Weighted average of shares of NIS 0.1 par value, used for earnings per share	1,164,017	1,164,017	1,164,017	1,164,017	1,164,017
Earnings per share of NIS 0.1 (in NIS)	0.15	0.47	0.39	0.82	1.46

In the reported period, the Bank did not have securities having a dilutive effect.

4. Accumulated other comprehensive income (loss)

A. Changes in other comprehensive income (loss) after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests				Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for-sale bonds at fair value	Financial statements translation adjustments ⁽¹⁾	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total	
in NIS millions						
A. For the three months ended June 30, 2020 and 2019 (unaudited)						
Balance at March 31, 2020	56	(226)	3	(298)	(465)	(456)
Net change during the period	423	(104)	(1)	⁽²⁾ (418)	(100)	(97)
Balance at June 30, 2020	479	(330)	2	(716)	(565)	(553)
Balance at March 31, 2019	94	(174)	-	(378)	(458)	(450)
Net change during the period	133	(65)	2	(6)	64	65
Balance at June 30, 2019	227	(239)	2	(384)	(394)	(385)
B. For the six months ended June 30, 2020 and 2019 (unaudited)						
Balance at December 31, 2019 (audited)	374	(344)	2	(524)	(492)	(481)
Net change during the period	105	14	-	⁽²⁾ (192)	(73)	(72)
Balance at June 30, 2020	479	(330)	2	(716)	(565)	(553)
Balance at December 31, 2018 (audited)	(157)	(61)	(1)	(349)	(568)	(561)
Net change during the period	384	(178)	3	(35)	174	176
Balance at June 30, 2019	227	(239)	2	(384)	(394)	(385)
C. For the year of 2019 (audited)						
Balance at December 31, 2018	(157)	(61)	(1)	(349)	(568)	(561)
Net change during the year	531	(283)	3	(175)	76	80
Balance at December 31, 2019	374	(344)	2	(524)	(492)	(481)

Footnotes:

- (1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.
(2) Including an amount of NIS 166 million in respect of the 2020 retirement plan, see Note 8 D.

4. Accumulated other comprehensive income (loss) (continued)

B. Changes in other comprehensive income (loss) component before tax effect and after tax effect

	Unaudited					
	For the three months ended					
	June 30, 2020		June 30, 2019			
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
in NIS millions						
Changes in components of accumulated other comprehensive income, before attribution to non-controlling interests:						
Adjustments for presentation of available-for-sale bonds at fair value						
Net unrealized income from adjustments to fair value	713	(234)	479	257	(83)	174
Income on available-for-sale bonds reclassified to the statement of income ⁽²⁾	(84)	28	(56)	(63)	22	(41)
Net change during the period	629	(206)	423	194	(61)	133
Translation adjustments						
Financial statements translation adjustments ⁽¹⁾	(104)	-	(104)	(65)	-	(65)
Net change during the period	(104)	-	(104)	(65)	-	(65)
Cash flow hedging						
Net income (loss) in respect of cash flow hedging	(4)	1	(3)	3	(1)	2
Net loss in respect of cash flow hedging reclassified to the statement of income	3	(1)	2	-	-	-
Net change during the period	(1)	-	(1)	3	(1)	2
Employee benefits						
Net actuarial loss	(651)	223	⁽⁴⁾ (428)	(28)	10	(18)
loss reclassified to the statement of income ⁽³⁾	16	(6)	10	19	(7)	12
Net change during the period	(635)	217	(418)	(9)	3	(6)
Total net changes during the period	(111)	11	(100)	123	(59)	64
Changes in components of accumulated other comprehensive loss attributed to non-controlling interests:						
Total net changes during the period	(4)	1	(3)	(1)	-	(1)
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:						
Total net changes during the period	(107)	10	(97)	124	(59)	65

For footnotes see next page.

4. Accumulated other comprehensive income (loss) (continued)

B. Changes in other comprehensive income (loss) component before tax effect and after tax effect (continued)

	Unaudited						Audited		
	For the six months ended						For the year ended		
	2020		2019		2019				
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
in NIS millions									
Changes in components of accumulated other comprehensive income , before attribution to non-controlling interests:									
Adjustments for presentation of available-for- sale bonds at fair value									
Net unrealized income from adjustments to fair value	419	(134)	285	668	(217)	451	951	(312)	639
Income on available-for-sale bonds reclassified to the statement of income ⁽²⁾	(271)	91	(180)	(101)	34	(67)	(161)	53	(108)
Net change during the period	148	(43)	105	567	(183)	384	790	(259)	531
Translation adjustments									
Financial statements translation adjustments ⁽¹⁾	14	-	14	(178)	-	(178)	(283)	-	(283)
Net change during the period	14	-	14	(178)	-	(178)	(283)	-	(283)
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	(2)	1	(1)	4	(1)	3	4	(1)	3
Net loss in respect of cash flow hedging reclassified to the statement of income	2	(1)	1	-	-	-	-	-	-
Net change during the period	-	-	-	4	(1)	3	4	(1)	3
Employee benefits									
Net actuarial loss	(328)	112	⁽⁴⁾ (216)	(93)	31	(62)	(362)	117	(245)
loss reclassified to the statement of income ⁽³⁾	36	(12)	24	41	(14)	27	103	(33)	70
Net change during the period	(292)	100	(192)	(52)	17	(35)	(259)	84	(175)
Total net change during the period	(130)	57	(73)	341	(167)	174	252	(176)	76
Changes in components of accumulated other comprehensive loss attributed to non-controlling interests:									
Total net change during the period	(1)	-	(1)	(3)	1	(2)	(6)	2	(4)
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the period	(129)	57	(72)	344	(168)	176	258	(178)	80

Footnotes:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) The pre-tax amount is reported in the of statement of profit and loss in the item "non-interest financing income". For further details see the note on non-interest financing income.

(3) The pre-tax amount has been classified to other expenses.

(4) Including an amount of NIS 166 million in respect of the 2020 retirement plan, see Note 8 D.

5. Securities

A. Composition

Unaudited					
June 30, 2020					
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	7,248	7,248	342	-	7,590
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	266	266	8	2	272
Of others abroad ⁽⁶⁾	177	177	7	2	182
Total held-to-maturity bonds	⁽²⁾ 7,691	7,691	357	4	8,044
Unaudited					
June 30, 2020					
	Book value	Amortized cost	Accumulated other comprehensive income		Fair value ⁽¹⁾
			Profits	Losses	
In NIS millions					
(2) Available- for- sale bonds					
Of the Israeli Government	17,662	17,202	545	85	17,662
Of foreign governments	693	648	48	3	693
Of Israeli financial institutions	100	100	1	1	100
Of foreign financial institutions	1,126	1,115	19	8	1,126
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,703	7,538	191	26	7,703
Of others in Israel	363	361	8	6	363
Of others abroad ⁽⁶⁾	2,363	2,334	56	27	2,363
Total Available- for- sale bonds	⁽²⁾ 30,010	29,298	⁽³⁾ 868	⁽³⁾ 156	30,010
Unaudited					
June 30, 2020					
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾⁽⁴⁾
In NIS millions					
(3) Investment in not for trading shares	1,021	991	⁽⁵⁾ 31	⁽⁵⁾ 1	1,021
Of which: shares, the fair value of which is not readily available	932	932	-	-	932
Total not for trading securities	38,722	37,980			39,075

For footnotes see next page.

5. Securities (continued)

A. Composition (Continued)

	Unaudited				
	June 30, 2020				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,174	1,156	19	1	1,174
Of foreign governments	16	16	-	-	16
Of Israeli financial institutions	1	1	-	-	1
Of foreign financial institutions	2	2	-	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	54	52	2	-	54
Of others in Israel	57	63	-	6	57
Of others abroad	10	10	-	-	10
Total bonds	1,314	1,300	21	7	1,314
Shares	1	2	-	1	1
Total trading securities	1,315	1,302	⁽⁵⁾21	⁽⁶⁾8	1,315
Total securities	40,037	39,282			40,390

Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under repurchase terms from held to maturity portfolio at an amortized cost of NIS 20 million (approx. US\$ 6 million) and from the available for sale portfolio with a market value of NIS 155 million (approx. US\$ 45 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.
- (5) Recorded in the statement of profit and loss.
- (6) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

A. Composition (continued)

	Unaudited				
	June 30, 2019				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	4,745	4,745	156	-	4,901
Of foreign governments	18	18	-	-	18
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	388	388	3	5	386
Of others abroad ⁽⁶⁾	192	192	6	1	197
Total held-to-maturity bonds	⁽²⁾ 5,343	5,343	165	6	5,502
	Unaudited				
	June 30, 2019				
	Book value	Amortized cost	Accumulated other comprehensive income		Fair value ⁽¹⁾
In NIS millions					
(2) Available- for- sale bonds					
Bonds and loans:					
Of the Israeli Government	16,170	15,973	198	1	16,170
Of foreign governments	765	747	18	-	765
Of Israeli financial institutions	50	49	1	-	50
Of foreign financial institutions	1,088	1,079	13	4	1,088
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,049	7,045	35	31	7,049
Of others in Israel	200	191	10	1	200
Of others abroad ⁽⁶⁾	1,969	1,935	39	5	1,969
Total Available- for- sale bonds	⁽²⁾ 27,291	27,019	⁽³⁾ 314	⁽³⁾ 42	27,291
	Unaudited				
	June 30, 2019				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾⁽⁴⁾
In NIS millions					
(3) Investment in not for trading shares					
Of which: shares, the fair value of which is not readily available	909	890	⁽⁵⁾ 19	-	909
	804	804	-	-	804
Total not for trading securities	33,543	33,252			33,702

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

Unaudited					
June 30, 2019					
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,777	1,770	9	2	1,777
Of Israeli financial institutions	16	16	-	-	16
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	69	68	1	-	69
Of others in Israel	45	46	1	2	45
Total bonds	1,907	1,900	11	4	1,907
Shares	20	19	2	1	20
Total trading securities	1,927	1,919	⁽⁵⁾ 13	⁽⁵⁾ 5	1,927
Total securities	35,470	35,171			35,629

Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under repurchase terms from held to maturity portfolio at an amortized cost of NIS 107 million (approx. US\$ 30 million) and from the available for sale portfolio with a market value of NIS 492 million (approx. US\$ 138 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.
- (5) Recorded in the statement of profit and loss.
- (6) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

A. Composition (continued)

Audited					
December 31, 2019					
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	4,253	4,253	242	-	4,495
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	322	322	3	4	321
Of others abroad ⁽⁶⁾	178	178	6	2	182
Total held-to-maturity bonds	4,753	4,753	251	6	4,998

Audited					
December 31, 2019					
	Book value	Amortized cost	Accumulated other comprehensive income		Fair value ⁽¹⁾
			Profits	Losses	
In NIS millions					
(2) Available- for- sale securities					
Bonds and loans:					
Of the Israeli Government	17,232	16,856	377	1	17,232
Of foreign governments	1,667	1,655	19	7	1,667
Of Israeli financial institutions	145	144	1	-	145
Of foreign financial institutions	927	911	17	1	927
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,062	7,060	30	28	7,062
Of others in Israel	322	308	14	-	322
Of others abroad ⁽⁶⁾	2,207	2,157	52	2	2,207
Total Available- for- sale bonds	⁽²⁾ 29,562	29,091	⁽³⁾ 510	⁽³⁾ 39	29,562

Audited					
December 31, 2019					
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾⁽⁴⁾
In NIS millions					
(3) Investment in not for trading shares					
Of which: shares, the fair value of which is not readily available	967	935	⁽⁵⁾ 33	⁽⁵⁾ 1	967
	839	839	-	-	839
Total shares	35,282	34,779			35,527

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

Audited					
December 31, 2019					
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,299	2,292	8	1	2,299
Of foreign governments	16	16	-	-	16
Of Israeli financial institutions	17	16	1	-	17
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	60	59	1	-	60
Of others in Israel	58	59	2	3	58
Total bonds	2,450	2,442	12	4	2,450
Shares	13	12	2	1	13
Total trading securities	2,463	2,454	⁽⁵⁾ 14	⁽⁵⁾ 5	2,463
Total securities	37,745	37,233			37,990

Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under repurchase terms from the available for sale portfolio with a market value of NIS 380 million (approx. US\$ 110 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.
- (5) Recorded in the statement of profit and loss.
- (6) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

B. Amortized cost and unrealized losses, according to the length of the period and rate of impairment of held-to-maturity bonds which are in an unrealized loss position - consolidated

Unaudited								
June 30, 2020								
	Less than 12 months				More than 12 months			
	Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value			
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
In NIS millions								
Held-to-maturity bonds								
Bonds and loans:								
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	34	1	-	1	36	1	-	1
Of others abroad	-	-	-	-	35	2	-	2
Total held-to-maturity bonds	34	1	-	1	71	3	-	3

Unaudited								
June 30, 2019								
	Less than 12 months				More than 12 months			
	Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value			
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
In NIS millions								
Held-to-maturity bonds								
Bonds and loans:								
Of foreign governments	-	-	-	-	18	(1)	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	-	-	-	-	288	5	-	5
Of others abroad	-	-	-	-	37	1	-	1
Total held-to-maturity bonds	-	-	-	-	343	6	-	6

Audited								
December 31, 2019								
	Less than 12 months				More than 12 months			
	Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value			
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
In NIS millions								
Held-to-maturity bonds								
Bonds and loans:								
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	67	(1)	-	-	145	4	-	4
Of others abroad	-	-	-	-	35	2	-	2
Total held-to-maturity bonds	67	-	-	-	180	6	-	6

Footnote:

(1) An amount lower than NIS 1 million.

5. Securities (continued)

C. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale bonds which are in an unrealized loss position- consolidated

	Unaudited							
	June 30, 2020							
	Less than 12 months				More than 12 months			
	Fair value	Unrealized losses			Total Fair value	Fair value	Unrealized losses	
0-20%		20-40%	Total	0-20%			20-40%	Total
In NIS millions								
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	2,040	82	-	82	1,107	3	-	3
Of foreign governments	100	3	-	3	-	-	-	-
Of Israeli financial institutions	28	1	-	1	-	-	-	-
Of foreign financial institutions	212	7	-	7	40	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	843	16	-	16	312	10	-	10
Of others in Israel	54	6	-	6	-	-	-	-
Of others abroad	1,072	22	-	22	92	5	-	5
Total available-for-sale bonds	4,349	137	-	137	1,551	19	-	19

	Unaudited							
	June 30, 2019							
	Less than 12 months				More than 12 months			
	Fair value	Unrealized losses			Total Fair value	Fair value	Unrealized losses	
0-20%		20-40%	Total	0-20%			20-40%	Total
In NIS millions								
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	2,122	1	-	1	-	-	-	-
Of foreign governments	12	(1)	-	-	80	(1)	-	-
Of foreign financial institutions	130	1	-	1	300	3	-	3
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	633	2	-	2	2,462	29	-	29
Of others in Israel	23	1	-	1	-	-	-	-
Of others abroad	442	5	-	5	75	(1)	-	-
Total available-for-sale bonds	3,362	10	-	10	2,917	32	-	32

5. Securities (continued)

C. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale bonds which are in an unrealized loss position- consolidated (continued)

	Audited						
	December 31, 2019						
	Less than 12 months			More than 12 months			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses	
0-20%		20-40%	0-20%			20-40%	
In NIS millions							
Available- for-sale bonds							
Bonds and loans:							
Of the Israeli Government	956	1	-	1	-	-	-
Of foreign governments	1,062	7	-	7	34	(1)-	-
Of Israeli financial institutions	24	(1)-	-	-	-	-	-
Of foreign financial institutions	52	(1)-	-	-	54	1	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	2,095	14	-	14	1,271	14	14
Of others in Israel	45	(1)-	-	-	-	-	-
Of others abroad	73	(1)-	-	-	118	2	2
Total available-for-sale bonds	4,307	22	-	22	1,477	17	17

Footnote:

(1) An amount lower than NIS 1 million.

- D. The securities portfolio, as of June 30, 2020, includes investments in asset backed securities, primarily investment in mortgage-backed-securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed- securities - MBS", A real estate mortgage investment conduit (REMIC), a stripped MBS, "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 12 to the financial statements as of December 31, 2019.
- E. Most of the unrealized losses as at June 30, 2020 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or its relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them pursuant to the investment contracts. Whereas the Bank and the relevant subsidiaries do not intend to sell securities having an unrealized loss, the Bank and the relevant subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at June 30, 2020.
- F. **Fair value presentation.** The balances of securities as of June 30, 2020, June 30, 2019, and December 31, 2019, include securities amounting to NIS 31,414 million, NIS 29,323 million and NIS 32,153 million, respectively, that are presented at fair value.

5. Securities (continued)

G. Additional details (consolidated) regarding mortgage and asset backed bonds

	Unaudited June 30, 2020			
	Amortized cost	Unrealized gains from adjustment to fair value ⁽¹⁾	Unrealized losses from adjustment to fair value ⁽¹⁾	Fair value
	In NIS millions			
1. Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	813	22	-	835
of which:				
Bonds guaranteed by GNMA	554	12	-	566
Bonds issued by FHLMC and FNMA	259	10	-	269
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,604	169	1	5,772
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,604	169	1	5,772
Total available-for-sale MBS bonds	6,417	191	1	6,607
Held-to-maturity bonds				
Mortgage pass-through bonds:	21	2	-	23
of which:				
Bonds guaranteed by GNMA	16	1	-	17
Bonds issued by FHLMC and FNMA	5	1	-	6
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	245	6	2	249
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	245	6	2	249
Total held-to-maturity MBS bonds	266	8	2	272
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	52	2	-	54
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	52	2	-	54
Total mortgage-backed trading bonds (MBS)	52	2	-	54
Total mortgage-backed bonds (MBS)	6,735	201	3	6,933
2. Total Asset-backed available-for-sale bonds (ABS)	1,121	-	25	1,096
Of which collateralized bonds CLO	1,116	-	25	1,091
Of which Asset-backed bond (ABS)	5	-	-	5
Total mortgage and asset-backed bonds	7,856	201	28	8,029

Footnote:

(1) For available for sale bonds-accumulated other comprehensive income.

5. Securities (continued)

G. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

	Unaudited June 30, 2019			
	Amortized cost	Unrealized gains from adjustment to fair value ⁽¹⁾	Unrealized losses from adjustment to fair value ⁽¹⁾	Fair value
	In NIS millions			
1. Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	1,121	7	5	1,123
of which:				
Bonds guaranteed by GNMA	783	5	4	784
Bonds issued by FHLMC and FNMA	338	2	1	339
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,034	28	23	5,039
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,034	28	23	5,039
Total available-for-sale MBS bonds	6,155	35	28	6,162
Held-to-maturity bonds				
Mortgage pass-through bonds:	27	2	-	29
of which:				
Bonds guaranteed by GNMA	19	2	-	21
Bonds issued by FHLMC and FNMA	8	-	-	8
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	361	1	5	357
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	361	1	5	357
Total held-to-maturity MBS bonds	388	3	5	386
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	68	1	-	69
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	68	1	-	69
Total mortgage-backed trading bonds (MBS)	68	1	-	69
Total mortgage-backed bonds (MBS)	6,611	39	33	6,617
2. Total Asset-backed available-for-sale bonds (ABS)	890	-	3	887
Of which collateralized bonds CLO	874	-	3	871
Of which Asset-backed bond (ABS)	16	-	-	16
Total mortgage and asset-backed bonds	7,501	39	36	7,504

Footnote:

(1) For available for sale bonds-accumulated other comprehensive income.

5. Securities (continued)

G. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

	Audited			
	December 31, 2019			
	Amortized cost	Unrealized gains from adjustment to fair value ⁽¹⁾	Unrealized losses from adjustment to fair value ⁽¹⁾	Fair value
	In NIS millions			
1. Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	945	6	1	950
of which:				
Bonds guaranteed by GNMA	655	3	1	657
Bonds issued by FHLMC and FNMA	290	3	-	293
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,030	23	18	5,035
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,030	23	18	5,035
Total available-for-sale MBS bonds	5,975	29	19	5,985
Held-to-maturity bonds				
Mortgage pass-through bonds:	24	2	-	26
of which:				
Bonds guaranteed by GNMA	17	2	-	19
Bonds issued by FHLMC and FNMA	7	-	-	7
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	298	1	4	295
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	298	1	4	295
Total held-to-maturity MBS bonds	322	3	4	321
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	59	1	-	60
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	59	1	-	60
Total mortgage-backed trading bonds (MBS)	59	1	-	60
Total mortgage-backed bonds (MBS)	6,356	33	23	6,366
2. Total Asset-backed available-for-sale bonds (ABS)	1,085	1	9	1,077
Of which collateralized bonds CLO	1,070	1	9	1,062
Of which Asset-backed bond (ABS)	15	-	-	15
Total mortgage and asset-backed bonds	7,441	34	32	7,443

Footnote:

(1) For available for sale bonds-accumulated other comprehensive income.

5. Securities (continued)

H. Additional details (consolidated) regarding mortgage and asset backed securities

Additional details regarding mortgage and asset backed securities in unrealized loss position:

	Unaudited			
	June 30, 2020			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
In NIS millions				
1. Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	35	(1)	45	1
Total other mortgage-backed bonds	35	-	45	1
Total available-for-sale MBS	35	-	45	1
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	33	1	35	1
Total other mortgage-backed bonds	33	1	35	1
Total held-to-maturity MBS bonds	33	1	35	1
Total mortgage-backed bonds (MBS)	68	1	80	2
2. Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	803	16	267	9
Of which Asset-backed bond (ABS)	5	(1)	-	-
Total asset-backed available-for-sale bonds (ABS)	808	16	267	9
Total mortgage and asset-backed bonds	876	17	347	11

Footnote:

(1) Amount lower than NIS 1 million

5. Securities (continued)

H. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued)

	Unaudited			
	June 30, 2019			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
In NIS millions				
1. Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A. Mortgage pass through bonds:				
Bonds guaranteed by GNMA	-	-	376	4
Bonds issued by FHLMC and FNMA	-	-	112	1
Total mortgage backed pass through bonds	-	-	488	5
B. Other mortgage backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	177	(1)-	1,939	23
Total other mortgage backed bonds	177	-	1,939	23
Total available-for-sale MBS bonds	177	-	2,427	28
Held-to-maturity securities				
Other mortgage backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	-	-	283	5
Total other mortgage backed bonds	-	-	283	5
Total held-to-maturity MBS bonds	-	-	283	5
Trading bonds				
Other mortgage backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	-	-	15	(1)-
Total mortgage-backed trading bonds (MBS)	-	-	15	-
Total mortgage-backed bonds (MBS)	177	-	2,725	33
2. Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	446	2	35	1
Of which Asset-backed bond (ABS)	10	(1)-	-	-
Total asset backed available-for-sale bond (ABS)	456	2	35	1
Total mortgage and asset backed bond	633	2	2,760	34

Footnote:

(1) Amount lower than NIS 1 million

5. Securities (continued)

H. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued)

	Audited			
	December 31 ,2019			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
In NIS millions				
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A. Mortgage pass through bonds:				
Bonds guaranteed by GNMA	-	-	307	1
Bonds issued by FHLMC and FNMA	-	-	99	(1)
Total mortgage backed pass through bonds	-	-	406	1
B. Other Mortgage-Backed Securities (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,502	8	656	10
Total other mortgage-backed bonds	1,502	8	656	10
Total available-for-sale MBS bonds	1,502	8	1,062	11
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	67	(1)	141	4
Total other mortgage-backed bonds	67	-	141	4
Total held-to-maturity MBS bonds	67	-	141	4
Trading bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	-	-	13	(1)
Total mortgage-backed trading bonds (MBS)	-	-	13	-
Total mortgage-backed bonds (MBS)	1,569	8	1,216	15
2.Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	593	6	209	3
Total asset-backed available-for-sale bonds(ABS)	593	6	209	3
Total mortgage and asset backed bonds	2,162	14	1,425	18

Footnote:

(1) Amount lower than NIS 1 million

I. Information regarding impaired bonds

	June 30, 2020	June 30, 2019	December 31, 2019
In NIS millions			
Recorded amount of non accruing interest income impaired bonds	85	85	47

6. Credit risk, credit to the public and allowance for credit losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, Securities borrowed or purchased under agreements to resell and assets in respect of the "Maof" market activity.

It is noted, that Note 14 presents the details included in this Note, as well as an extended discussion thereof.

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated

	Unaudited					
	June 30, 2020					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total Governments	Banks and	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	88,493	2	630	89,125	7,249	96,374
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrear	⁽²⁾ 203	39,503	-	39,706	-	39,706
Group - other	26,670	201	31,139	58,010	1,284	59,294
Total debts*	115,366	39,706	31,769	186,841	8,533	195,374
* Of which:						
Restructured troubled debts	790	-	156	946	-	946
Other Impaired debts	1,050	2	41	1,093	-	1,093
Total balance of impaired debts	1,840	2	197	2,039	-	2,039
Debts in arrears of 90 days or more	79	394	45	518	-	518
Other problematic debts	2,452	21	295	2,768	-	2,768
Total Problematic debts	4,371	417	537	5,325	-	5,325
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,814	-	87	1,901	-	1,901
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrear	⁽³⁾ 1	⁽³⁾ 290	-	291	-	291
Group - other	461	2	750	1,213	15	1,228
Total allowance for Credit Losses	2,276	292	837	3,405	15	3,420
Of which: in respect of impaired debts	308	-	70	378	-	378

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 94,335 million and the allowance in its respect in an amount of NIS 1,523 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 203 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrear method, computed on a specific basis, in an amount of NIS 3 million, computed on a group basis, in an amount of NIS 211 million.

6. Credit risk, credit to the public and allowance for credit losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated (continued)

	Unaudited June 30, 2019					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	80,418	-	712	81,130	6,158	87,288
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrear	⁽²⁾ 224	34,800	-	35,024	-	35,024
Group - other	⁽²⁾ 27,081	161	31,157	58,399	136	58,535
Total debts*	107,723	34,961	31,869	174,553	6,294	180,847
* Of which:						
Restructured troubled debts	1,009	-	147	1,156	-	1,156
Other Impaired debts	521	-	24	545	-	545
Total balance of impaired debts	1,530	-	171	1,701	-	1,701
Debts in arrears of 90 days or more	58	335	60	453	-	453
Other problematic debts	1,453	18	305	1,776	-	1,776
Total Problematic debts	3,041	353	536	3,930	-	3,930
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,128	-	74	1,202	-	1,202
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrear	⁽³⁾ 1	⁽³⁾ 196	-	197	-	197
Group - other	372	1	546	919	1	920
Total allowance for Credit Losses	1,501	197	620	2,318	1	2,319
Of which: in respect of impaired debts	173	-	60	233	-	233

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 85,587 million and the allowance in its respect in an amount of NIS 969 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 228 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrear method, computed on a specific basis in an amount of NIS 4 million, computed on a group basis in an amount of NIS 124 million.

6. Credit risk, credit to the public and allowance for credit losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated (continued)

	Audited					
	December 31, 2019					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	85,059	-	761	85,820	5,980	91,800
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾ 233	36,974	-	37,207	-	37,207
Group - other	26,759	185	33,020	59,964	243	60,207
Total debts*	112,051	37,159	33,781	182,991	6,223	189,214
* Of which:						
Restructured troubled debts	885	-	158	1,043	-	1,043
Other Impaired debts	740	-	31	771	-	771
Total balance of impaired debts	1,625	-	189	1,814	-	1,814
Debts in arrears of 90 days or more	62	359	57	478	-	478
Other problematic debts	2,067	19	314	2,400	-	2,400
Total Problematic debts	3,754	378	560	4,692	-	4,692
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,285	-	82	1,367	-	1,367
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 1	⁽³⁾ 206	-	207	-	207
Group - other	367	1	582	950	1	951
Total allowance for Credit Losses	1,653	207	664	2,524	1	2,525
Of which: in respect of impaired debts	241	-	66	307	-	307

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 89,986 million and the allowance in its respect in an amount of NIS 1,060 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in an amount of NIS 4 million, computed on a group basis, in an amount of NIS 130 million.

6. Credit risk, credit to the public and allowance for credit losses (continued)

2. Movement in the balance of allowance for credit losses – consolidated

	Unaudited					
	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Three months ended June 30, 2020						
Balance of allowance for credit losses, as at March 31, 2020	2,199	237	839	3,275	1	3,276
Expenses for credit loss	313	61	144	518	14	532
Accounting write-offs	(93)	(6)	(120)	(219)	-	(219)
Collection of debts written-off in previous years	74	-	55	129	-	129
Net accounting write-offs	(19)	(6)	(65)	(90)	-	(90)
Financial statements translation adjustments	(9)	-	-	(9)	-	(9)
Balance of allowance for credit losses, as at June 30, 2020	2,484	292	918	3,694	15	3,709
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289
Three months ended June 30, 2019						
Balance of allowance for credit losses, as at March 31, 2019	1,625	194	670	2,489	1	2,490
Expenses for credit loss	59	9	68	136	-	136
Accounting write-offs	(97)	(6)	(127)	(230)	-	(230)
Collection of debts written-off in previous years	49	-	61	110	-	110
Net accounting write-offs	(48)	(6)	(66)	(120)	-	(120)
Financial statements translation adjustments	(5)	-	-	(5)	-	(5)
Balance of allowance for credit losses, as at June 30, 2019	1,631	197	672	2,500	1	2,501
Of which: In respect of off-balance sheet credit instruments	130	-	52	182	-	182
Six months ended June 30, 2020						
Balance of allowance for credit losses, as at December 31, 2019 (audited)	1,823	207	717	2,747	1	2,748
Expenses for credit loss	754	91	329	1,174	14	1,188
Accounting write-offs	(231)	(6)	(255)	(492)	-	(492)
Collection of debts written-off in previous years	137	-	127	264	-	264
Net accounting write-offs	(94)	(6)	(128)	(228)	-	(228)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at June 30, 2020	2,484	292	918	3,694	15	3,709
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289
Six months ended June 30, 2019						
Balance of allowance for credit losses, as at December 31, 2018 (audited)	1,606	187	657	2,450	1	2,451
Expenses for credit loss	121	16	140	277	-	277
Accounting write-offs	(193)	(6)	(244)	(443)	-	(443)
Collection of debts written-off in previous years	110	-	119	229	-	229
Net accounting write-offs	(83)	(6)	(125)	(214)	-	(214)
Financial statements translation adjustments	(13)	-	-	(13)	-	(13)
Balance of allowance for credit losses, as at June 30, 2019	1,631	197	672	2,500	1	2,501
Of which: In respect of off-balance sheet credit instruments	130	-	52	182	-	182

7. Deposits from the public

A. Type of deposits according to location of raising the deposit and type of depositor

	Unaudited		Audited
	June 30		December 31
	2020	2019	2019
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	43,846	33,496	38,364
Interest bearing	53,920	40,087	43,493
Total demand deposits	97,766	73,583	81,857
Time deposits	95,675	91,876	92,816
Total deposits in Israel*	193,441	165,459	174,673
* Of which:			
Private individuals deposits	102,931	91,412	91,680
Institutional bodies deposits	17,047	14,175	18,076
Corporations and others deposits	73,463	59,872	64,917
Outside Israel			
Demand deposits:			
Non-interest bearing	5,684	3,823	4,391
Interest bearing	16,396	13,160	13,569
Total demand deposits	22,080	16,983	17,960
Time deposits	6,527	10,372	8,817
Total deposits outside Israel	28,607	27,355	26,777
Total deposits from the public	222,048	192,814	201,450

B. Deposits from the public according to size, on a consolidated basis

	Unaudited		Audited
	June 30		December 31
	2020	2019	2019
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	81,994	73,419	74,205
Over 1 up to 10	61,539	52,628	53,834
Over 10 up to 100	35,248	27,864	31,404
Over 100 up to 500	22,949	17,435	19,208
Over 500	20,318	21,468	22,799
Total	222,048	192,814	201,450

8. Employee Benefits

A. Details regarding the benefits

	Unaudited		Audited
	June 30		December 31
	2020	2019	2019
	in NIS millions		
Severance pay, retirement and pension :			
The liability amount	3,453	3,168	3,213
Fair value of the plan's assets	1,513	1,825	1,625
Excess liabilities over the plan's assets	1,940	1,343	1,588
Excess liabilities of the program included in the item "other liabilities"	1,940	1,365	1,588
Excess assets of the program included in the item "other assets"	-	22	-
Amounts included in the other liabilities item:			
Long-service ("jubilee") awards	289	287	338
Post retirement benefits to retirees	653	618	673
Vacation	170	149	130
Illness	8	7	8
Total Excess liabilities of the program included in the item "other liabilities"	3,060	2,426	2,737
Of which – in respect of benefits to employees abroad	27	29	28
Total Excess assets of the program included in the item "other assets"	-	22	-
Of which – in respect of benefits to employees abroad	-	22	-

8. Employee Benefits (continued)

B. Defined benefit plan

1. Commitment and financing status

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	Unaudited								Audited	
	For the three months ended June 30,				For the six months ended June 30,				For the year ended December 31,	
	2020	2019	2020	2019	2020	2019	2020	2019	2019	
	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits
in NIS millions										
Commitment in respect of anticipated benefits at the beginning of the period	2,843	3,139	539	612	3,213	3,093	673	577	3,093	577
Cost of service	23	20	2	1	45	39	3	2	78	4
Cost of interest	24	23	4	5	42	50	8	11	92	22
Actuarial loss (profit)	(3)595	38	119	10	(3)228	132	(13)	46	384	109
Changes in foreign currency exchange rates	-	(4)	(1)	-	(1)	(9)	-	(1)	(14)	(2)
Benefits paid	(32)	(48)	(10)	(10)	(74)	(137)	(18)	(17)	(244)	(36)
Settlements	-	-	-	-	-	-	-	-	(2)(200)	(2)(2)
An addition stemming from the merger of Municipal Bank	-	-	-	-	-	-	-	-	24	1
Commitment at the end of the period in respect of anticipated benefits	3,453	3,168	653	618	3,453	3,168	653	618	3,213	673
Commitment at the end of the period in respect of accumulated benefits⁽¹⁾	3,041	2,841	653	618	3,041	2,841	653	618	2,806	673

Footnotes:

(1) The commitment in respect of a cumulative benefit differs from the commitment in respect of a contractual benefit in that it does not include any assumptions with regard to the future remuneration levels.

(2) In 2019 the Bank settled completely the liability – reduction in liability for defined benefits against a reduction in the assets of the plan, as detailed in Note 23 item A (15) to the financial statements as of December 31, 2019.

(3) Including an amount of NIS 257 million in respect of the 2020 retirement plan.

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

1. Commitment and financing status (continued)

1.2 CHANGE IN FAIR VALUE OF THE PLAN'S ASSETS AND FINANCING STATUS OF THE PLAN

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
Severance pay, retirement and pension payments					
in NIS millions					
Fair value of the plan's assets at the beginning of the period	1,440	1,823	1,625	1,815	1,815
Actual return on the plan's assets	73	34	(84)	110	178
Changes in foreign currency exchange rates	-	(4)	-	(10)	(16)
Deposits by the Bank to the plan	5	6	12	12	35
Benefits paid	(5)	(34)	(40)	(102)	(194)
Settlements	-	-	-	-	(200)
An addition stemming from the merger of Municipal Bank	-	-	-	-	7
Fair value of the program's assets at the end of the period	1,513	1,825	1,513	1,825	1,625
Financing status - net liability, recognized at the end of the period	(1,940)	(1,343)	(1,940)	(1,343)	(1,588)

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	Unaudited				Audited	
	June 30		December 31		December 31	
	2020	2019	2020	2019	2019	2019
					Severance pay, retirement and pension payments	Post retirement retiree benefits
in NIS millions						
Amounts recognized in the item "other assets"	-	22	-	-	-	-
Amounts recognized in the item "other liabilities"	(1,940)	(1,365)	(653)	(618)	(1,588)	(673)
Net liability recognized at the end of the period	(1,940)	(1,343)	(653)	(618)	(1,588)	(673)

1.4 AMOUNTS RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX EFFECT

	Unaudited				Audited	
	June 30		December 31		December 31	
	2020	2019	2020	2019	2019	2019
					Severance pay, retirement and pension payments	Post retirement retiree benefits
in NIS millions						
Nat actuarial profit (loss)	(1,037)	(586)	(43)	10	(734)	(54)
Net cost in respect of prior service	-	-	3	3	-	3
Closing balances of accumulated other comprehensive income	(1,037)	(586)	(40)	13	(734)	(51)

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

1. Commitment and financing status (continued)

1.5 PLANS IN WHICH THE COMMITMENT IN RESPECT OF CUMULATIVE BENEFITS EXCEEDS THE PLAN'S ASSETS

	Unaudited		Audited
	June 30		December 31
	2020	2019	2019
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of anticipated benefits	3,242	2,815	3,014
Commitment in respect of cumulative benefits	2,897	2,543	2,671
Fair value of the plan's assets	1,336	1,465	1,457

1.6 PLANS IN WHICH THE COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS EXCEEDS THE PLAN'S ASSETS

	Unaudited		Audited
	June 30		December 31
	2020	2019	2019
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of anticipated benefits	3,453	2,995	3,213
Fair value of the plan's assets	1,513	1,630	1,625

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

2. Expense for the period

2.1 COMPONENTS OF NET BENEFIT COSTS RECOGNIZED IN THE STATEMENT OF PROFIT AND LOSS IN RESPECT OF DEFINED BENEFITS PENSION AND DEFINED DEPOSIT PLANS

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December,
	2020	2019	2020	2019	2019
	in NIS millions				
Severance pay, retirement and pension payments					
Cost of service	23	20	45	39	78
Cost of interest	24	23	42	50	92
Anticipated return on assets of the plan	(18)	(14)	(29)	(28)	(53)
Amortization of unrecognized amounts:					
Net actuarial loss	9	12	23	23	49
Total amortization of unrecognized amounts	9	12	23	23	49
Other, including loss from reduction or settlement	9	9	15	22	58
Total net cost of benefits	47	50	96	106	224
Total expense regarding defined deposits pension plans	50	48	99	95	201
Total expenses included in respect Severance pay, retirement and pension payments	97	98	195	201	425
Of which: expenses included in salaries and related expenses	73	68	144	134	279
Of which: expenses included in other expenses	24	30	51	67	146
Post retirement retiree benefits					
Cost of service	2	1	3	2	4
Cost of interest	4	5	8	11	22
Amortization of unrecognized amounts:					
Net actuarial income	(2)	(1)	(2)	(3)	(4)
Cost of prior service	-	(1)	-	(1)	(1)
Total amortization of unrecognized amounts	(2)	(2)	(2)	(4)	(5)
Total net cost of benefits	4	4	9	9	21
Of which: expenses included in salaries and related expenses	2	1	3	2	4
Of which: expenses included in other expenses	2	3	6	7	17

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

2. Expense for the period (continued)

2.2 CHANGES IN ASSETS OF THE PLAN AND IN THE COMMITMENT FOR BENEFITS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX EFFECT

	Unaudited								Audited	
	For the three months ended June 30,				For the six months ended June 30,				For the year ended December 31,	
	2020	2019	2020	2019	2020	2019	2020	2019	2019	
	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits	Severance pay, retirement and pension payments	Post retirement retiree benefits	Post and retirement retiree benefits	
in NIS millions										
Net actuarial loss (income) for the period	540	18	119	10	341	50	(13)	46	259	109
Amortization of actuarial (loss) income	(9)	(12)	2	1	(23)	(23)	2	3	(49)	4
Amortization of credit in respect of prior service	-	-	-	1	-	-	-	1	-	1
Changes in foreign currency exchange rates	-	1	-	-	-	1	-	-	2	-
Other, including profit from reduction or settlement	(9)	(9)	-	-	(15)	(22)	-	-	(58)	-
Total recognized in other comprehensive loss (income)	522	(2)	121	12	303	6	(11)	50	154	114
Total net cost of benefits⁽¹⁾	47	50	4	4	96	106	9	9	224	21
Total amount recognized in net cost of benefits and in other comprehensive income	569	48	125	16	399	112	(2)	59	378	135

Footnote:

(1) See section 2.1 above.

2.3 ESTIMATE OF AMOUNTS INCLUDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME EXPECTED TO BE AMORTIZED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME TO THE STATEMENT OF PROFIT AND LOSS DURING THE REMAINDER OF 2020 AS AN EXPENSE, BEFORE TAX EFFECT

	Unaudited	
	July - December 2020	
	Severance pay, retirement and pension payments	Post retirement retiree benefits
in NIS millions		
Net actuarial loss	39	-
Settlements	⁽¹⁾ 210	-
Total amount expected to be amortized from other comprehensive income	249	-

Footnote:

(1) The assessment of the amount of settlements is mostly affected by the 2020 retirement plan (see Section D below), and is based, in this respect, on the Management's estimate that all retirees would conclude the retirement process by the end of 2020.

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

3. Assumptions

3.1 ASSUMPTIONS ON THE BASIS OF A WEIGHTED AVERAGE USED IN DETERMINING THE COMMITMENT IN RESPECT OF THE BENEFIT AND IN MEASURING THE NET COST OF THE BENEFIT

3.1.1 Principal assumptions used in determining the commitment in respect of the benefit

	Unaudited		Audited	Unaudited		Audited
	June 30		December 31	June 30		December 31
	2020	2019	2019	2020	2019	2019
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	0.36%-0.95%	0.92%-1.92%	0.11%-0.93%	0.41%-1.16%	0.45%-2.15%	-0.13%-1.15%

3.1.2 Principal assumptions used in measuring the net cost of benefit for the period

	Unaudited		Audited	Unaudited		Audited
	June 30		December 31	June 30		December 31
	2020	2019	2019	2020	2019	2019
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	0.11%-2.34%	1.09%-2.54%	0.21%-2.54%	-0.13%-2.51%	0.47%-2.70%	-0.04%-2.70%

3.2 EFFECT OF A ONE PERCENTAGE POINT CHANGE ON THE COMMITMENT FOR ANTICIPATED BENEFITS, BEFORE THE TAX EFFECT

	Unaudited		Audited		Unaudited		Audited		Unaudited		Audited	
	Increase of one percentage point				Decrease of one percentage point							
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits					
	June 30		December 31		June 30		December 31		June 30		December 31	
	2020	2019	2019	2020	2019	2020	2019	2019	2020	2019	2019	
	in NIS millions											
Discount rate	(299)	(247)	(297)	(40)	(34)	(44)	309	246	315	40	34	45

The said sensitivity analysis relates to the Bank, and to MDB, which comprise approx. 94% of the liability in respect of an anticipated benefit.

4. Cash flow

4.1 DEPOSITS

	Forecast ⁽¹⁾		Unaudited				Audited
			Actual deposits				For the year ended
			For the three months ended June 30,		For the six months ended June 30,		December 31,
	2020	2019	2020	2019	2020	2019	2019
	Severance pay, retirement and pension payments						
	in NIS millions						
Deposits	14	6	6	12	12	12	35

Footnote:

(1) Assessment of expected deposits with defined benefit pension plans during the remainder of 2020.

C. A new remuneration policy for Officers of the Bank

The Bank's special general meeting of shareholders held on March 18, 2020, approved the remuneration policy for Officers of the Bank for the years 2020-2022.

8. Employee Benefits (continued)

D. The 2020 retirement plan

On August 26, 2020, the Bank's Board of Directors approved an efficiency plan, according to which, about 300 permanent employees of the Bank, belonging to the defined target population (ages 50-66), would be able to take early retirement under preferential terms.

This plan increased the liability recorded in the Bank's books by NIS 253 million (before the tax effect; in excess of the cost of severance pay in accordance with the law and the surplus balance from a previous retirement plan).

The cost of updating the actuarial liabilities to employees in respect of the efficiency plan was treated as an actuarial loss and recorded in other comprehensive income.

In future reporting periods, the cost of the plan would be amortized to profit and loss, as part of the balance of "actuarial profits/losses", by the straight line method over the remaining average period of service of the employees.

In reporting periods, in which "settlement" is effected (as defined by US GAAP), an additional amortization of the "actuarial profits/losses" balance would be added to the said amortization, in the ratio of the settlement costs borne by the Bank (actual payments whether in respect of regular retirement or early retirement) to the balance of liability for severance pay.

It is estimated by the Bank that all the retirees would complete the retirement process by the end of 2020, and accordingly, the amount of settlement to be recorded in the profit and loss in the second half of 2020 (including in respect of previous retirement plans) would amount to approx. NIS 210 million.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks

1. Capital adequacy according to Directives of the Supervisor of Banks

- (a) **Adoption of Basel III instructions.** Details in this matter were brought in Note 25, section 1, in the 2019 Annual Report.
- (b) **Additional capital requirements in respect of housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and the total capital target by a rate which expresses 1% of the outstanding housing loans. The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.19%. It is noted that in accordance to the Provisional Instruction from April 27, 2020, the said requirement shall not apply to housing loans approved as from March 19, 2020 and until date of expiry of the Provisional Instruction.
- (c) **Relief regarding the retirement plan 2016.** The Supervisor of Banks granted the Bank relief regarding its 2016 retirement plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis; an amount of NIS 245 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 183 million have been amortized to June 30, 2020. Additional details regarding this matter are given in Note 25 section 1 c to the 2019 annual report.
- (d) **Relief regarding the retirement plan 2018.** The Supervisor of Banks granted the Bank a relief regarding its 2018 retirement plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 38 million have been amortized to June 30, 2020. Additional details regarding this matter are given in Note 25 section 1 d to the 2019 annual report.
- (e) **Relief regarding the retirement plan 2020.** The Supervisor of Banks granted the Bank a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 257 million (before taxes; an amount of NIS 169 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2020, and will be gradually amortized, as from the third quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. For additional details regarding the Bank's retirement plan, see Note 8 D.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

- (f) **Provisional Instruction mitigating the capital requirements in order to face the Corona crisis.** The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction is to remain in effect for a period of six months, and if required would be extended for an additional period of six months. Following that, banks would be required to present a gradual outline for the renewal of the accumulation of the eroded capital over a period of two years.
- (g) **An early redemption in full of the subordinate capital notes (Series 1).** On April 20, 2020, Manpikim redeemed the capital notes by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,448 million, including interest and linkage increments.

H. Capital for calculating ratio of capital

	Unaudited		Audited
	June 30,		December 31,
	2020	2019	2019
	in NIS millions		
Common equity tier 1 after deductions	⁽¹⁾ 19,391	⁽¹⁾ 18,505	⁽¹⁾ 19,009
Additional tier 1 capital after deductions	356	534	534
Tier 1 capital	19,747	19,039	19,543
Tier 2 capital after deductions	5,296	4,707	6,021
Total capital	25,043	23,746	25,564

Footnote:

(1) See sections "C", "D" and "E" above.

I. Weighted risk assets balance

	Unaudited		Audited
	June 30,		December 31,
	2020	2019	2019
	in NIS millions		
Credit risk ⁽¹⁾	171,479	159,731	165,883
Market Risk	4,127	3,497	2,858
CVA risk	2,235	1,629	1,489
Operational risk	14,514	13,595	14,216
Total weighted risk assets balance	192,355	178,452	184,446

Footnote:

(1) The total weighted balances of the risk assets have been reduced by NIS 228 million (June 30, 2019: NIS 12 million, December 31, 2019: NIS 10 million) due to adjustments in respect to the efficiency plan.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

J. Ratio of capital risk assets

	Unaudited	Audited	
	June 30,	December 31,	
	2020	2019	2019
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	10.08	10.37	10.31
Ratio of total capital to risk assets	13.02	13.31	13.86
Ratio of minimum common equity tier 1 required by the Supervisor of Banks ⁽³⁾⁽⁵⁾	8.19	9.20	9.20
Minimum total capital adequacy ratio required by the Supervisor of Banks ⁽³⁾⁽⁵⁾	11.69	12.70	12.70
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	11.2	11.5	11.0
Ratio of total capital to risk assets	13.7	13.9	13.7
Ratio of minimum common equity tier 1 required by the Supervisor of Banks ⁽⁴⁾⁽⁵⁾	8.2	9.2	9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks ⁽⁴⁾⁽⁵⁾	11.7	12.7	12.7
2. Discount Bancorp Inc. ⁽¹⁾			
Ratio of common equity tier 1 to risk assets	14.8	14.3	14.1
Ratio of total capital to risk assets	16.1	15.4	15.2
Ratio of minimum common equity tier 1 required in accordance with local regulation ⁽²⁾	4.5	4.5	4.5
Minimum total capital adequacy ratio required in accordance with local regulation ⁽²⁾	8.0	8.0	8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	13.3	13.5	12.9
Ratio of total capital to risk assets	14.3	14.6	14.0
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	11.5	11.5	11.5

Footnotes:

- (1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.
- (2) IDB New York is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.
- (3) With an addition of 0.19% (June 30, 2019: 0.20%, December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see section 1 (b) above.
- (4) With an addition of 0.20% similarly to June 30, 2019 and December 31, 2019, in accordance with the additional capital requirements with respect to housing loans - see section 1 (b) above.
- (5) For details regarding provision instruction mitigating the capital requirements in order to face the Corona crisis, see sections B and F above,

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

K. Capital components for calculating ratio of capital

	Unaudited		Audited
	June 30,		December 31,
	2020	2019	2019
	in NIS millions		
A. Common Equity Tier 1			
Common equity	19,523	18,668	19,193
Difference between common equity and common equity tier 1	(226)	(186)	(178)
Total common equity tier 1 before supervisory adjustments and deductions	19,297	18,482	19,015
Supervisory adjustments and deductions			
Goodwill and other intangible assets	207	160	164
Supervisory adjustments and other deductions	(14)	3	(6)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	193	163	158
Total adjustments in respect to the efficiency plan	287	186	152
Total common equity tier 1 after supervisory adjustments and deductions	19,391	18,505	19,009
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	356	534	534
Total additional tier 1 capital after deductions	356	534	534
C. Tier 2 capital			
Instruments before deductions	3,040	2,612	3,844
Allowance for credit losses before deductions	2,171	2,017	2,092
Minority interests in a subsidiary	85	78	85
Total tier 2 capital before deductions	5,296	4,707	6,021
Deductions	-	-	-
Total tier 2 capital	5,296	4,707	6,021

L. The effect of the adjustments in respect to the efficiency plan on the ratio of common equity tier 1

	Unaudited		Audited
	June 30,		December 31,
	2020	2019	2019
	In %		
Ratio of common equity tier 1 to risk assets before the effect of the adjustments in respect to the efficiency plan	9.92	10.26	10.22
Effect of the adjustments in respect to the efficiency plan	0.16	0.11	0.09
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.08	10.37	10.31

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

2. Leverage ratio according to Directives of the Supervisor of Banks

Computed according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

	Unaudited		Audited
	June 30,		December 31,
	2020	2019	2019
	in NIS millions		
A. Consolidated			
Tier 1 capital ⁽¹⁾	19,747	19,039	19,543
Total exposures	306,712	269,827	284,621
	In %		
Leverage ratio	6.4	7.1	6.9
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Leverage ratio	6.3	7.3	6.5
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
2. Discount Bakcorp Inc.			
Leverage ratio	10.4	10.8	10.9
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0	4.0
3. Israel Credit Cards LTD.			
Leverage ratio	8.4	8.5	8.0
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0

Footnote:

(1) For the effect of the adjustments in respect to the efficiency plans, see sections 1 K, L.

3. Liquidity coverage ratio according to Directives of the Supervisor of Banks

Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

	Unaudited		Audited
	For the three months ended		
	June 30,		December 31,
	2020	2019	2019
	In %		
A. Consolidated			
Liquidity coverage ratio	136.9	133.3	121.2
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
B. The Bank			
Liquidity coverage ratio	148.5	148.4	129.6
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
C. Significant subsidiaries⁽¹⁾			
Mercantile Discount Bank LTD. and its consolidated companies			
Liquidity coverage ratio	141.5	164.7	136.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0

Footnotes:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented. Likewise, the directive does not apply to IDB New York.

10. Contingent liabilities and special commitments

A. Contingent liabilities and other special commitments

	Unaudited	Audited	
	June 30	December 31	
	2020	2019	2019
	in NIS millions		
1. Commitment to acquire buildings and equipment ⁽¹⁾	757	143	151
2. Commitment to invest in private investment funds and in venture capital funds	518	535	488

Footnote:

(1) Mainly due to the Discount campus establishment, see section 6 (b).

B. Contingent liabilities and other special commitments

4. Various actions against the Bank and its consolidated subsidiaries:

As detailed in Note 26 C 12 to the financial statements as at December 31, 2019, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 864 million as of June 30, 2020.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 26 C sections 12-13 to the financial statements as at December 31, 2019. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 16 to the financial statements as at December 31, 2019.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

4.1 Note 26 C 12.1 to the financial statements as of December 31, 2019, described a lawsuit together with a motion for its approval as a class action suit against ICC and other credit card companies, filed on April 28, 2014 with the District Court Central Region. The motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid").

A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion.

On December 23, 2018, the Appellants submitted a motion to the Supreme Court, sitting as a High Court of Justice, against the Competition Commissioner. It is requested in the motion that the Court instructs the Competition Commissioner to act in order to clarify, or annul, or change the verdict of the Competition Court, which approved the cross-commission arrangement. A hearing of the Plea was held on July 16, 2020, and on that day the Court ruled for the rejection of the Plea. Accordingly, the proceedings are to continue at the District Court.

4.2 Different legal proceedings have been and are conducted in Australia and in Israel against the Bank and against MDB, relating to accounts held with these two banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims are based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia. The possibility exists that an additional claim would be submitted in the same matter by an additional related company (additional details are presented in section 5.1 hereunder). The Bank is studying the possibility of concluding the proceedings by an out-of-Court compromise agreement.

(a) A legal action filed against the Bank and against MDB in September 2017. The action was filed with a Federal Court in Australia by two Australian companies (through their Liquidator), which had held accounts with the two banks, and based on amended tax assessments issued to these companies by the Australian Tax Authorities. The action relates to different transactions recorded in the accounts of the companies in the years 1997 to 2005. The original amount of the action was approx. AUD 11 million, claimed from MDB and an amount of approx. AUD 9.3 million claimed from the Bank.

10. Contingent liabilities and special commitments (continued)

An amended action brief was filed on September 2, 2019, according to which, the Liquidator of the companies and the Tax Authorities were attached as additional Plaintiffs in respect of one of the causes of action. In addition, the amount of the claim was reduced to approx. AUD 16 million in respect of both banks.

On January 31, 2020, the parties signed a compromise agreement and the claim against the banks was deleted. The amount payable under this agreement is not material to the Bank.

- (b) On December 4, 2016, the Bank received notice of a legal action against the Bank and against additional Defendants, which had been filed with the Federal Court in Australia. The action was served by the Liquidators of three Australian companies, which had held accounts with the Bank. The action relates to different transactions recorded in the said accounts in the years 1992 to 2009. At date of service of the action, the amount claimed was AUD 100 million. According to the Plaintiffs, the amount claimed includes interest in accordance with Australian law of an annual rate of 8%. In February 2017 the Bank filed motions for the cancellation of the permit for serving outside the jurisdiction and for the stay of proceedings, inter alia, on grounds of arguments claiming lack of authority and an improper forum. Hearing of the preliminary arguments of the Bank was held on November 12, 2019. An amended action brief was filed on November 14, 2019, according to which, the Liquidators and the Tax Authorities were attached as additional Plaintiffs in respect of one of the causes of action. On August 20, 2020, the Court decided to dismiss the preliminary arguments of the Bank. In addition, the Judge instructed the fixing of a date for a hearing for the fixing of dates regarding the continuation of the proceedings. The Bank is considering whether to appeal this decision.
- (c) On October 3, 2019, the Liquidators of the three Plaintiff companies in the proceedings discussed in subsection (b) above, and of four additional companies that had held accounts with the Bank ("the additional companies") filed motions for the recognition in Israel of the liquidation proceedings of these companies conducted in Australia, as well as of additional companies (which had no accounts with the Bank). These motions, which were filed with the Tel Aviv District Court, are argued to be based on the Insolvency and Economic Recovery Act, 2018. The Bank was not a party to the motions for recognition. On October 3, 2019, the Court admitted the said motions. On November 14, 2019, the Liquidators motioned the Court for an order instructing the Bank to deliver to them documents and information in the hands of the Bank relating to all the accounts that are conducted or which had been conducted at the Bank in the name of the companies in question or to accounts related to them. The Bank opposed the motion for delivery of documents and information and filed a motion for the cancellation of the said recognition proceedings. The Court stayed the decision regarding the motion for delivery of documents and information until after a decision is handed in the matter of the recognition proceedings. On March 3, 2020, a hearing on the motion took place. On March 10, 2020, the motion for the cancellation of the recognition proceedings was withdrawn by mutual consent.

The motion for the delivery of documents is still pending.

An action in the amount of approx. AUD 50 million, was filed on July 29, 2020, with the Court in Australia in the matter of the four additional companies. To the best knowledge of the Bank, the Australian Court has not yet approved service of the action outside the jurisdiction area, and in any case, the action brief has not yet been delivered to the Bank.

The Bank assess that the total amount of such actions together with the proceeding described in section 5.1 hereunder, may reach approx. AUD 190 million. An examination performed at the banks did not identify additional related accounts, in respect of which additional actions, as stated above, might be lodged.

For details pertaining to an additional proceeding conducted in a similar matter, see section 5.1 hereunder.

- 4.3 Note 26 C 12.6 to the financial statements as of December 31, 2019, described an action together with a motion for approval of the action as a class action suit filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Custodian General Act, 1978, and the provisions of the Protection of Deposited Assets Act, 1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million.

On December 25, 2019, a petition to amend the approval motion was filed. On March 17, 2020, the Bank submitted its response, according to which it opposes the motion for the amendment of the motion for approval, which comprises an attempt to broadening the scope claim. On May 26, 2020, the Court resolution was given, according to which the motion for amendment of the motion for approval would be heard at the preliminary hearing meeting. A preliminary hearing was fixed for February 3, 2021.

10. Contingent liabilities and special commitments (continued)

- 4.4 Note 26 C 12.7 to the financial statements as of December 31, 2019, described a claim and a petition for the claim's approval as a class action against ICC and two other credit card companies, filed on July 22, 2018 in the Tel Aviv District Court. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group.

A preliminary hearing was held on January 7, 2020. At the end of the hearing, the Court ordered the representative of the Plaintiffs to edit, while reducing, the list of documents requested for disclosure and perusal thereof, as well as the questionnaire. On January 26, 2020, the Appellants filed an amended motion for the disclosure of documents. On March 8, 2020, the Defendants filed a response brief to the motion. The Court stated that the Plaintiff has to submit its response to the response to the amended motion for disclosure, until August 31, 2020.

- 4.5 Note 26 C 13.2 to the financial statements as of December 31, 2019, described a legal action against the Bank and against five additional banks, together with a motion for approval of the action as a class action suit filed with the Tel Aviv District Court on June 5, 2019.

The subject matter of the motion is foreign currency conversion operations. It is alleged that when customers transact a foreign currency conversion operation, the charges applying to such a transaction comprise of two commission fees: an operation commission (which, as alleged, is properly disclosed in the published pricelists of the Respondents) and an additional commission, which as claimed is an exchange differences commission, which according to the Plaintiff is not properly disclosed neither in the pricelists nor in the transaction statement issued to the customer. It is therefore argued that the charging of such a commission fee is in contradiction of the law. It is further claimed that whereas such charge is hidden from the eyes of the customers, they have no way of knowing the actual cost of currency conversion services.

As to the operation commission, it is claimed that the Bank and two other banks compute such commission on the transaction amount including the exchange difference increment, thus charging an excessive operation commission.

The Plaintiff has stated the amount of the claim against the Bank in respect of all class members at NIS 1,486 million.

On October 10, 2019, the Bank submitted a motion for the in limine dismissal of the motion, as well as a motion for extension of the date for submission of its response. On January 16, 2020, the Court decided that the date for submission of the response to the motion for approval is deferred until after a decision is given regarding the motion for the in limine dismissal. On June 21, 2020, the Court instructed the in limine rejection of the motion for approval and charged the Appellants with expenses. On July 6, 2020, the Appellant submitted an appeal against the said verdict, as well as a motion for exemption from depositing collateral and for the stay of execution of the verdict of the District Court. The motions of the Appellant had been rejected, and on August 10, 2020, the Court decided that in case a surety of NIS 30 thousand would not be deposited by September 6, 2020, a process for rejection would be recorded.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

- 5.1 The Bank has been informed, that on June 15, 2017, following a motion filed with an Australian Court, in proceedings being conducted regarding the Australian Tax Authorities and a company related to the companies mentioned in subsection 4.2 above, the Magistrate Court in Tel Aviv issued an order permitting an Israeli lawyer to collect testimonies and evidence from three employees of MDB (some of them already retired), and this in accordance with a motion for obtaining legal assistance between States (judicial inquiry process).

On January 30, 2020, the motion that had been filed by MDB for permission to appeal the decision of the District Court ordering MDB to deliver documents to an Israeli lawyer, was rejected, and accordingly, the documents have been delivered. The judicial inquiry process has been completed.

For details regarding additional proceedings in a similar matter, see Section 4.2 above.

- 5.2 Note 26 C 13.3 to the financial statements as of December 31, 2019, described a claim brief together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants on December 19, 2019.

10. Contingent liabilities and special commitments (continued)

The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Private Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the claim brief.

As argued in the claim brief, the controlling stockholders of the Plaintiff had acted for the granting of loans by the Plaintiff to entities under their control, such loan monies being later transferred through bank accounts in order to hide their source, and finally usurped for the personal benefit of the controlling stockholders. It is further argued that as part of the fraud and embezzlement perpetrated in accordance with the instructions of the controlling stockholders, an amount of US\$1.2 billion was smuggled to Israel by way of monetary transfers from a bank account in Cyprus belonging to a company owned by the controlling stockholders to its account with the Bank. As described in the claim brief, the said monetary transfers were made in the years from 2007 to 2011. According to the arguments of the Plaintiff by allowing these monetary transfers to and from the Bank, the Bank has caused damage to the Plaintiff, and this, as argued by the Plaintiff, is in contradiction to the duties applying to him under the Prohibition of Money Laundering Act in Israel.

The amount of the claim against all defendants is stated at NIS 2.1 billion.

The Court fee was paid on January 30, 2020. On March 18, 2020, the Court accepted the plaintiff's motion and granted an order permitting the service of the statement of claim outside its jurisdiction.

On February 17, 2020, the Bank filed a motion for the dismissal in limine of the claim or, alternately, for a stay of proceedings therein due to the parallel proceedings being conducted overseas. On May 17, 2020, the Court ruled to accept the Bank's motion for an extension to the date for filing a statement of defense. The Bank has to file a statement of defense within 60 days of the motion for dismissal being decided. The hearing of the motion for the in limine dismissal was held on July 29, 2020. In accordance with the Court decision, the parties are to submit their summing-up briefs in writing.

- 5.3 Note 26 C 13.4 to the financial statements as of December 31, 2019, described four lawsuits against the Bank together with motions for their approval as class action suits filed with the Tel Aviv District Court on January 30, 2020. The lawsuits refer to a failure in the installation of a server regarding the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damage.

The amounts of the claims in respect of all members of the class amount in the four motions to NIS 850 million, NIS 500 million, NIS 25 million and NIS 2.5 million, respectively.

On March 4, 2020, the Bank filed motions in all the cases of motions for approval, whereby the Court was asked to use its authority to order the dismissal of three of the four motions for approval. At the request of the Bank, the Court instructed that the Bank's response to the motion for approval would be submitted within ninety days following the decision regarding the request for the dismissal of three of the motions. The four motions for approval in this matter were fixed for a preliminary hearing on September 24, 2020.

- 5.4 On May 11, 2020, a statement of claim and a petition for its approval as a class action were filed against the Bank and against two other banks, at the Tel Aviv District Court.

The petitioner alleges that the Bank has breached its duty of banking confidentiality in that it has granted international corporations, such as Facebook and Google, access to its digital platforms and is allowing them to gather private information regarding customers. It is alleged that the banks have made a bargain with these international data corporations whereby they have received cheap and effective tools in return to causing damage to customer privacy. As alleged by the petitioner, the Bank's different documents have been drafted in an all-embracing and sweeping fashion without providing any explanation to customers regarding the nature of the data that is transferred and the customers' signature on these agreements should not be considered as consent to the transfer of information.

The petitioner has stated that the amount of the damage caused to all the class action members cannot be assessed. The amount of the personal damage caused to the petitioner is assessed at NIS 1,000.

The response of the Bank to the motion for approval would be submitted until September 10, 2020.

6. **Discount Campus.** Details regarding the project are presented in Note 26 C 17 to the annual financial statements as of December 31, 2019. The investment in the project amounted at June 30, 2020, to approx. NIS 245 million. The balance of the commitment in respect of this project amounted at that date to approx. NIS 628 million.
7. **Directors and officers liability insurance.** The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the remuneration policy that was approved by the same meeting, under the terms and limitations stated in the said remuneration plan.

11. Derivative Instruments Activity - volume, credit risk and due dates

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	Unaudited						Audited		
	June 30, 2020			June 30, 2019			December 31, 2019		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
In NIS millions									
Interest rate contracts									
Forward and Futures contracts	7,128	11,104	18,232	7,637	10,462	18,099	6,888	7,283	14,171
Options written	382	3,779	4,161	375	25,042	25,417	381	5,514	5,895
Options purchased	440	1,609	2,049	400	23,482	23,882	405	3,124	3,529
Swaps ⁽¹⁾	13,149	106,340	119,489	10,246	119,027	129,273	12,111	131,026	143,137
Total⁽²⁾	21,099	122,832	143,931	18,658	178,013	196,671	19,785	146,947	166,732
Of which: Hedging derivatives ⁽⁵⁾	5,388	-	5,388	3,465	-	3,465	3,838	-	3,838
Foreign currency contracts									
Forward and Futures contracts ⁽³⁾	3,555	30,736	34,291	756	20,689	21,445	1,529	19,731	21,260
Options written	-	14,458	14,458	-	18,058	18,058	-	13,067	13,067
Options purchased	-	13,590	13,590	-	16,203	16,203	-	12,235	12,235
Swaps	25,628	66,828	92,456	33,757	36,913	70,670	33,634	37,708	71,342
Total	29,183	125,612	154,795	34,513	91,863	126,376	35,163	82,741	117,904
Contracts on shares									
Forward and Futures contracts	-	-	-	-	46	46	-	45	45
Options written	128	5,670	5,798	216	8,717	8,933	163	8,773	8,936
Options purchased ⁽⁴⁾	133	5,670	5,803	227	8,717	8,944	168	8,773	8,941
Swaps	-	474	474	-	1,270	1,270	-	656	656
Total	261	11,814	12,075	443	18,750	19,193	331	18,247	18,578
Commodities and other contracts									
Forward and Futures contracts	-	1,268	1,268	-	508	508	-	849	849
Options written	21	4	25	22	4	26	21	3	24
Options purchased	21	3	24	22	4	26	21	3	24
Total	42	1,275	1,317	44	516	560	42	855	897
Total stated amount	50,585	261,533	312,118	53,658	289,142	342,800	55,321	248,790	304,111

Footnotes:

(1) Of which: swaps on which the Bank pays a fixed interest	43,110	40,899	45,991
(2) Of which: shekel/CPI swaps	13,101	13,010	11,701
(3) Of which: spot foreign currency swap contracts	3,696	1,743	1,778
(4) Of which: traded on the Stock Exchange	7,234	9,088	9,116
(5) The Bank conducts accounting hedge by way of IRS transactions.			

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
In NIS millions						
Unaudited						
June 30, 2020						
Interest rate contracts	276	3,225	3,501	604	3,215	3,819
Of which: Hedging	46	-	46	345	-	345
Foreign currency contracts	467	1,347	1,814	469	1,241	1,710
Contracts on shares	6	513	519	6	513	519
Commodities and other contracts	-	32	32	-	30	30
Total assets/liabilities in respect of derivatives gross⁽¹⁾	749	5,117	5,866	1,079	4,999	6,078
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	749	5,117	5,866	1,079	4,999	6,078
Of which: not subject to net settlement arrangement or similar arrangements	-	581	581	22	503	525
Unaudited						
June 30, 2019						
Interest rate contracts	144	2,442	2,586	343	2,413	2,756
Of which: Hedging	16	-	16	116	-	116
Foreign currency contracts	294	667	961	334	557	891
Contracts on shares	13	704	717	13	703	716
Commodities and other contracts	1	12	13	1	12	13
Total assets/liabilities in respect of derivatives gross⁽¹⁾	452	3,825	4,277	691	3,685	4,376
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	452	3,825	4,277	691	3,685	4,376
Of which: not subject to net settlement arrangement or similar arrangements	-	681	681	39	663	702
Audited						
December 31, 2019						
Interest rate contracts	187	2,733	2,920	321	2,728	3,049
Of which: Hedging	34	-	34	99	-	99
Foreign currency contracts	343	852	1,195	546	829	1,375
Contracts on shares	8	380	388	8	380	388
Commodities and other contracts	1	54	55	1	53	54
Total assets/liabilities in respect of derivatives gross⁽¹⁾	539	4,019	4,558	876	3,990	4,866
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	539	4,019	4,558	876	3,990	4,866
Of which: not subject to net settlement arrangement or similar arrangements	-	358	358	41	359	400

Footnote:

(1) Of which: NIS 10 million (June 30, 2019: NIS 14 million; December 31, 2019: NIS 13 million) positive gross fair value of assets stemming from embedded derivative instruments.

Of which: NIS 14 million (June 30, 2019: NIS 31 million; December 31, 2019: NIS 27 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

B. Accounting hedge

1. Effect of fair value hedge

	Unaudited			
	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
	Interest income (expenses)			
	In NIS millions			
Profit (loss) on fair value hedge				
Interest rate contracts				
Hedged items	47	44	254	96
Hedging derivatives	(33)	(44)	(241)	(97)

2. Items hedged by fair value hedge

	Unaudited					
	June 30, 2020			June 30, 2019		
	Book value	Cumulative fair value adjustments increasing the book value		Book value	Cumulative fair value adjustments increasing the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions					
Securities	4,528	347	-	2,013	104	-
Credit to the public ⁽¹⁾	347	4	-	-	-	-
Deposits from the public	1,100	(42)	-	1,045	(11)	-

Footnote:

(1) Amounts designated for hedge out of the loan portfolio totaling approx. NIS 997 million.

3. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	Unaudited			
	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
	Profit (loss) recognized in income (expenses) from activity in derivative instruments ⁽¹⁾			
	In NIS millions			
Interest rate contracts	18	(16)	30	(18)
Foreign currency contracts	(574)	(164)	82	(539)
Contracts on shares	(1)	-	-	1
Commodities and other contracts	-	-	-	-
Total	(557)	(180)	112	(556)

Footnote:

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

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
In NIS millions						
Unaudited						
June 30, 2020						
Balance sheet balance of assets in respect of derivative instruments ⁽²⁾	76	2,194	12	96	3,488	5,866
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments ⁽⁵⁾	-	(1,824)	(6)	-	(1,888)	(3,718)
Credit risk mitigation in respect of cash collateral received	-	(286)	(3)	(5)	(30)	(324)
Net amount of assets in respect of derivative instruments	76	84	3	91	1,570	1,824
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	161	157	64	36	633	1,051
Total credit risk in respect of derivative instruments⁽⁴⁾	237	2,351	76	132	4,121	6,917
Balance sheet balance of liabilities in respect of derivative instruments ⁽³⁾	407	2,884	76	-	2,711	6,078
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,824)	(6)	-	(1,888)	(3,718)
Pledged cash collateral	-	(997)	-	-	(307)	(1,304)
Net amount of liabilities in respect of derivative instruments	407	63	70	-	516	1,056
Unaudited						
June 30, 2019						
Balance sheet balance of assets in respect of derivative instruments ⁽²⁾	20	1,173	28	19	3,037	4,277
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments ⁽⁵⁾	-	(1,020)	(12)	-	(1,687)	(2,719)
Credit risk mitigation in respect of cash collateral received	-	(134)	(2)	(2)	(34)	(172)
Net amount of assets in respect of derivative instruments	20	19	14	17	1,316	1,386
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	284	173	95	16	678	1,246
Total credit risk in respect of derivative instruments⁽⁴⁾	304	1,346	123	35	3,715	5,523
Balance sheet balance of liabilities in respect of derivative instruments ⁽³⁾	627	1,662	20	-	2,067	4,376
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,020)	(12)	-	(1,687)	(2,719)
Pledged cash collateral	-	(536)	-	-	(81)	(617)
Net amount of liabilities in respect of derivative instruments	627	106	8	-	299	1,040
Audited						
December 31, 2019						
Balance sheet balance of assets in respect of derivative instruments ⁽²⁾	38	1,379	27	88	3,026	4,558
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments ⁽⁵⁾	-	(1,241)	(16)	-	(1,931)	(3,188)
Credit risk mitigation in respect of cash collateral received	-	(117)	(1)	(88)	(40)	(246)
Net amount of assets in respect of derivative instruments	38	21	10	-	1,055	1,124
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	249	103	44	18	577	991
Total credit risk in respect of derivative instruments⁽⁴⁾	287	1,482	71	106	3,603	5,549
Balance sheet balance of liabilities in respect of derivative instruments ⁽³⁾	302	2,015	18	-	2,531	4,866
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,241)	(16)	-	(1,931)	(3,188)
Pledged cash collateral	-	(690)	-	-	(110)	(800)
Net amount of liabilities in respect of derivative instruments	302	84	2	-	490	878

Footnotes:

- (1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and between the balance sheet amount of assets in respect of derivative instruments of the borrower.
- (2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 5,856 million included in the item assets in respect of derivative instruments June 30, 2019: NIS 4,263 million; December 31, 2019: NIS 4,545 million).
- (3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 6,064 million included in the item liabilities in respect of derivative instruments June 30, 2019: NIS 4,345 million; December 31, 2019: NIS 4,839 million).
- (4) The amount does not include the above deductions. The comparative data has been restated accordingly.
- (5) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 3,600 million (as of June 30, 2019: NIS 2,698 million; December 31, 2019: NIS 3,164 million).

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

D. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
In NIS millions					
Unaudited					
June 30 2020					
Interest rate contracts					
Shekel/CPI	847	3,350	5,577	3,327	13,101
Other	10,075	26,305	48,526	45,924	130,830
Foreign currency contracts	83,727	51,962	13,885	5,221	154,795
Contracts on shares	11,321	327	427	-	12,075
Commodities and other contracts	149	1,161	7	-	1,317
Total	106,119	83,105	68,422	54,472	312,118
Unaudited					
June 30, 2019					
Total	118,613	102,568	62,792	58,827	342,800
Audited					
December 31, 2019					
Total	101,580	71,686	61,665	69,180	304,111

12. Regulatory Operating Segments

A. Details regarding the regulatory segments were brought in Note 29 a to the financial statements as of December 31, 2019. The principal assumptions, assessments and reporting principles used in the preparation of the data were detailed in Note 29 D in the financial statements as of December 31, 2019.

For details regarding administrative segments recognized by the Bank were brought in Note 30a to the financial statements as of December 31, 2019.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions were taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

B. Reclassified – Updating of the expense allocation model. Changes were implemented since the first quarter of 2020, in the expense allocation model used in the preparation of operating segments data, following the process of updating and validating the model. The comparative data has been reclassified accordingly.

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated

Unaudited					
For the three months ended June 30, 2020					
Domestic operations					
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
in NIS millions					
Interest income from external sources	573	231	138	2	389
Interest expenses To external sources	40	-	-	20	22
Net interest income from external sources	533	231	138	(18)	367
Net interest income Intersegmental	(41)	(123)	(5)	36	(5)
Net Total Interest income	492	108	133	18	362
Non-interest financing income from external sources	516	3	233	205	312
Non-interest financing income Intersegmental	(168)	-	-	(184)	(182)
Total Non-interest financing income	348	3	233	21	130
Total income	840	111	366	39	492
Credit loss expenses	204	61	58	1	181
Operating and other expenses	744	43	274	25	325
Profit (loss) before taxes	(108)	7	34	13	(14)
Provision for taxes (tax savings) on profit	(42)	(1)	4	5	(3)
Profit (loss) after taxes	(66)	8	30	8	(11)
Bank's share in operating income of associates	-	-	-	-	-
Net profit (loss) from ordinary operations before Attributed to the non-controlling interests	(66)	8	30	8	(11)
Net profit (loss) from ordinary operations Attributed to the non-controlling interests	(6)	-	(6)	-	(2)
Net profit (loss) attributed to the bank's shareholders	(72)	8	24	8	(13)
Average Assets	69,716	38,521	15,417	385	36,603
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	68,915	38,621	15,141	329	36,162
Balance of credit to the public at the period end ⁽³⁾	69,622	39,279	15,432	355	37,029
Balance of impaired debts	199	2	66	-	560
Balance of debts (not impaired) in arrear for over ninety days	439	394	-	-	64
Average Liabilities	88,224	81	2,312	17,598	45,379
Of which - Average Deposits from the public	84,620	-	15	17,488	40,223
Balance of deposits from the public at the period end	84,993	-	15	17,938	40,814
Average Risk-assets ⁽¹⁾	51,644	21,884	13,350	513	34,995
Balance of Risk-assets at the period end ⁽¹⁾	51,769	22,248	13,249	520	34,879
Average assets under management ⁽²⁾	26,402	365	-	17,826	23,386
Net interest income					
Margin from credit activity to the public	420	108	133	1	331
Margin from deposits activity from the public	72	-	-	17	31
Other	-	-	-	-	-
Total net Interest income	492	108	133	18	362

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

	Medium businesses	Large Institutional businesses	Financial bodies management	Total Domestic operations	International operations	Total International operations	Total
	108	263	6	117	1,458	284	1,742
	6	30	15	81	214	65	279
	102	233	(9)	36	1,244	219	1,463
	(9)	(40)	18	41	-	-	-
	93	193	9	77	1,244	219	1,463
	81	88	123	(425)	900	34	934
	(50)	(5)	(121)	710	-	-	-
	31	83	2	285	900	34	934
	124	276	11	362	2,144	253	2,397
	65	60	(2)	14	523	9	532
	71	148	19	92	1,424	159	1,583
	(12)	68	(6)	256	197	85	282
	(4)	26	(2)	96	76	29	105
	(8)	42	(4)	160	121	56	177
	-	-	-	4	4	-	4
	(8)	42	(4)	164	125	56	181
	-	(2)	-	4	(7)	-	(7)
	(8)	40	(4)	167	118	56	174
	14,202	39,322	867	83,567	244,662	36,470	281,132
	-	-	-	144	144	-	144
	14,189	39,228	713	-	159,536	24,408	183,944
	13,539	42,180	638	-	163,363	23,478	186,841
	211	672	276	-	1,918	121	2,039
	-	-	-	1,029	1,532	15	1,547
	9,460	27,513	16,430	24,587	229,191	32,681	261,872
	8,408	23,985	16,377	-	191,101	27,904	219,005
	8,009	24,640	17,047	-	193,441	28,607	222,048
	13,513	44,188	1,308	16,321	162,482	28,545	191,027
	13,679	44,815	1,303	17,097	164,062	28,293	192,355
	9,938	30,063	63,141	1,892	172,648	13,495	186,143
	88	187	6	-	1,033	162	1,195
	5	6	3	-	134	31	165
	-	-	-	77	77	26	103
	93	193	9	77	1,244	219	1,463

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated (continued)

Unaudited					
For the three months ended June 30, 2019					
Domestic operations					
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
in NIS millions					
Interest income from external sources	730	377	135	1	420
Interest expenses To external sources	78	-	-	36	39
Net interest income from external sources	652	377	135	(35)	381
Net interest income Intersegmental	(153)	(284)	1	54	11
Net total Interest income	499	93	136	19	392
Non-interest financing income from external sources	532	4	268	123	258
Non-interest financing income Intersegmental	(131)	-	-	(108)	(111)
Total Non-interest financing income	401	4	268	15	147
Total income	900	97	404	34	539
Credit loss expenses (expenses reversal)	78	9	28	-	50
Operating and other expenses	(4) 749	(4) 41	(4) 273	(4) 25	(4) 335
Profit (loss) before taxes	73	47	103	9	154
Provision for taxes (tax savings) on profit	(4) 22	(4) 16	(4) 35	(4) 3	(4) 49
Profit (loss) after taxes	51	31	68	6	105
Bank's share in operating income of associates	-	-	-	-	-
Net profit (loss) from ordinary operations before Attributed to the non-controlling interests	51	31	68	6	105
Net profit (loss) from ordinary operations Attributed to the non-controlling interests	(13)	-	(13)	-	(2)
Net profit (loss) attributed to the bank's shareholders	38	31	55	6	103
Average Assets	66,181	34,333	15,267	275	34,744
Of which - Investment in Investee companies	-	-	-	-	-
Of which- Average credit to the public ⁽³⁾	65,197	34,394	15,035	204	34,050
Balance of credit to the public at the period end ⁽³⁾	65,252	34,698	14,893	220	35,079
Balance of impaired debts	171	-	47	-	585
Balance of debts (not impaired) in arrear for over ninety days	395	335	-	-	53
Average Liabilities	79,551	45	2,750	15,504	40,036
Of which - Average Deposits from the public	75,382	-	21	15,368	34,978
Balance of deposits from the public at the period end	75,071	-	21	16,341	34,537
Average Risk-assets ⁽¹⁾	48,962	19,758	12,504	459	34,053
Balance of Risk-assets at the period end ⁽¹⁾	48,904	19,647	12,680	430	33,813
Average assets under management ⁽²⁾	33,981	385	-	20,196	25,661
Net interest income:					
Margin from credit activity to the public	415	93	136	1	351
Margin from deposits activity from the public	84	-	-	18	41
Other	-	-	-	-	-
Total net Interest income	499	93	136	19	392

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified - see B above.

	Medium businesses	Large Institutional businesses	Financial bodies management	Total Domestic operations	International operations	Total International operations	Total
	101	332	4	193	1,781	369	2,150
	15	21	34	200	423	132	555
	86	311	(30)	(7)	1,358	237	1,595
	(5)	(120)	38	175	-	-	-
	81	191	8	168	1,358	237	1,595
	56	52	34	(144)	911	49	960
	(24)	15	(33)	392	-	-	-
	32	67	1	248	911	49	960
	113	258	9	416	2,269	286	2,555
	20	(18)	-	-	130	6	136
	⁽⁴⁾ 58	⁽⁴⁾ 142	14	⁽⁴⁾ 90	1,413	157	1,570
	35	134	(5)	326	726	123	849
	⁽⁴⁾ 12	⁽⁴⁾ 44	-	⁽⁴⁾ 130	260	40	300
	23	90	(5)	196	466	83	549
	-	-	-	12	12	-	12
	23	90	(5)	208	478	83	561
	-	(1)	-	-	(16)	-	(16)
	23	89	(5)	208	462	83	545
	10,401	37,981	832	58,771	209,185	33,230	242,415
	-	-	-	190	190	-	190
	10,261	37,827	682	-	148,221	23,810	172,031
	10,330	39,668	656	-	151,205	23,348	174,553
	216	288	295	-	1,555	146	1,701
	5	-	-	-	453	-	453
	7,855	22,121	14,500	15,068	194,635	29,598	224,233
	6,769	18,963	14,461	-	165,921	26,758	192,679
	7,156	18,179	14,175	-	165,459	27,355	192,814
	12,571	42,454	1,231	13,829	153,559	27,154	180,713
	12,618	41,040	1,406	13,568	151,779	26,673	178,452
	10,050	40,813	73,807	2,350	206,858	13,781	220,639
	71	181	4	-	1,023	153	1,176
	10	10	4	-	167	69	236
	-	-	-	168	168	15	183
	81	191	8	168	1,358	237	1,595

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated

Unaudited					
For the six months ended June 30, 2020					
Domestic operations					
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
in NIS millions					
Interest income from external sources	1,142	441	277	3	798
Interest expenses To external sources	77	-	-	48	52
Net interest income from external sources	1,065	441	277	(45)	746
Net interest income Intersegmental	(54)	(226)	(12)	85	3
Total net interest income	1,011	215	265	40	749
Non-interest financing income from external sources	742	7	501	48	281
Non-interest financing income Intersegmental	4	-	-	(8)	(6)
Total Non-interest financing income	746	7	501	40	275
Total income	1,757	222	766	80	1,024
Credit loss expenses (expenses reversal)	414	90	159	2	371
Operating and other expenses	1,487	88	570	48	637
Profit (loss) before taxes	(144)	44	37	30	16
Provision for taxes (tax savings) on profit	(57)	16	4	11	9
Profit (loss) after taxes	(87)	28	33	19	7
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	(87)	28	33	19	7
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(4)	-	(4)	-	(2)
Net Profit (loss) attributed to the bank's shareholders	(91)	28	29	19	5
Average Assets	70,243	37,865	16,127	380	36,477
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	69,378	37,955	15,868	320	36,004
Balance of credit to the public at the period end ⁽³⁾	69,622	39,279	15,432	355	37,029
Balance of impaired debts	199	2	66	-	560
Balance of debts (not impaired) in arrear for over ninety days	439	394	-	-	64
Average Liabilities	84,810	90	2,524	16,950	44,633
Of which - Average Deposits from the public	80,945	-	16	16,840	39,171
Balance of deposits from the public at the period end	84,993	-	15	17,938	40,814
Average Risk-assets ⁽¹⁾	51,523	21,520	13,452	504	35,110
Balance of Risk-assets at the period end ⁽¹⁾	51,769	22,248	13,249	520	34,879
Average assets under management ⁽²⁾	31,319	367	-	19,097	26,249
Net interest income					
Margin from credit activity to the public	848	215	265	2	676
Margin from deposits activity from the public	163	-	-	38	73
Other	-	-	-	-	-
Total net Interest income	1,011	215	265	40	749

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

					International operations		
	Medium businesses	Large Institutional businesses	Institutional bodies management	Financial management	Total Domestic operations	Total International operations	Total
	205	538	12	232	2,930	603	3,533
	15	59	47	148	446	169	615
	190	479	(35)	84	2,484	434	2,918
	(11)	(91)	53	15	-	-	-
	179	388	18	99	2,484	434	2,918
	47	126	22	684	1,950	140	2,090
	13	49	(17)	(35)	-	-	-
	60	175	5	649	1,950	140	2,090
	239	563	23	748	4,434	574	5,008
	117	209	(1)	14	1,126	62	1,188
	132	275	34	182	2,795	319	3,114
	(10)	79	(10)	552	513	193	706
	(3)	29	(3)	205	191	65	256
	(7)	50	(7)	347	322	128	450
	-	-	-	8	8	-	8
	(7)	50	(7)	355	330	128	458
	-	(2)	-	3	(5)	-	(5)
	(7)	48	(7)	358	325	128	453
	13,145	39,521	846	77,877	238,489	34,898	273,387
	-	-	-	157	157	-	157
	13,109	39,381	711	-	158,903	23,999	182,902
	13,539	42,180	638	-	163,363	23,478	186,841
	211	672	276	-	1,918	121	2,039
	-	-	-	1,029	1,532	15	1,547
	8,808	26,629	17,610	23,716	223,156	31,142	254,298
	7,711	22,926	17,567	-	185,160	27,050	212,210
	8,009	24,640	17,047	-	193,441	28,607	222,048
	13,345	43,566	1,314	15,543	160,905	28,795	189,700
	13,679	44,815	1,303	17,097	164,062	28,293	192,305
	10,462	32,154	69,519	1,887	190,687	12,866	203,553
	169	372	10	-	2,077	320	2,397
	10	16	8	-	308	72	380
	-	-	-	99	99	42	141
	179	388	18	99	2,484	434	2,918

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the six months ended June 30, 2019				
	Domestic operations				
	Households		Private Banking	Small and minute businesses	
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	1,266	572	260	2	822
Interest expenses To external sources	125	-	1	70	73
Net interest income from external sources	1,141	572	259	(68)	749
Net interest income Intersegmental	(177)	(390)	(14)	111	21
Total net Interest income	964	182	245	43	770
Non-interest financing income from external sources	1,203	7	524	405	585
Non-interest financing income Intersegmental	(435)	-	-	(372)	(295)
Total Non-interest financing income	768	7	524	33	290
Total income	1,732	189	769	76	1,060
Credit loss expenses (expenses reversal)	159	16	62	-	99
Operating and other expenses	(4) 1,478	(4) 78	(4) 552	(4) 51	(4) 658
Profit (loss) before taxes	95	95	155	25	303
Provision for taxes (tax savings) on profit	(4) 27	(4) 33	(4) 52	(4) 8	(4) 102
Profit (loss) after taxes	68	62	103	17	201
Bank's share in operating loss of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	68	62	103	17	201
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(22)	-	(22)	-	(4)
Net Profit (loss) attributed to the bank's shareholders	46	62	81	17	197
Average Assets	64,563	33,416	14,732	266	34,561
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	63,635	33,513	14,544	192	33,964
Balance of credit to the public at the period end ⁽³⁾	65,252	34,698	14,893	220	35,079
Balance of impaired debts	171	-	47	-	585
Balance of debts (not impaired) in arrear for over ninety days	395	335	-	-	53
Average Liabilities	78,743	42	2,661	15,994	39,357
Of which - Average Deposits from the public	74,801	-	22	15,871	34,466
Balance of deposits from the public at the period end	75,071	-	21	16,341	34,537
Average Risk-assets ⁽¹⁾	48,141	19,304	12,282	451	33,440
Balance of Risk-assets at the period end ⁽¹⁾	48,904	19,647	12,680	430	33,813
Average assets under management ⁽²⁾	33,441	385	-	19,805	24,490
Net interest income					
Margin from credit activity to the public	802	182	245	1	689
Margin from deposits activity from the public	162	-	-	42	81
Other	-	-	-	-	-
Total net Interest income	964	182	245	43	770

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified - see B above.

					International operations		
	Medium businesses	Large Institutional businesses	Financial bodies management	Financial management	Total Domestic operations	Total International operations	Total
	189	607	11	326	3,223	733	3,956
	24	49	61	283	685	255	940
	165	558	(50)	43	2,538	478	3,016
	(6)	(181)	68	164	-	-	-
	159	377	18	207	2,538	478	3,016
	127	104	103	(780)	1,747	103	1,850
	(65)	73	(101)	1,195	-	-	-
	62	177	2	415	1,747	103	1,850
	221	554	20	622	4,285	581	4,866
	34	(31)	(2)	-	259	18	277
	⁽⁴⁾ 115	⁽⁴⁾ 274	⁽⁴⁾ 28	⁽⁴⁾ 174	2,778	322	3,100
	72	311	(6)	448	1,248	241	1,489
	⁽⁴⁾ 24	⁽⁴⁾ 104	⁽⁴⁾ (1)	⁽⁴⁾ 181	445	79	524
	48	207	(5)	267	803	162	965
	-	-	-	11	11	-	11
	48	207	(5)	278	814	162	976
	(1)	(3)	-	4	(26)	-	(26)
	47	204	(5)	282	788	162	950
	10,286	37,631	848	59,605	207,760	32,713	240,473
	-	-	-	172	172	-	172
	10,172	37,537	699	-	146,199	23,529	169,728
	10,330	39,668	656	-	151,205	23,348	174,553
	216	288	295	-	1,555	146	1,701
	5	-	-	-	453	-	453
	7,557	22,205	14,027	15,368	193,251	29,138	222,389
	6,510	19,087	13,991	-	164,726	25,972	190,698
	7,156	18,179	14,175	-	165,459	27,355	192,814
	12,314	41,187	1,414	13,377	150,324	26,924	177,248
	12,618	41,040	1,406	13,568	151,779	26,673	178,452
	9,735	40,952	72,083	2,230	202,736	13,766	216,502
	143	356	8	-	1,999	285	2,284
	16	21	10	-	332	154	486
	-	-	-	207	207	39	246
	159	377	18	207	2,538	478	3,016

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated (continued)

Audited					
For the year ended December 31, 2019					
Domestic operations					
	Households		Private Banking		Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
in NIS millions					
Interest income from external sources	2,374	969	525	4	1,674
Interest expenses To external sources	217	-	2	124	141
Net interest income from external sources	2,157	969	523	(120)	1,533
Net interest income Intersegmental	(198)	(592)	(29)	204	30
Total net interest income	1,959	377	494	84	1,563
Non-interest financing income from external sources	2,321	13	1,108	657	1,083
Non-interest financing income Intersegmental	(719)	-	-	(589)	(493)
Total Non-interest financing income	1,602	13	1,108	68	590
Total income	3,561	390	1,602	152	2,153
Credit loss expenses (expenses reversal)	339	27	139	2	234
Operating and other expenses	(4) 3,032	(4) 161	(4) 1,154	(4) 98	(4) 1,312
Profit (loss) before taxes	190	202	309	52	607
Provision for taxes (tax savings) on profit	(4) 51	(4) 68	(4) 102	(4) 18	(4) 206
Profit (loss) after taxes	139	134	207	34	401
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	139	134	207	34	401
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(44)	-	(44)	-	(10)
Net Profit (loss) attributed to the bank's shareholders	95	134	163	34	391
Average Assets	66,660	34,423	15,468	277	35,852
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	65,682	34,543	15,253	209	35,274
Balance of credit to the public at the period end ⁽³⁾	69,211	36,798	16,421	326	36,837
Balance of impaired debts	189	-	55	-	624
Balance of debts (not impaired) in arrear for over ninety days	416	353	-	-	60
Average Liabilities	79,656	43	2,738	15,477	40,297
Of which - Average Deposits from the public	75,463	-	20	15,342	35,131
Balance of deposits from the public at the period end	75,312	-	18	16,368	37,022
Average Risk-assets ⁽¹⁾	50,600	20,345	13,311	443	35,170
Balance of Risk-assets at the period end ⁽¹⁾	51,186	20,781	13,544	489	35,758
Average assets under management ⁽²⁾	33,401	382	-	19,927	27,430
Net interest income					
Margin from credit activity to the public	1,632	377	494	2	1,401
Margin from deposits activity from the public	327	-	-	82	162
Other	-	-	-	-	-
Total net interest income	1,959	377	494	84	1,563

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified - see B above.

					International operations		
	Medium businesses	Large Institutional businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
	371	1,139	26	560	6,148	1,419	7,567
	37	100	129	424	1,172	502	1,674
	334	1,039	(103)	136	4,976	917	5,893
	(10)	(295)	145	124	-	-	-
	324	744	42	260	4,976	917	5,893
	221	296	211	(1,245)	3,544	227	3,771
	(94)	74	(205)	2,026	-	-	-
	127	370	6	781	3,544	227	3,771
	451	1,114	48	1,041	8,520	1,144	9,664
	107	(21)	(5)	-	656	34	690
	⁽⁴⁾ 234	⁽⁴⁾ 550	⁽⁴⁾ 58	⁽⁴⁾ 362	5,646	653	6,299
	110	585	(5)	679	2,218	457	2,675
	⁽⁴⁾ 36	⁽⁴⁾ 194	⁽⁴⁾ (2)	⁽⁴⁾ 276	779	153	932
	74	391	(3)	403	1,439	304	1,743
	-	-	-	16	16	-	16
	74	391	(3)	419	1,455	304	1,759
	(2)	(7)	-	6	(57)	-	(57)
	72	384	(3)	425	1,398	304	1,702
	10,553	36,867	836	61,393	212,438	33,250	245,688
	-	-	-	172	172	-	172
	10,443	36,759	689	-	149,056	23,524	172,580
	12,628	39,529	676	-	159,207	23,784	182,991
	231	342	295	-	1,681	133	1,814
	1	1	-	-	478	-	478
	7,323	22,789	15,665	16,576	197,783	29,602	227,385
	6,243	19,584	15,610	-	167,373	26,124	193,497
	7,590	20,305	18,076	-	174,673	26,777	201,450
	12,803	39,820	1,420	13,538	153,794	27,482	181,276
	13,608	41,511	1,259	12,813	156,624	27,822	184,446
	9,857	38,146	73,682	2,376	204,819	13,767	218,586
	295	702	21	-	4,053	581	4,634
	29	42	21	-	663	251	914
	-	-	-	260	260	85	345
	324	744	42	260	4,976	917	5,893

13. Managerial Operating Segments

	Unaudited									
	Middle		Corporate	Financial	Discount	Discount	Israel		Adjustments	Total
	Retail	market					Capital ⁽¹⁾	Bancorp ⁽¹⁾		
	banking	banking	banking	management			Cards ⁽¹⁾			
In NIS millions										
For the three months ended June 30, 2020										
Net interest income	647	163	210	83	3	220	134	-	3	1,463
Non-interest income	250	32	84	265	4	37	284	13	(35)	934
Total income	897	195	294	348	7	257	418	13	(32)	2,397
Credit loss expenses (expenses reversal)	297	96	70	-	-	9	60	-	-	532
Operating and other expenses	760	111	159	83	7	160	327	7	(31)	1,583
Income (loss) before taxes	(160)	(12)	65	265	-	88	31	6	(1)	282
Provision for taxes (tax saving) on income	(54)	(4)	24	96	1	31	10	2	(1)	105
Income (loss) after taxes	(106)	(8)	41	169	(1)	57	21	4	-	177
Bank's share in net income of associates, of tax effect	-	-	-	1	4	-	-	-	(1)	4
Net income (loss) before attributed to the non-controlling interests	(106)	(8)	41	170	3	57	21	4	(1)	181
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(7)	-	-	(7)
Net Income (loss) attributed to the bank's shareholders	(106)	(8)	41	170	3	57	14	4	(1)	174
Balance of Assets at period end	83,265	26,427	52,643	86,080	1,601	35,818	17,885	6,813	(28,432)	282,100
Balance of credit to the public at period end	80,004	26,675	47,980	-	39	23,478	17,292	-	(8,627)	186,841
Balance of deposits from the public at period end	138,964	20,726	34,383	6,227	-	28,607	15	-	(6,874)	222,048
For the three months ended June 30, 2019										
Net interest income	682	150	221	174	3	232	130	1	2	1,595
Non-interest income	272	33	96	161	51	49	332	12	(46)	960
Total income	954	183	317	335	54	281	462	13	(44)	2,555
Credit loss expenses (expenses reversal)	103	19	(20)	-	-	6	29	-	(1)	136
Operating and other expenses	⁽²⁾ 771	⁽²⁾ 97	⁽²⁾ 138	⁽²⁾ 77	11	157	356	7	(44)	1,570
Income before taxes	80	67	199	258	43	118	77	6	1	849
Provision for taxes on income	⁽²⁾ 20	⁽²⁾ 23	⁽²⁾ 67	⁽²⁾ 105	14	41	28	2	-	300
Income after taxes	60	44	132	153	29	77	49	4	1	549
Bank's share in net income of associates of tax effect	-	-	-	6	5	-	-	-	1	12
Net income before attributed to the non-controlling interests	60	44	132	159	34	77	49	4	2	561
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(16)	-	-	(16)
Net Income attributed to the bank's shareholders	60	44	132	159	34	77	33	4	2	545
Balance of Assets at period end	78,302	20,322	51,135	62,043	1,566	35,311	17,356	4,214	(25,936)	244,313
Balance of credit to the public at period end	75,934	20,498	46,820	-	95	23,348	16,798	-	(8,940)	174,553
Balance of deposits from the public at period end	123,393	15,789	27,044	3,664	-	27,356	21	-	(4,453)	192,814

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. Managerial Operating Segments (continued)

	Unaudited									Total
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital ⁽¹⁾	Discount Bancorp ⁽¹⁾	Israel Credit Cards ⁽¹⁾	other	Adjustments	
In NIS millions										
For the six months ended June 30, 2020										
Net interest income	1,338	332	426	111	6	432	268	1	4	2,918
Non-interest income	532	67	182	585	8	141	622	26	(73)	2,090
Total income	1,870	399	608	696	14	573	890	27	(69)	5,008
Credit loss expenses	550	177	235	-	-	62	164	-	-	1,188
Operating and other expenses	1,468	217	281	162	15	319	707	14	(69)	3,114
Income (loss) before taxes	(148)	5	92	534	(1)	192	19	13	-	706
Provision for taxes (tax saving) on income	(47)	3	34	190	2	66	4	5	(1)	256
Income (loss) after taxes	(101)	2	58	344	(3)	126	15	8	1	450
Bank's share in net income of associates, of tax effect	1	-	-	2	8	-	-	-	(3)	8
Net income (loss) before attributed to the non-controlling interests	(100)	2	58	346	5	126	15	8	(2)	458
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(5)	(1)	1	(5)
Net income (loss) attributed to the bank's shareholders	(100)	2	58	346	5	126	10	7	(1)	453
Balance of Assets at period end	83,265	26,427	52,643	86,080	1,601	35,818	17,885	6,813	(28,432)	282,100
Balance of credit to the public at period end	80,004	26,675	47,980	-	39	23,478	17,292	-	(8,627)	186,841
Balance of deposits from the public at period end	138,964	20,726	34,383	6,227	-	28,607	15	-	(6,874)	222,048
For the six months ended June 30, 2019										
Net interest income	1,344	296	433	217	4	467	250	2	3	3,016
Non-interest income	542	66	200	294	62	104	644	27	(89)	1,850
Total income	1,886	362	633	511	66	571	894	29	(86)	4,866
Credit loss expenses (expenses reversal)	207	29	(39)	-	-	18	63	-	(1)	277
Operating and other expenses	⁽²⁾ 1,509	⁽²⁾ 193	⁽²⁾ 272	⁽²⁾ 152	18	324	704	14	(86)	3,100
Income before taxes	170	140	400	359	48	229	127	15	1	1,489
Provision for taxes on income	⁽²⁾ 51	⁽²⁾ 48	⁽²⁾ 136	⁽²⁾ 143	17	79	45	5	-	524
Income after taxes	119	92	264	216	31	150	82	10	1	965
Bank's share in net income of associates, of tax effect	1	-	-	7	4	-	-	-	(1)	11
Net income before attributed to the non-controlling interests	120	92	264	223	35	150	82	10	-	976
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(26)	(1)	1	(26)
Net income attributed to the bank's shareholders	120	92	264	223	35	150	56	9	1	950
Balance of Assets at period end	78,302	20,322	51,135	62,043	1,566	35,311	17,356	4,214	(25,936)	244,313
Balance of credit to the public at period end	75,934	20,498	46,820	-	95	23,348	16,798	-	(8,940)	174,553
Balance of deposits from the public at period end	123,393	15,789	27,044	3,664	-	27,356	21	-	(4,453)	192,814

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. Managerial Operating Segments (continued)

	Audited									Total
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital ⁽¹⁾	Discount Bancorp ⁽¹⁾	Israel Credit Cards ⁽¹⁾	other	Adjustments	
For the year ended December 31, 2019										
In NIS millions										
Net interest income	2,722	603	869	278	9	900	505	2	5	5,893
Non-interest income	1,106	136	391	559	107	229	1,358	68	(183)	3,771
Total income	3,828	739	1,260	837	116	1,129	1,863	70	(178)	9,664
Credit loss expenses (expenses reversal)	393	95	22	-	(1)	34	147	-	-	690
Operating and other expenses	⁽²⁾ 3,048	⁽²⁾ 398	⁽²⁾ 553	⁽²⁾ 314	42	654	1,440	28	(178)	6,299
Income before taxes	387	246	685	523	75	441	276	42	-	2,675
Provision for taxes on income	⁽²⁾ 117	⁽²⁾ 83	⁽²⁾ 232	⁽²⁾ 219	19	153	97	13	(1)	932
Income after taxes	270	163	453	304	56	288	179	29	1	1,743
Bank's share in net income of associates of tax effect	1	-	-	10	7	-	-	-	(2)	16
Net income before attributed to the non-controlling interests	271	163	453	314	63	288	179	29	(1)	1,759
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(56)	(2)	1	(57)
Net Income attributed to the bank's shareholders	271	163	453	314	63	288	123	27	-	1,702
Balance of Assets at period end	81,167	25,475	50,530	70,249	1,607	33,773	19,158	7,696	(29,832)	259,823
Balance of credit to the public at period end	78,677	25,814	46,000	-	30	23,784	18,561	-	(9,875)	182,991
Balance of deposits from the public at period end	124,673	20,539	30,430	7,027	-	26,776	18	-	(8,013)	201,450

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, Securities borrowed or purchased under agreements to resell and assets in respect of the "Maof" market activity.

A. Debts and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses - Consolidated

	Unaudited					
	Credit to the public					Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total Governments	Banks and	
In NIS millions						
Three months ended June 30, 2020						
Balance of allowance for credit losses, as at March 31, 2020	2,199	237	839	3,275	1	3,276
Expenses for credit loss	313	61	144	518	14	532
Accounting write-offs	(93)	(6)	(120)	(219)	-	(219)
Collection of debts written-off in previous years	74	-	55	129	-	129
Net accounting write-offs	(19)	(6)	(65)	(90)	-	(90)
Financial statements translation adjustments	(9)	-	-	(9)	-	(9)
Balance of allowance for credit losses, as at June 30, 2020	2,484	292	918	3,694	15	3,709
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289
Three months ended June 30, 2019						
Balance of allowance for credit losses, as at March 31, 2019	1,625	194	670	2,489	1	2,490
Expenses for credit loss	59	9	68	136	-	136
Accounting write-offs	(97)	(6)	(127)	(230)	-	(230)
Collection of debts written-off in previous years	49	-	61	110	-	110
Net accounting write-offs	(48)	(6)	(66)	(120)	-	(120)
Financial statements translation adjustments	(5)	-	-	(5)	-	(5)
Balance of allowance for credit losses, as at June 30, 2019	1,631	197	672	2,500	1	2,501
Of which: In respect of off-balance sheet credit instruments	130	-	52	182	-	182
Six months ended June 30, 2020						
Balance of allowance for credit losses, as at December 31, 2019 (audited)	1,823	207	717	2,747	1	2,748
Expenses for credit loss	754	91	329	1,174	14	1,188
Accounting write-offs	(231)	(6)	(255)	(492)	-	(492)
Collection of debts written-off in previous years	137	-	127	264	-	264
Net accounting write-offs	(94)	(6)	(128)	(228)	-	(228)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at June 30, 2020	2,484	292	918	3,694	15	3,709
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289
Six months ended June 30, 2019						
Balance of allowance for credit losses, as at December 31, 2018 (audited)	1,606	187	657	2,450	1	2,451
Expenses for credit loss	121	16	140	277	-	277
Accounting write-offs	(193)	(6)	(244)	(443)	-	(443)
Collection of debts written-off in previous years	110	-	119	229	-	229
Net accounting write-offs	(83)	(6)	(125)	(214)	-	(214)
Financial statements translation adjustments	(13)	-	-	(13)	-	(13)
Balance of allowance for credit losses, as at June 30, 2019	1,631	197	672	2,500	1	2,501
Of which: In respect of off-balance sheet credit instruments	130	-	52	182	-	182

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

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

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated

	Unaudited					
	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
June 30, 2020						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	88,493	2	630	89,125	7,249	96,374
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾ 203	39,503	-	39,706	-	39,706
Group - other	26,670	201	31,139	58,010	1,284	59,294
Total debts	115,366	39,706	31,769	186,841	8,533	195,374
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,814	-	87	1,901	-	1,901
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾¹	⁽³⁾²⁹⁰	-	291	-	291
Group - other	461	2	750	1,213	15	1,228
Total allowance for Credit Losses	2,276	292	837	3,405	15	3,420
June 30, 2019						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	80,418	-	712	81,130	6,158	87,288
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾²²⁴	34,800	-	35,024	-	35,024
Group - other	^{(2)27,081}	161	31,157	58,399	136	58,535
Total debts	107,723	34,961	31,869	174,553	6,294	180,847
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,128	-	74	1,202	-	1,202
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾¹	⁽³⁾¹⁹⁶	-	197	-	197
Group - other	372	1	546	919	1	920
Total allowance for Credit Losses	1,501	197	620	2,318	1	2,319

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 94,335 million (June 30, 2019 - NIS 85,587 million) and the allowance in its respect in an amount of NIS 1,523 million (June 30, 2019 - NIS 969 million) computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 203 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of June 30, 2019 – an amount of NIS 228 million).
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in an amount of NIS 3 million (June 30, 2019 - NIS 4 million), and computed on a group basis, in an amount of NIS 211 million (June 30, 2019 - NIS 124 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

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

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated (continued)

Audited						
December 31, 2019						
	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	85,059	-	761	85,820	5,980	91,800
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾ 233	36,974	-	37,207	-	37,207
Group - other	26,759	185	33,020	59,964	243	60,207
Total debts	112,051	37,159	33,781	182,991	6,223	189,214
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,285	-	82	1,367	-	1,367
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 1	⁽³⁾ 206	-	207	-	207
Group - other	367	1	582	950	1	951
Total allowance for Credit Losses	1,653	207	664	2,524	1	2,525

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 89,986 million and the allowance in its respect in an amount of NIS 1,060 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in an amount of NIS 4 million, and computed on a group basis, in an amount of NIS 130 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts

1. Credit quality and arrears - consolidated

	Unaudited					
	June 30, 2020					
	Problematic ⁽¹⁾			Unimpaired debts – additional information		
	Non-problematic	Unimpaired	Impaired ⁽²⁾	Total	In Arrears of 90 Days or More ⁽³⁾	In Arrears of 30 to 89 Days ⁽⁴⁾
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	16,088	195	117	16,400	7	13
Construction and Real Estate - Real Estate Activity	10,807	72	151	11,030	1	2
Financial Services	7,821	56	302	8,179	-	-
Commercial - Other	51,917	1,160	985	54,062	56	71
Total Commercial	86,633	1,483	1,555	89,671	64	86
Private Individuals - Housing Loans	39,048	⁽⁵⁾ 406	2	39,456	388	98
Private Individuals - Other Loans	29,889	340	197	30,426	45	121
Total Public - Activity in Israel	155,570	2,229	1,754	159,553	497	305
Banks in Israel	667	-	-	667	-	-
Government of Israel	2,649	-	-	2,649	-	-
Total Activity in Israel	158,886	2,229	1,754	162,869	497	305
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,850	430	212	10,492	15	66
Commercial - Other	14,512	618	73	15,203	-	2
Total Commercial	24,362	1,048	285	25,695	15	68
Private Individuals	1,584	9	-	1,593	6	-
Total Public - Activity Abroad	25,946	1,057	285	27,288	21	68
Foreign banks	3,633	-	-	3,633	-	-
Foreign governments	1,584	-	-	1,584	1,029	-
Total Activity Abroad	31,163	1,057	285	32,505	1,050	68
Total public	181,516	3,286	2,039	186,841	518	373
Total banks	4,300	-	-	4,300	-	-
Total governments	4,233	-	-	4,233	1,029	-
Total	190,049	3,286	2,039	195,374	1,547	373

For footnotes see page 162.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Unaudited					
	June 30, 2019					
	Non-problematic	Problematic ⁽¹⁾		Total	Unimpaired debts – additional information	
Unimpaired		Impaired ⁽²⁾	In Arrears of 90 Days or More ⁽³⁾		In Arrears of 30 to 89 Days ⁽⁴⁾	
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	14,757	54	104	14,915	9	31
Construction and Real Estate - Real Estate Activity	10,034	25	258	10,317	1	10
Financial Services	10,335	1	299	10,635	-	1
Commercial - Other	46,147	485	678	47,310	48	208
Total Commercial	81,273	565	1,339	83,177	58	250
Private Individuals - Housing Loans	34,396	⁽⁶⁾ 347	-	34,743	329	107
Private Individuals - Other Loans	30,123	365	171	30,659	60	⁽⁶⁾ 159
Total Public - Activity in Israel	145,792	1,277	1,510	148,579	447	516
Banks in Israel	174	-	-	174	-	-
Government of Israel	2,191	-	-	2,191	-	-
Total Activity in Israel	148,157	1,277	1,510	150,944	447	516
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,131	178	112	8,421	-	-
Commercial - Other	15,278	768	79	16,125	-	4
Total Commercial	23,409	946	191	24,546	-	4
Private Individuals	1,422	6	-	1,428	6	3
Total Public - Activity Abroad	24,831	952	191	25,974	6	7
Foreign banks	2,625	-	-	2,625	-	-
Foreign governments	1,304	-	-	1,304	-	-
Total Activity Abroad	28,760	952	191	29,903	6	7
Total public	170,623	2,229	1,701	174,553	453	523
Total banks	2,799	-	-	2,799	-	-
Total governments	3,495	-	-	3,495	-	-
Total	176,917	2,229	1,701	180,847	453	523

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

Audited						
December 31, 2019						
	Problematic ⁽¹⁾			Total	Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired ⁽²⁾		In Arrears of 90 Days or More ⁽³⁾	In Arrears of 30 to 89 Days ⁽⁴⁾
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	14,367	49	123	14,539	8	72
Construction and Real Estate - Real Estate Activity	10,480	39	190	10,709	2	12
Financial Services	8,241	59	300	8,600	1	2
Commercial - Other	51,283	967	691	52,941	51	203
Total Commercial	84,371	1,114	1,304	86,789	62	289
Private Individuals - Housing Loans	36,551	⁽⁵⁾ 372	-	36,923	353	119
Private Individuals - Other Loans	31,999	371	189	32,559	57	157
Total Public - Activity in Israel	152,921	1,857	1,493	156,271	472	565
Banks in Israel	743	-	-	743	-	-
Government of Israel	2,063	-	-	2,063	-	-
Total Activity in Israel	155,727	1,857	1,493	159,077	472	565
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,767	212	245	9,224	-	98
Commercial - Other	15,159	803	76	16,038	-	1
Total Commercial	23,926	1,015	321	25,262	-	99
Private Individuals	1,452	6	-	1,458	6	-
Total Public - Activity Abroad	25,378	1,021	321	26,720	6	99
Foreign banks	1,965	-	-	1,965	-	-
Foreign governments	1,452	-	-	1,452	-	-
Total Activity Abroad	28,795	1,021	321	30,137	6	99
Total public	178,299	2,878	1,814	182,991	478	664
Total banks	2,708	-	-	2,708	-	-
Total governments	3,515	-	-	3,515	-	-
Total	184,522	2,878	1,814	189,214	478	664

Footnotes:

- (1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.
- (2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.
- (3) Classified as unimpaired problematic debts. Accruing interest income.
- (4) Debts in arrears for between 30 and 89 days which accrue interest income, in an amount of NIS 173 million are classified as unimpaired problematic debts (June 30, 2019- NIS 135⁽⁶⁾ million, December 31, 2019- NIS 196 million).
- (5) Including housing loans in an amount of NIS 9 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (June 30, 2019- NIS 11 million, December 31, 2019- NIS 9 million).
- (6) Reclassified due to changes in the data of a subsidiary company.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

	Unaudited				
	June 30, 2020				
	Balance ⁽¹⁾ of impaired debts in respect of which specific allowance exist ⁽²⁾	Balance of specific allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which specific allowance do not exist ⁽²⁾	Total balance ⁽¹⁾ of Impaired Debts	Contractual principal amount of impaired debts ⁽³⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	77	22	40	117	1,017
Construction and Real Estate - Real Estate Activity	84	5	67	151	890
Financial Services	302	30	-	302	399
Commercial - Other	747	216	238	985	3,072
Total Commercial	1,210	273	345	1,555	5,378
Private Individuals - Housing Loans	2	⁽⁴⁾ -	-	2	2
Private Individuals - Other Loans	151	70	46	197	557
Total Public - Activity in Israel	1,363	343	391	1,754	5,937
Total Activity in Israel	1,363	343	391	1,754	5,937
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	134	35	78	212	582
Commercial - Other	-	-	73	73	137
Total Commercial	134	35	151	285	719
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	134	35	151	285	719
Total Activity Abroad	134	35	151	285	719
Total public	1,497	378	542	2,039	6,656
Total	1,497	378	542	2,039	6,656
Of which:					
Measured according to present value of cash flows	1,340	354	223	1,563	
Debts under troubled debt restructurings	753	161	193	946	

For footnotes see page 165.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Unaudited				
	June 30, 2019				
	Balance ⁽¹⁾ of impaired debts in respect of which specific allowance exist ⁽²⁾	Balance of specific allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which specific allowance do not exist ⁽²⁾	Total balance ⁽¹⁾ of Impaired Debts	Contractual principal amount of impaired debts ⁽³⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	75	20	29	104	1,136
Construction and Real Estate - Real Estate Activity	151	5	107	258	1,032
Financial Services	298	22	1	299	405
Commercial - Other	505	126	173	678	3,372
Total Commercial	1,029	173	310	1,339	5,945
Private Individuals - Other Loans	139	60	32	171	545
Total Public - Activity in Israel	1,168	233	342	1,510	6,490
Total Activity in Israel	1,168	233	342	1,510	6,490
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	112	112	459
Commercial - Other	-	-	79	79	154
Total Commercial	-	-	191	191	613
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	-	-	191	191	613
Total Activity Abroad	-	-	191	191	613
Total public	1,168	233	533	1,701	7,103
Total	1,168	233	533	1,701	7,103
Of which:					
Measured according to present value of cash flows	913	205	92	1,005	
Debts under troubled debt restructurings	826	141	330	1,156	

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Audited				
	December 31, 2019				
	Balance ⁽¹⁾ of impaired debts in respect of which specific allowance exist ⁽²⁾	Balance of specific allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which specific allowance do not exist ⁽²⁾	Total balance ⁽¹⁾ of Impaired Debts	Contractual principal amount of impaired debts ⁽³⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	97	26	26	123	1,061
Construction and Real Estate - Real Estate Activity	120	6	70	190	935
Financial Services	300	22	-	300	402
Commercial - Other	516	152	175	691	2,977
Total Commercial	1,033	206	271	1,304	5,375
Private Individuals - Other Loans	152	66	37	189	553
Total Public - Activity in Israel	1,185	272	308	1,493	5,928
Total Activity in Israel	1,185	272	308	1,493	5,928
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	144	35	101	245	602
Commercial - Other	-	-	76	76	131
Total Commercial	144	35	177	321	733
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	144	35	177	321	733
Total Activity Abroad	144	35	177	321	733
Total public	1,329	307	485	1,814	6,661
Total	1,329	307	485	1,814	6,661
Of which:					
Measured according to present value of cash flows	1,125	285	109	1,234	
Debts under troubled debt restructurings	715	137	328	1,043	

Footnotes:

(1) Recorded amount.

(2) Specific allowance for credit losses.

(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.

(4) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME

	Unaudited					
	Three months ended June 30					
	2020			2019		
Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis	Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis	
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	122	-	-	112	-	-
Construction and Real Estate - Real Estate Activity	154	2	2	266	1	1
Financial Services	362	2	-	300	2	-
Commercial - Other	1,100	4	3	707	5	3
Total Commercial	1,738	8	5	1,385	8	4
Private Individuals - Housing Loans	3	-	-	-	-	-
Private Individuals - Other Loans	205	2	-	186	1	-
Total Public - Activity in Israel	1,946	10	5	1,571	9	4
Total Activity in Israel	1,946	10	5	1,571	9	4
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	218	1	-	122	1	-
Commercial - Other	89	-	-	59	1	-
Total Commercial	307	1	-	181	2	-
Total Public - Activity Abroad	307	1	-	181	2	-
Total Activity Abroad	307	1	-	181	2	-
Total	2,253	(3)11	5	1,752	(3)11	4

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME (CONTINUED)

	Unaudited					
	Six months ended June 30					
	2020			2019		
Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis	Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis	
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	129	-	-	118	-	-
Construction and Real Estate - Real Estate Activity	174	2	2	278	2	2
Financial Services	370	4	-	299	5	1
Commercial - Other	1,144	8	5	754	7	5
Total Commercial	1,817	14	7	1,449	14	8
Private Individuals - Housing Loans	3	-	-	-	-	-
Private Individuals - Other Loans	215	4	1	194	3	1
Total Public - Activity in Israel	2,035	18	8	1,643	17	9
Total Activity in Israel	2,035	18	8	1,643	17	9
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	227	2	-	126	3	-
Commercial - Other	85	1	-	54	2	-
Total Commercial	312	3	-	180	5	-
Total Public - Activity Abroad	312	3	-	180	5	-
Total Activity Abroad	312	3	-	180	5	-
Total	2,347	(3)21	8	1,823	(3)22	9

Footnotes:

- (1) Average recorded amount of Impaired debts during the reported period.
- (2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.
- (3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in an amount of NIS 23 million and NIS 48 million for the three and six months ended June 30, 2020 (NIS 16 million and NIS 33 million for the three and six months ended June 30, 2019), respectively.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	Unaudited				
	June 30, 2020				
	Recorded amount				
	Not accruing interest income	Accruing debts ⁽¹⁾ , in arrears for 90 days or more	Accruing debts ⁽¹⁾ , in Arrears for 30 to 89 Days	Accruing debts ⁽¹⁾ not in arrears	Total ⁽²⁾
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	28	-	-	10	38
Construction and Real Estate - Real Estate Activity	35	-	-	20	55
Financial Services	-	-	-	276	276
Commercial - Other	190	-	-	111	301
Total Commercial	253	-	-	417	670
Private Individuals - Other Loans	71	-	1	84	156
Total Public - Activity in Israel	324	-	1	501	826
Total Activity in Israel	324	-	1	501	826
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	-	53	53
Commercial - Other	28	-	-	39	67
Total Commercial	28	-	-	92	120
Total Public - Activity Abroad	28	-	-	92	120
Total Activity Abroad	28	-	-	92	120
Total	352	-	1	593	946

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at June 30, 2020, to NIS 19 million (June 30, 2019 - NIS 13 million; December 31, 2019 – NIS 17 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

Unaudited					
June 30, 2019					
Recorded amount					
	Not accruing interest income	Accruing debts ⁽¹⁾ , in arrears for 90 days or more	Accruing debts ⁽¹⁾ , in Arrears for 30 to 89 Days	Accruing debts ⁽¹⁾ not in arrears	Total ⁽²⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	31	-	1	9	41
Construction and Real Estate - Real Estate Activity	70	-	4	41	115
Financial Services	-	-	-	295	295
Commercial - Other	320	-	1	80	401
Total Commercial	421	-	6	425	852
Private Individuals - Other Loans	76	-	1	70	147
Total Public - Activity in Israel	497	-	7	495	999
Total Activity in Israel	497	-	7	495	999
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	9	-	-	74	83
Commercial - Other	-	-	-	74	74
Total Commercial	9	-	-	148	157
Total Public - Activity Abroad	9	-	-	148	157
Total Activity Abroad	9	-	-	148	157
Total	506	-	7	643	1,156

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

	Audited				
	December 31, 2019				
	Recorded amount				
	Not accruing interest income	Accruing debts ⁽¹⁾ , in arrears for 90 days or more	Accruing debts ⁽¹⁾ , in Arrears for 30 to 89 Days	Accruing debts ⁽¹⁾ not in arrears	Total ⁽²⁾
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	32	-	-	11	43
Construction and Real Estate - Real Estate Activity	44	-	1	31	76
Financial Services	-	-	-	296	296
Commercial - Other	215	-	3	117	335
Total Commercial	291	-	4	455	750
Private Individuals - Other Loans	77	-	1	80	158
Total Public - Activity in Israel	368	-	5	535	908
Total Activity in Israel	368	-	5	535	908
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	26	-	-	47	73
Commercial - Other	1	-	-	61	62
Total Commercial	27	-	-	108	135
Total Public - Activity Abroad	27	-	-	108	135
Total Activity Abroad	27	-	-	108	135
Total	395	-	5	643	1,043

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited					
	Three months ended June 30					
	2020		2019			
	Debt restructuring performed					
	Recorded Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Recorded Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	60	8	8	54	6	6
Construction and Real Estate - Real Estate Activity	11	3	3	6	1	1
Financial Services	2	(1)	(1)	-	-	-
Commercial - Other	283	45	45	224	24	22
Total Commercial	356	56	56	284	31	29
Private Individuals - Other Loans	1,381	31	31	1,540	34	33
Total Public - Activity in Israel	1,737	87	87	1,824	65	62
Total Activity in Israel	1,737	87	87	1,824	65	62
Lending Activity Abroad						
Public - Commercial						
Commercial - Other	-	-	-	1	50	40
Total Commercial	-	-	-	1	50	40
Private Individuals	2	(1)	(1)	1	(1)	(1)
Total Public - Activity Abroad	2	(1)	(1)	2	50	40
Total Activity Abroad	2	(1)	(1)	2	50	40
Total	1,739	87	87	1,826	115	102

Footnote:

(1) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited					
	Six months ended June 30					
	2020		2019			
	Debt restructuring performed					
	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	118	19	19	120	15	15
Construction and Real Estate - Real Estate Activity	14	3	3	10	5	5
Financial Services	2	(1)	(1)	3	(1)	(1)
Commercial - Other	567	101	101	520	67	65
Total Commercial	701	123	123	653	87	85
Private Individuals - Other Loans	2,828	61	60	3,346	79	77
Total Public - Activity in Israel	3,529	184	183	3,999	166	162
Total Activity in Israel	3,529	184	183	3,999	166	162
Lending Activity Abroad						
Public - Commercial						
Commercial - Other	1	65	65	2	50	40
Total Commercial	1	65	65	2	50	40
Private Individuals	3	(1)	(1)	2	(1)	(1)
Total Public - Activity Abroad	4	65	65	4	50	40
Total Activity Abroad	4	65	65	4	50	40
Total	3,533	249	248	4,003	216	202

Footnote:

(1) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Three months ended June 30			
	2020		2019	
	Failure of restructured debts ⁽¹⁾			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
In NIS millions				
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	17	2	23	1
Construction and Real Estate - Real Estate Activity	2	1	2	2
Commercial - Other	83	3	93	7
Total Commercial	102	6	118	10
Private Individuals - Other	789	4	998	7
Total Public - Activity in Israel	891	10	1,116	17
Total Activity in Israel	891	10	1,116	17
Total	891	10	1,116	17

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Six months ended June 30			
	2020		2019	
	Failure of restructured debts ⁽¹⁾			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
In NIS millions				
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	52	4	40	1
Construction and Real Estate - Real Estate Activity	3	1	6	5
Commercial - Other	229	13	199	12
Total Commercial	284	18	245	18
Private Individuals - Other	1,781	11	1,980	15
Total Public - Activity in Israel	2,065	29	2,225	33
Total Activity in Israel	2,065	29	2,225	33
Lending Activity Abroad				
Public - Commercial				
Commercial - Other	1	57	-	-
Total Commercial	1	57	-	-
Total Public - Activity Abroad	1	57	-	-
Total Activity Abroad	1	57	-	-
Total	2,066	86	2,225	33

Footnote:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to changes in private consumption;
- Exposure to foreign competition;
- In light of concentration within the ownership structure and control of companies in the economy, the phenomenon of concentration exists at the level of large borrower groups, which has led to a rise in the credit risk, particularly in cases where credit has been granted at several levels of the holding companies;
- The Corona pandemic, which broke out in the first quarter, has a significant impact upon the global economy in general, and upon economic activity in Israel in particular, including on the actual ability of businesses to operate and on the demand for their products. In consequence thereof, the business-commercial credit risk has grown, which would be particularly affected by the length of time and the type of restrictions on economic activity that would remain, and the pace of recovery in exiting the crisis.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

(4) Implications of the Corona crisis on credit to private individual (mortgages and others)

- The severe effects of the Corona crisis upon unemployment in the market and on the free income of households, may implicate the quality of credit in this segment. The pace of recovery of the economy, scope of State assistance and the reduction in unemployment will have a decisive impact upon the repayment ability of borrowers. The Bank follows and conducts the monitoring of sectors and customers, the vulnerability of which has grown as a result of the crisis, and is assisting customers in economic distress having a potential for recovery.

(B) INDICATION OF CREDIT QUALITY

	Unaudited				Audited			
	June 30, 2020				December 31, 2019			
	Commercial	Private Individuals		Total	Commercial	Private Individuals		Total
Housing Loans		Other Loans	Housing Loans			Other Loans		
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	96.2%	99.0%	98.3%	97.1%	96.6%	99.0%	98.3%	97.4%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	2.2%	1.0%	1.1%	1.8%	1.9%	1.0%	1.1%	1.6%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	1.6%	-	0.6%	1.1%	1.5%	-	0.6%	1.0%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	2.0%	0.7%	2.6%	1.8%	1.5%	0.6%	2.0%	1.4%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	46.2%	70.5%	152.2%	57.8%	40.1%	54.8%	117.3%	49.8%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

4. Additional information regarding housing loans

BALANCES FOR THE YEAR END, ACCORDING TO LOAN-TO-VALUE (LTV)⁽¹⁾ RATIO, MANNER OF REPAYMENT AND TYPE OF INTEREST

		Balance of housing loans			Total Off-Balance Sheet Credit Risk
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	
In NIS millions					
Unaudited					
June 30, 2020					
First degree pledge: financing ratio	Up to 60%	25,659	394	15,332	508
	Over 60%	12,970	126	7,902	252
Second degree pledge or without pledge		1,077	131	440	3,879
Total		⁽²⁾39,706	651	23,674	4,639
Unaudited					
June 30, 2019					
First degree pledge: financing ratio	Up to 60%	22,657	372	13,625	316
	Over 60%	11,335	118	6,994	133
Second degree pledge or without pledge		969	86	441	2,913
Total		⁽²⁾34,961	576	21,060	3,362
Audited					
December 31, 2019					
First degree pledge: financing ratio	Up to 60%	24,096	406	14,440	369
	Over 60%	12,046	113	7,392	161
Second degree pledge or without pledge		1,017	141	432	3,514
Total		⁽²⁾37,159	660	22,264	4,044

Footnotes:

- (1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.
- (2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 203 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (June 30, 2019 - NIS 228 million, December 31, 2019 - NIS 233 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

C. Information regarding the purchase and sale of debts

During the reported period, no transactions for the purchase or sale of loans were made, the amount of which reached the materiality threshold determined by the Bank, which requires a disclosure on this matter in the interim financial statements (0.5% of the balance of credit).

D. Off balance Sheet Financial Instruments⁽³⁾

	Unaudited		Unaudited		Audited	
	Balance ⁽¹⁾	Provision ⁽²⁾	Balance ⁽¹⁾	Provision ⁽²⁾	Balance ⁽¹⁾	Provision ⁽²⁾
	June 30, 2020		June 30, 2019		December 31, 2019	
	in NIS millions					
Transactions in which the balance represents credit risk:						
Letters of credit	935	6	1,149	6	904	5
Credit guarantees	2,403	36	2,270	27	2,426	28
Guarantees for home purchasers	11,738	4	10,337	3	11,183	3
Other guarantees and obligations	9,416	81	9,548	39	9,835	81
Unutilized facilities for transactions in derivative instruments	2,478	-	1,720	-	1,724	-
Unutilized facilities credit line for credit cards	32,996	65	30,218	42	31,052	44
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,165	44	8,862	24	9,402	24
Irrevocable commitments to extend credit approved but not yet granted ⁽³⁾	23,045	48	21,589	37	22,619	34
Commitment to issue guarantees	6,447	5	6,861	4	6,425	4

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

15. Assets and liabilities according to linkage terms - consolidated

	Unaudited						
	June 30, 2020						
	Israeli currency		Foreign currency ⁽¹⁾			Non monetary items	Total
Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies			
in NIS millions							
Assets							
Cash and deposits with banks	34,488	33	4,207	437	443	-	39,608
Securities	21,167	1,112	16,020	715	1	1,022	40,037
Securities borrowed or purchased under agreements to resell	832	-	-	-	-	-	832
Net credit to the public	135,316	18,112	27,647	1,953	408	-	183,436
Credit to the Government	1,604	275	1,521	819	-	-	4,219
Investments in associates	-	-	-	-	-	154	154
Buildings and equipment	-	-	-	-	-	2,648	2,648
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,910	63	2,901	195	282	505	5,856
Other assets	2,376	31	889	59	558	1,233	5,146
Total assets	197,693	19,626	53,185	4,178	1,692	5,726	282,100
Liabilities							
Deposits from the public	150,830	4,394	59,048	5,553	2,223	-	222,048
Deposits from banks	5,753	-	1,860	104	-	-	7,717
Deposits from the Government	129	8	95	-	-	-	232
Securities lent or sold under agreements to repurchase	-	-	174	-	-	-	174
Bonds and Subordinated debt notes	5,225	6,122	-	30	-	-	11,377
Liabilities in respect of derivative instruments	1,962	142	2,956	231	266	507	6,064
Other liabilities	13,219	825	459	22	249	191	14,965
Total liabilities	177,118	11,491	64,592	5,940	2,738	698	262,577
Difference	20,575	8,135	(11,407)	(1,762)	(1,046)	5,028	19,523
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(15,333)	(4,481)	16,871	2,117	826	-	-
Net options in the money (in terms of underlying asset)	923	-	(697)	(278)	52	-	-
Net options out of the money (in terms of underlying asset)	430	-	(257)	(193)	20	-	-
Total	6,595	3,654	4,510	(116)	(148)	5,028	19,523
Net options in the money (discounted par value)	717	-	(395)	(375)	53	-	-
Net options out of the money (discounted par value)	1,365	-	(241)	(1,130)	6	-	-

Footnote:

(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms - consolidated (continued)

Unaudited							
June 30, 2019							
	Israeli currency		Foreign currency ⁽¹⁾			Non monetary items	Total
	Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies		
in NIS millions							
Assets							
Cash and deposits with banks	15,924	34	4,509	381	397	-	21,245
Securities	19,058	1,686	13,151	636	10	929	35,470
Securities borrowed or purchased under agreements to resell	683	-	-	-	-	-	683
Net credit to the public	126,523	17,029	26,973	1,384	326	-	172,235
Credit to the Government	923	309	1,283	980	-	-	3,495
Investments in associates	-	-	-	-	-	173	173
Buildings and equipment	-	-	-	-	-	2,467	2,467
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	974	156	2,152	156	127	698	4,263
Other assets	1,962	21	1,006	1	458	674	4,122
Total assets	166,047	19,235	49,074	3,538	1,318	5,101	244,313
Liabilities							
Deposits from the public	127,916	4,897	52,109	5,674	2,218	-	192,814
Deposits from banks	4,542	2	1,782	85	5	-	6,416
Deposits from the Government	128	15	47	-	-	-	190
Securities lent or sold under agreements to repurchase	-	-	536	-	-	-	536
Bonds and Subordinated debt notes	2,920	5,194	-	44	-	-	8,158
Liabilities in respect of derivative instruments	1,106	196	2,046	193	107	697	4,345
Other liabilities	11,946	164	565	9	115	387	13,186
Total liabilities	148,558	10,468	57,085	6,005	2,445	1,084	225,645
Difference	17,489	8,767	(8,011)	(2,467)	(1,127)	4,017	18,668
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(12,263)	(3,649)	11,892	2,838	1,182	-	-
Net options in the money (in terms of underlying asset)	860	-	(409)	(424)	(27)	-	-
Net options out of the money (in terms of underlying asset)	(219)	-	309	(2)	(88)	-	-
Total	5,867	5,118	3,781	(55)	(60)	4,017	18,668
Net options in the money (discounted par value)	1,860	-	(1,054)	(797)	(9)	-	-
Net options out of the money (discounted par value)	(137)	-	1,003	(546)	(320)	-	-

Footnote:

(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms - consolidated (continued)

	Audited						
	December 31, 2019						
	Israeli currency		Foreign currency ⁽¹⁾			Non monetary items	Total
Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies			
in NIS millions							
Assets							
Cash and deposits with banks	22,992	29	2,346	310	367	-	26,044
Securities	20,486	685	14,176	1,408	10	980	37,745
Securities borrowed or purchased under agreements to resell	531	-	-	-	-	-	531
Net credit to the public	132,824	18,348	27,334	1,491	470	-	180,467
Credit to the Government	849	297	1,412	957	-	-	3,515
Investments in associates	-	-	-	-	-	171	171
Buildings and equipment	-	-	-	-	-	2,577	2,577
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,587	117	2,090	130	248	373	4,545
Other assets	2,191	28	968	-	470	407	4,064
Total assets	181,460	19,504	48,326	4,296	1,565	4,672	259,823
Liabilities							
Deposits from the public	134,716	4,611	54,021	5,853	2,249	-	201,450
Deposits from banks	4,248	2	2,061	102	6	-	6,419
Deposits from the Government	125	12	44	-	-	-	181
Securities lent or sold under agreements to repurchase	-	-	346	-	-	-	346
Bonds and Subordinated debt notes	5,699	7,389	-	41	-	-	13,129
Liabilities in respect of derivative instruments	1,769	199	2,113	171	219	368	4,839
Other liabilities	13,125	183	604	10	165	179	14,266
Total liabilities	159,682	12,396	59,189	6,177	2,639	547	240,630
Difference	21,778	7,108	(10,863)	(1,881)	(1,074)	4,125	19,193
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(15,754)	(2,814)	15,647	1,990	931	-	-
Net options in the money (in terms of underlying asset)	1,219	-	(968)	(299)	48	-	-
Net options out of the money (in terms of underlying asset)	(47)	-	(65)	109	3	-	-
Total	7,196	4,294	3,751	(81)	(92)	4,125	19,193
Net options in the money (discounted par value)	1,148	-	(878)	(336)	66	-	-
Net options out of the money (discounted par value)	(308)	-	(119)	520	(93)	-	-

Footnote:

(1) Includes those linked to foreign currency.

16. Balances and fair value estimates of financial instruments

A. Composition - consolidated

	Unaudited				
	June 30, 2020				
	Book value	Fair value			Total
	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾		
in NIS millions					
Financial assets					
Cash and deposits with banks	39,608	16,262	-	23,377	39,639
Securities ⁽²⁾	40,037	22,989	16,469	932	40,390
Securities borrowed or purchased under agreements to resell	832	-	-	832	832
Net credit to the public	183,436	1,767	-	181,645	183,412
Credit to Governments	4,219	-	-	4,247	4,247
Assets in respect of derivative instruments	5,856	486	3,966	1,404	5,856
Other financial assets	1,744	13	10	1,721	1,744
Total financial assets	⁽³⁾ 275,732	41,517	20,445	214,158	276,120
Financial liabilities					
Deposits from the public	222,048	23,300	159,799	39,515	222,614
Deposits from banks	7,717	151	4,551	3,018	7,720
Deposits from the Government	232	-	150	84	234
Securities lent or sold under agreements to repurchase	174	-	-	174	174
Bonds and Subordinated debt notes	11,377	10,136	69	1,311	11,516
Liabilities in respect of derivative instruments	6,064	487	5,238	339	6,064
Other financial liabilities ⁽⁴⁾	10,199	657	14	9,528	10,199
Total financial liabilities	⁽³⁾ 257,811	34,731	169,821	53,969	258,521
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	119	-	-	119	119

Footnotes:

- (1) 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.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 58,370 million and NIS 127,966 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see sections B and C below.
- (4) Not including liabilities in respect of leasing.

16. Balances and fair value estimates of financial instruments (continued)

A. Composition - consolidated (continued)

Unaudited					
June 30, 2019					
	Book value	Fair value			Total
		Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾	
in NIS millions					
Financial assets					
Cash and deposits with banks	21,245	11,931	-	9,321	21,252
Securities ⁽²⁾	35,470	21,512	13,313	804	35,629
Securities borrowed or purchased under agreements to resell	683	-	-	683	683
Net credit to the public	172,235	4,286	-	168,211	172,497
Credit to Governments	3,495	-	-	3,535	3,535
Assets in respect of derivative instruments	4,263	664	2,353	1,246	4,263
Other financial assets	1,847	231	14	1,602	1,847
Total financial assets	⁽³⁾239,238	38,624	15,680	185,402	239,706
Financial liabilities					
Deposits from the public	192,814	19,256	132,155	41,710	193,121
Deposits from banks	6,416	58	5,002	1,369	6,429
Deposits from the Government	190	-	124	70	194
Securities lent or sold under agreements to repurchase	536	-	-	539	539
Bonds and Subordinated debt notes	8,158	6,976	178	1,656	8,810
Liabilities in respect of derivative instruments	4,345	664	3,424	257	4,345
Other financial liabilities	9,973	814	31	9,128	9,973
Total financial liabilities	⁽³⁾222,432	27,768	140,914	54,729	223,411
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	114	-	-	114	114

Footnotes:

- (1) 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.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 52,563 million and NIS 99,595 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see sections B and C below.

16. Balances and fair value estimates of financial instruments (continued)

A. Composition - consolidated (continued)

	Audited				
	December 31, 2019				
	Book value	Fair value			Total
	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾		
in NIS millions					
Financial assets					
Cash and deposits with banks	26,044	11,578	-	14,470	26,048
Securities ⁽²⁾	37,745	22,929	14,222	839	37,990
Securities borrowed or purchased under agreements to resell	531	-	-	531	531
Net credit to the public	180,467	3,451	-	177,772	181,223
Credit to Governments	3,515	-	-	3,543	3,543
Assets in respect of derivative instruments	4,545	346	3,356	843	4,545
Other financial assets	1,840	14	13	1,813	1,840
Total financial assets	⁽³⁾254,687	38,318	17,591	199,811	255,720
Financial liabilities					
Deposits from the public	201,450	19,823	140,936	41,143	201,902
Deposits from banks	6,419	19	5,285	1,141	6,445
Deposits from the Government	181	-	122	62	184
Securities lent or sold under agreements to repurchase	346	-	-	347	347
Bonds and Subordinated debt notes	13,129	11,903	166	1,602	13,671
Liabilities in respect of derivative instruments	4,839	345	4,202	292	4,839
Other financial liabilities	10,630	469	27	10,134	10,630
Total financial liabilities	⁽³⁾236,994	32,559	150,738	54,721	238,018
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	116	-	-	116	116

Footnotes:

- (1) 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.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 54,496 million and NIS 108,470 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see sections B and C below.

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value – Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited June 30, 2020				Total fair value
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	13,510	4,152	-	-	17,662
Foreign Governments bonds	494	199	-	-	693
Israeli financial institutions bonds	68	32	-	-	100
Foreign financial institutions bonds	-	1,126	-	-	1,126
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,702	-	-	7,703
Bonds of others in Israel	266	97	-	-	363
Bonds of others abroad	-	2,363	-	-	2,363
Shares not for trading	77	12	-	-	89
Total available-for-sale bonds and shares not for trading	14,416	15,683	-	-	30,099
Trading Securities					
Israeli Government bonds	908	266	-	-	1,174
Foreign Governments bonds	16	-	-	-	16
Israeli financial institutions bonds	1	-	-	-	1
Foreign financial institutions bonds	-	2	-	-	2
Bonds backed by assets (ABS) or by mortgage (MBS)	-	54	-	-	54
Bonds of others in Israel	57	-	-	-	57
Bonds of others abroad	-	10	-	-	10
Trading Shares	1	-	-	-	1
Total trading securities	983	332	-	-	1,315
Credit to the public in respect of securities loaned	1,767	-	-	-	1,767
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	277	-	277
Other Interest Rate Contracts	-	2,904	320	-	3,224
Foreign Currency Contracts	15	995	794	-	1,804
Shares Contracts	470	49	-	-	519
Commodity and other Contracts	1	18	13	-	32
Total assets in respect of derivative instruments	486	3,966	1,404	-	5,856
Other	-	10	-	-	10
Assets in respect of the "Maof" market operations	13	-	-	-	13
Total assets	17,665	19,991	1,404	-	39,060
Liabilities					
Deposits from the public in respect of securities borrowed					
CLN deposits	-	-	32	-	32
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	185	-	185
Other Interest Rate Contracts	1	3,630	-	-	3,631
Foreign Currency Contracts	15	1,540	154	-	1,709
Shares Contracts	470	40	-	-	510
Commodity and other Contracts	1	28	-	-	29
Total liabilities in respect of derivative instruments	487	5,238	339	-	6,064
Other	-	14	-	-	14
Commitments in respect of the "Maof" market operations	13	-	-	-	13
Short sales of securities	644	-	-	-	644
Total liabilities	2,364	5,252	371	-	7,987

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Unaudited				
	June 30, 2019				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available for sale securities					
Of the Israeli Government	14,352	1,818	-	-	16,170
Of foreign governments	586	179	-	-	765
Of Israeli financial institutions	38	12	-	-	50
Of foreign financial institutions	-	1,088	-	-	1,088
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	10	7,039	-	-	7,049
Of others in Israel	98	102	-	-	200
Of others abroad	-	1,969	-	-	1,969
Shares	95	10	-	-	105
Total available-for-sale securities	15,179	12,217	-	-	27,396
Trading Securities					
Of the Israeli Government	1,351	426	-	-	1,777
Of foreign governments	-	-	-	-	-
Of Israeli financial institutions	16	-	-	-	16
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	69	-	-	69
Of others in Israel	45	-	-	-	45
Of others abroad	-	-	-	-	-
Shares	20	-	-	-	20
Total trading securities	1,432	495	-	-	1,927
Credit to the public in respect of securities loaned	4,286	-	-	-	4,286
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	137	-	137
Other Interest Rate Contracts	-	1,749	700	-	2,449
Foreign Currency Contracts	3	538	406	-	947
Shares Contracts	656	61	-	-	717
Commodity and other Contracts	5	5	3	-	13
Total assets in respect of derivative instruments	664	2,353	1,246	-	4,263
Other	-	14	-	-	14
Assets in respect of the "Maof" market operations	231	-	-	-	231
Total assets	21,792	15,079	1,246	-	38,117
Liabilities					
Deposits from the public in respect of securities borrowed					
CLN deposits	-	-	156	-	156
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	104	-	104
Other Interest Rate Contracts	-	2,643	-	-	2,643
Foreign Currency Contracts	3	734	153	-	890
Shares Contracts	656	41	-	-	697
Commodity and other Contracts	5	6	-	-	11
Total liabilities in respect of derivative instruments	664	3,424	257	-	4,345
Other	-	31	-	-	31
Commitments in respect of the "Maof" market operations	231	-	-	-	231
Short sales of securities	583	-	-	-	583
Total liabilities	3,750	3,455	413	-	7,618

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited				
	December 31, 2019				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available for sale securities					
Of the Israeli Government	14,824	2,408	-	-	17,232
Of foreign governments	1,494	173	-	-	1,667
Of Israeli financial institutions	103	42	-	-	145
Of foreign financial institutions	-	927	-	-	927
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	9	7,053	-	-	7,062
Of others in Israel	156	166	-	-	322
Of others abroad	-	2,207	-	-	2,207
Shares	116	12	-	-	128
Total available-for-sale securities	16,702	12,988	-	-	29,690
Trading Securities					
Of the Israeli Government	1,628	671	-	-	2,299
Of foreign governments	16	-	-	-	16
Of Israeli financial institutions	17	-	-	-	17
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	60	-	-	60
Of others in Israel	58	-	-	-	58
Of others abroad	-	-	-	-	-
Shares	13	-	-	-	13
Total trading securities	1,732	731	-	-	2,463
Credit to the public in respect of securities loaned	3,451	-	-	-	3,451
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	172	-	172
Other Interest Rate Contracts	-	2,548	200	-	2,748
Foreign Currency Contracts	3	731	448	-	1,182
Shares Contracts	341	47	-	-	388
Commodity and other Contracts	2	30	23	-	55
Total assets in respect of derivative instruments	346	3,356	843	-	4,545
Other	-	13	-	-	13
Assets in respect of the "Maof" market operations	14	-	-	-	14
Total assets	22,245	17,088	843	-	40,176
Liabilities					
Deposits from the public in respect of securities borrowed					
CLN deposits	-	-	144	-	144
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	97	-	97
Other Interest Rate Contracts	-	2,946	-	-	2,946
Foreign Currency Contracts	2	1,177	195	-	1,374
Shares Contracts	341	29	-	-	370
Commodity and other Contracts	2	50	-	-	52
Total liabilities in respect of derivative instruments	345	4,202	292	-	4,839
Other	-	27	-	-	27
Commitments in respect of the "Maof" market operations	14	-	-	-	14
Short sales of securities	455	-	-	-	455
Total liabilities	2,677	4,229	436	-	7,342

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

2. Items measured according to fair value not on a recurring basis

Unaudited					
June 30, 2020					
	Level 1	Level 2	Level 3	Total fair value	Loss for the six months ended June 30, 2020
In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	476	476	(44)
Not for trading shares	-	-	54	54	(12)

Unaudited					
June 30, 2019					
	Level 1	Level 2	Level 3	Total fair value	Loss for the six months ended June 30, 2019
In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	696	696	(26)
Not for trading shares	-	-	39	39	(9)

Audited					
December 31, 2019					
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2019
In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	580	580	(82)
Not for trading shares	-	-	14	14	(31)

16. Balances and fair value estimates of financial instruments (continued)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated

	Fair value as at beginning of the period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of the period	Unrealized gains (losses) in respect of instruments held as at end of the period
in NIS millions								
Unaudited								
For the three months ended June 30, 2020								
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	103	⁽¹⁾ 23	-	(34)	-	-	92	⁽¹⁾ 38
Other Interest Rate Contracts	426	⁽¹⁾ (22)	-	(82)	(2)	-	320	⁽¹⁾ (13)
Foreign Currency Contracts	1,062	⁽¹⁾ (847)	(37)	438	-	24	640	⁽¹⁾ (661)
Commodity and other Contracts	15	⁽¹⁾ (16)	-	14	-	-	13	⁽¹⁾ 20
Total	1,606	(862)	(37)	336	(2)	24	1,065	(616)
Liabilities								
CLN Deposits	(68)	⁽²⁾ (1)	-	37	-	-	(32)	⁽²⁾ (1)
For the three months ended June 30, 2019								
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	32	⁽¹⁾ (1)	-	2	-	-	33	⁽¹⁾ 5
Other Interest Rate Contracts	441	⁽¹⁾ 444	-	(210)	(20)	45	700	⁽¹⁾ 349
Foreign Currency Contracts	310	⁽¹⁾ 74	(51)	(106)	2	24	253	⁽¹⁾ 88
Commodity and other Contracts	8	⁽¹⁾ 1	-	(6)	-	-	3	⁽¹⁾ 8
Total	791	518	(51)	(320)	(18)	69	989	450
Liabilities								
CLN Deposits	(162)	⁽²⁾ -	-	6	-	-	(156)	⁽²⁾ -
For the six months ended June 30, 2020								
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	⁽¹⁾ 56	-	(39)	-	-	92	⁽¹⁾ 71
Other Interest Rate Contracts	200	⁽¹⁾ 161	-	(38)	(8)	5	320	⁽¹⁾ 187
Foreign Currency Contracts	253	⁽¹⁾ 201	(93)	282	3	(6)	640	⁽¹⁾ 463
Commodity and other Contracts	23	⁽¹⁾ (23)	-	13	-	-	13	⁽¹⁾ 13
Total	551	395	(93)	218	(5)	(1)	1,065	734
Liabilities								
CLN Deposits	(144)	⁽²⁾ (1)	-	113	-	-	(32)	⁽²⁾ (1)

Footnotes:

(1) Included in the statement of profit and loss in the section "Non-interest financing income".

(2) Included in the statement of profit and loss in the section "Interest income and expenses".

16. Balances and fair value estimates of financial instruments (continued)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated (continued)

	Fair value as at beginning of the period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of the period	Unrealized gains (losses) in respect of held instruments as at end of the period
Unaudited								
in NIS millions								
For the six months ended June 30, 2019								
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	⁽¹⁾ 10	-	(8)	-	-	33	⁽¹⁾ 12
Other Interest Rate Contracts	293	⁽¹⁾ 592	-	(216)	(22)	53	700	⁽¹⁾ 503
Foreign Currency Contracts	224	⁽¹⁾ 11	(145)	177	(3)	(11)	253	⁽¹⁾ 69
Commodity and other Contracts	13	⁽¹⁾ (1)	-	(9)	-	-	3	⁽¹⁾ 3
Total	561	612	(145)	(56)	(25)	42	989	587
Liabilities								
CLN Deposits	(193)	⁽²⁾ (2)	-	39	-	-	(156)	⁽²⁾ (2)
Audited								
For the year ended December 31, 2019								
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	⁽¹⁾ 38	-	6	-	-	75	⁽¹⁾ 31
Other Interest Rate Contracts	293	⁽¹⁾ 410	-	(435)	(113)	45	200	⁽¹⁾ 233
Foreign Currency Contracts	224	⁽¹⁾ 63	(111)	78	9	(10)	253	⁽¹⁾ 131
Commodity and other Contracts	13	⁽¹⁾ 24	-	(14)	-	-	23	⁽¹⁾ 23
Total	561	535	(111)	(365)	(104)	35	551	418
Liabilities								
CLN Deposits	(193)	⁽²⁾ (4)	-	53	-	-	(144)	⁽²⁾ (3)

Footnotes:

- (1) Included in the statement of income in the section "Non-interest financing income".
(2) Included in the statement of profit and loss in the section "Interest income and expenses".

D. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in the first half of 2020, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

16. Balances and fair value estimates of financial instruments (continued)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

		Unaudited		
	Fair value as at	Valuation	Unobservable inputs	Range
	June 30, 2020	Techniques		(Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	476	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Not for trading shares	54	Evaluation	Company value	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	103	Discounted cash flow	Inflationary expectations	From -0.17% to 1.81% (0.62%)
			Counterparty credit risk (CVA)	From 0.00% to 3.60% (1.07%)
Other Interest Rate Contracts	426	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 6.62% (0.03%)
Foreign Currency Contracts	1,062	Discounted cash flow	Inflationary expectations	From -0.17% to 1.81% (0.76%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 91.7% (0.18%)
Commodities and other contracts	15	Rating model	Counterparty credit risk (CVA)	From 0.00% to 0.00% (0.00%)
Liabilities				
CLN Deposits	32	Discounted cash flow	Credit risk of the underlying asset	

		Unaudited		
	Fair value as at	Valuation	Unobservable inputs	Range
	June 30, 2019	Techniques		(Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	696	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Not for trading shares	39	Evaluation	Company value	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	33	Discounted cash flow	Inflationary expectations	From -0.52% to 1.58% (1.02%)
			Counterparty credit risk (CVA)	From 0.00% to 1.27% (0.30%)
Other Interest Rate Contracts	700	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 1.66% (0.02%)
Foreign Currency Contracts	253	Discounted cash flow	Inflationary expectations	From -0.52% to 1.58% (1.42%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 18.58% (0.34%)
Commodities and other contracts	3	Rating model	Counterparty credit risk (CVA)	From 0.10% to 0.20% (0.20%)
Liabilities				
CLN Deposits	156	Discounted cash flow	Credit risk of the underlying asset	

16. Balances and fair value estimates of financial instruments (continued)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

1. Quantitative information regarding the measurement of fair value at level 3 (continued)

		Audited				
	Fair value as at December 31, 2019	Valuation Techniques	Unobservable inputs	Range (Weighted Average)		
In NIS millions		In %				
A. Items measured at fair value not on a recurring basis						
Impaired credit the collection of which is collateral dependent	580	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs			
Not for trading shares	14	Evaluation	Company value			
B. Items measured at fair value on a recurring basis						
Net Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	75	Discounted cash flow	Inflationary expectations	From	-2.98%	to 2.16% (0.92%)
			Counterparty credit risk (CVA)	From	0.00%	to 4.14% (0.41%)
Other Interest Rate Contracts	200	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to 4.98% (0.02%)
Foreign Currency Contracts	253	Discounted cash flow	Inflationary expectations	From	-2.98%	to 2.16% (1.25%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to 3.26% (0.25%)
Commodities and other contracts	23	Rating model	Counterparty credit risk (CVA)	From	0.00%	to 0.00% (0.00%)
Liabilities						
CLN Deposits	144	Discounted cash flow	Credit risk of the underlying asset			

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). As much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). As much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

17. Credit card activity

A. Existing arrangements between credit card companies and between such companies and the banks. The arrangements were described in Note 36 A to the financial statements as of December 31, 2019.

1. Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from the present rate of 0.7% to a rate of 0.5%, this in five stages during the coming years.

The cross commission level under the new outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

The reduction in the issuer's fee to a level of 0.5% will be implemented in stages, as follows:

- from January 1, 2019, the end of the current arrangement period, through December 31, 2019, the issuer's fee will stand at an average rate that shall not exceed 0.6%;
- from January 1, 2020, through December 31, 2020, the issuer's fee will stand at an average rate that shall not exceed 0.575%;
- from January 1, 2021, through December 31, 2021, the issuer's fee will stand at an average rate that shall not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee will stand at an average rate that shall not exceed 0.525%;
- from January 1, 2023, the issuer's fee will stand at an average rate that shall not exceed 0.5%.

In addition, an outline was established with respect to the reduction of the cross-commission regarding immediate charge transactions, from the current rate of 0.3%, to a rate of 0.25%, in two phases, during the coming years. The aforementioned reduction will be carried out in stages, as follows:

- from January 1, 2021 through December 31, 2022, the commission will be at an average rate of not more than 0.275%;
- from January 1, 2023, the commission will be at an average rate of not more than 0.25%.

On November 25, 2018, these rates were recognized in the Banking Order (Customer service) (Supervision over cross-clearing service for charge card transactions and for immediate debit transactions), 2018.

It should be noted that the reducing the rate of the cross commission affects various parameters, including: the scope of the fees collected from trading houses, the scope of the royalties paid to the banks with which the company has entered into a joint-issuing agreement, various operational fees, the scope of the clearing activity, the effects of the changes in the credit card sector as a result of the "Strum Law" etc. Difficulties exist in assessing each of these parameters on its own and in assessing their aggregate impact, particularly in light of the fact that their impact is felt gradually over time. Consequently, ICC is of the opinion that it is not possible to assess the scope of the impact of the reduction in the cross commission rate on its business results. Nevertheless, the Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated.

Petition regarding the rate of the cross commission. On December 9, 2018, a petition was filed with the Supreme Court sitting as the High Court of Justice, in which relief was sought through the revocation of the Banking Order (Customer Service) (Supervision of Cross Clearing Service of Debit Card Transactions and of Immediate Charge Transactions), 2018. According to the petitioners, the Order should be revoked, and it should be prescribed that the credit card companies be forbidden from generating profit from the cross commission, which is meant to cover only the issuer's costs. ICC submitted its response on August 19, 2019. On July 27, 2020, the Court rejected the Plea.

2. Exemption regarding a restrictive agreement for the clearing of Isracard cards. Note 36 A 2 to the financial statements as of December 31, 2019, contained a description of the exemption regarding the agreement, within the framework of which it had been determined that to the extent that the parties would extend the agreement without inserting material changes, the validity of the exemption shall remain in effect until December 31, 2023. In May 2020, the parties signed the extension of the agreement until December 31, 2023.

B. Arrangements following the Strum Act. The arrangements were described in Note 36 B to the financial statements as of December 31, 2019.

C. Joint distribution agreement with El-AI Company. Note 36 C to the financial statements as of December 31, 2019 described an agreement in respect of an engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards, within the framework of which the FlyCard club is being operated.

In accordance with the plan of operation of the agreement, ICC's profitability is expected to be impaired due to expenses relating to operating the club in the first two years of its operation.

The Corona crisis and following restrictions imposed on international travel by many governments around the world and in Israel, resulted in economic impairment to many airline companies, including El Al airlines.

17. Credit card activity (continued)

On May 14, 2020, El Al published its financial statements for 2019, in which it reported that the company conducts negotiations for a loan, mostly guaranteed by the State of Israel, that discussions with the Government and the lending bodies are still in progress, and that no certainty exists that the negotiations would be concluded in a binding agreement. It was further noted that whereas the said negotiated loan is essential to confront the implications of the crisis, at this stage, significant doubt exists as to the ability of the company to continue as a going concern. On July 6, 2020, El Al reported that its Board of Directors had decided to choose the outline regarding the obtaining of a bank loan, most of it secured by a State guarantee, as well as an issuance of shares to the public, with a commitment by the State to acquire the amount shares not purchased by the public. El Al noted that implementation of the outline is subject to acts and terms the conclusion thereof is uncertain. El Al reported on July 23, 2020 that in accordance with the position of the Ministry of Finance, the State guarantee of the loan would be granted only after the conclusion of the issue of its shares to the public, and that such an issuance has to be effected no later than August 30, 2020.

ICC has studied these developments, and according to assessments made, based, inter alia, on the performance of the operation of the Club and the anticipated income there from, ICC has reached the conclusion that, at this stage, no reason exists for a provision for impairment to be recognized in respect of material amounts paid to El Al within the framework of the agreement. This conclusion is based on information existing in the hands of ICC at the reporting date, and on the estimates made by ICC, as stated. It is possible that actual developments would be different than those estimated by ICC.

- D. Acquisition of the minority interest in Diners.** In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute arose between the parties regarding the entitlement of the sellers to additional consideration, conditional upon fulfillment of conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded. A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is requested to order ICC to pay to Dor-Alon and Blue Square an amount of approx. NIS 21 million. On February 9, 2020, ICC submitted a defense brief in respect of this action. Concurrently with the submission of the defense brief, ICC submitted a counterclaim, in which the Court is requested to order the opposite parties to pay ICC an amount of approx. NIS 33 million. On June 15, 2020, the Plaintiffs filed a response brief in which they reiterated their arguments, and on the same day they submitted a counter defense brief, in which they rejected the arguments of the company in the counterclaim.

18. Dividends

- a. Dividend policy.** On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter. On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy. According to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%. It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, in accordance with the Companies Act and directives of the Bank of Israel. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Bank of Israel and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

18. Dividends (continued)

B. Details regarding the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
May 17, 2018	June 6, 2018	32.0	10	2.75
August 15, 2018	September 2, 2018	42.0	10	3.61
November 15, 2018	December 4, 2018	43.9	10	3.77
March 11, 2019	March 28, 2019	48.6	15	4.18
May 16, 2019	June 3, 2019	60.8	15	5.22
August 14, 2019	September 1, 2019	81.8	15	7.02
November 27, 2019	December 16, 2019	64.0	15	5.50
March 15, 2020	April 5, 2020	48.8	15	4.19

- c. On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of its customers, the Bank's Board of Directors decided to discontinue at this stage the distribution of dividends until the expiry date of the Provisional Instruction issued by the Supervisor of Banks on March 31, 2020 (see Note 9 section 1 (F) above), and the clarification of the circumstances.

19. Transactions with interested parties

Terms of office of the Chairman of the Board and of the President & CEO of the Bank. The Bank's special general meeting of shareholders held on March 18, 2020, approved the update of the terms of office of the Chairman of the Board. The said meeting also approved the terms of office and employment of the Bank's President & CEO.

20. Taxation

- a. On March 15, 2020, a tax ruling was received from the Tax Authority, whereby two shares (out of 5000 shares) of Israel Discount Bank Nominee Company Ltd., held by Discount Trust Ltd. (both companies are subsidiaries of the Bank), would be assigned to the Bank under exemption from income tax and land betterment tax, in accordance with Section 104C of the Income Tax Ordinance, so that following the assignment of the shares, as stated, the Bank would be the sole owner of the share capital of the Nominee Company. In accordance with the terms of the arrangement, the Bank has committed to disclose the said arrangement in a note to its financial statements.
- b. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A preliminary hearing was held on March 5, 2020.

ICC assesses the exposure amount in respect of which the allowance was not included in the financial statements, as a total amount of approx. NIS 148 million.

21. Outbreak of the Corona virus

A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. In March 2020, the World Health Organization announced the Corona virus a "pandemic". Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. Following a significant decline in the scope of morbidity in Israel, in the months of May and June, an additional widespread outbreak of the morbidity occurred in July.

The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas. The Bank estimates that exposure has particularly increased with respect to credit risk and operating risk.

The Bank estimates that the Corona crisis may continue to affect the condition of borrowers and their repayment ability, although, at this stage, significant uncertainty exists regarding the force of the crisis and the length of time in which it is anticipated to apply its impact. On the background of the above stated, the Bank has decided to increase the group allowance in the present quarter, in order to reflect the growth in the estimated credit losses for the period, in respect of borrowers affected by the crisis, which as yet have not been identified (namely, borrowers, the information in respect of whom does not, at this stage, require the creation of a specific allowance for credit losses in their respect).

The economic implications of the Corona crisis depend on the time range for the curbing of the pandemic spread, the forcefulness of the steps taken in Israel and around the world for assistance to and the recovery of the economy, and in the pace of economic recovery and of the return to fulltime activity of the different economic sectors. The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation (including the effect of the decline in the markets). The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, significant uncertainty exists with respect to the force of the crisis and the length of time in which it is expected to have an effect. Accordingly, the Bank estimates that concern exists regarding the continuing impairment in the profitability of the Group, however, at this stage, it is not possible to assess its scope.

22. Shelf Prospectus

On June 17, 2020, the Bank published a shelf prospectus (replacing the shelf Prospectus dated May 11, 2017, the validity of which was extended on May 12, 2019, to May 10, 2020), on the basis of the financial statements as of March 31, 2020.

23. Issuance of subordinate debt notes carrying a loss absorption mechanism (Series "G")

On June 22, 2020, the Bank (through Manpikim company) issued subordinate debt notes (Series "G") in the nominal value of approx. NIS 440.4 million, which were registered for trading on the Stock Exchange. The said subordinate debt notes (Series "G") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "G"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "G") comprise a capital instrument classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III.

The principal sum on the subordinate debt notes (Series "G") shall be redeemed in one payment, on July 1, 2031, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "G") carries a fixed annual interest rate of 2.42%, payable once in each year.

Upon occurrence of circumstances comprising a constitutive event of non-sustainability, as detailed below, Discount Manpikim would eliminate (in whole or in part) the subordinate debt notes. A constitutive event regarding non-sustainability in a banking corporation is the earlier of the following two cases:

- Announcement by the Supervisor of Banks that the conversion of the capital instrument or its elimination is essential, as without it, in the opinion of the Supervisor, the bank would reach the point of non-sustainability;
- Notice by the Supervisor of Banks to the Bank of a decision to provide capital from the public sector or provide other support of equal value, which without it the Bank would reach the point of non-sustainability, as determined by the Supervisor.



24. Pledges, Restrictive Terms and Collateral

Note 27 J to the financial statements as of December 31, 2019, contained a description of a deposit of surety for the credit extended by the Bank of Israel to the Bank and to MDB, within the framework of the credit tenders, noting that the Bank and MDB did not participate in such credit tenders in the years 2017-2019.

In the second quarter of 2020, the Bank and MDB resumed participation in the credit tenders of the Bank of Israel, and for that purpose the Bank has pledged in favor of the Bank of Israel foreign bonds deposited with Euroclear, the value of which, as of June 30, 2020, amounted to US\$455 million.

Corporate Governance, Audit, Additional Details Regarding the Business of the Banking Corporation and Management Thereof

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● CORPORATE GOVERNANCE AND AUDIT

Board of Directors and Management

Changes in the Board of Directors

The general meeting of shareholders held on August 4, 2020, resolved to appoint as external Directors, within the meaning of the term in Proper Conduct of Banking Business Directive No. 301, for a period of three years, the following persons: Mr. Shaul Kobrinsky (reelected officiating Director), as from December 11, 2020, Ms. Iris Avner (reelected officiating Director), as from March 22, 2021, and Dr. Yaacov Lifshiz (reelected officiating Director), as from March 26, 2021. The said meeting of shareholders resolved to appoint as external Directors, within the meaning of the term in the Companies Act, 1999, for a period of three years, the following persons: Mr. Aharon Abramovich, (reelected officiating Director), as from October 30, 2020, and Mr. Baruch Lederman (reelected officiating Director), as from November 27, 2020. All as detailed in the immediate report dated August 4, 2020 (Ref. No. 2020-01-083856), the information detailed therein regarding the above matters, is presented herewith by way of reference.

Meetings of the Board of Directors and its committees

In the first half of 2020, the Board of Directors held 15 meetings. In addition, 43 meetings of committees of the Board of Directors were held.

The Internal Audit in the Group

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work plans and the considerations at its basis were included in the 2019 Annual Report (pp. 297-299).

Updates. During the second quarter of 2020 the following periodic reports were submitted and discussed:

- The annual report on the activities of the internal audit in 2019 was submitted on March 15, 2020, discussed by the Audit Committee on March 31, 2020 and discussed by the Board of Directors on April 19, 2020;
- The quarterly report on the activities of the internal audit in the first quarter of 2020 was submitted on May 5, 2020, and discussed by the Audit Committee on May 25, 2020.

Transactions with Interested and Related Parties

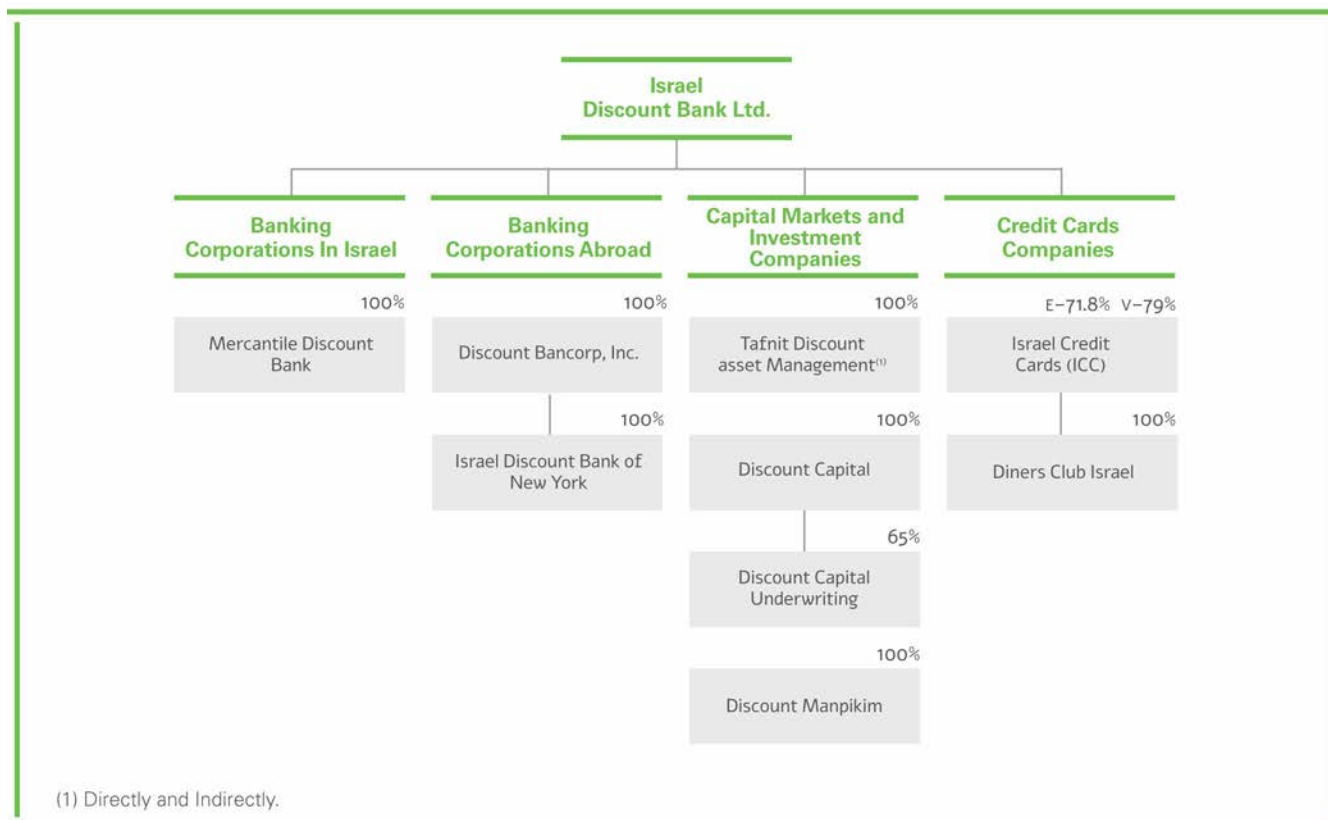
Terms of office of the Chairman of the Board and of the President & CEO of the Bank. The Bank's special general meeting of shareholders held on March 18, 2020, approved the update of the terms of office of the Chairman of the Board. The said meeting also approved the terms of office and employment of the Bank's President & CEO.

Directors and officers liability insurance. The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the remuneration policy that was approved by the same meeting, under the terms and limitations stated in the said remuneration policy.

All as detailed in the immediate reports dated February 11, February 24 and March 18, 2020 (Ref. Nos. 2020-01-012694, 2020-01-015952 and 2020-01-022936, respectively), the information detailed therein regarding the above matters, is presented herewith by way of reference.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



Fixed Assets and Installations

Buildings and Equipment

Establishment of the Discount Campus. For details, see the 2019 Annual Report (p. 307-308) and Note 10 B 6 to the condensed financial statements.

Information and Computer Systems

Activity in light of the coronavirus. The Bank has taken various actions intended to ensure its operational and technological stability, with the aim of enabling essential critical processes to function in all areas, including customer service, support processes, technology, business continuity, cyber and data protection.

During this period, the following measures, among others, have been taken:

- Making remote working possible for the business divisions, both for the units that serve customers (e.g., TeleBank, dealing room, banking service center) and also head office units, thereby enabling "business continuity" and full availability for the Bank's essential financial activity;
- Providing the necessary infrastructures to implement the capability of remote working, while meeting the shortest SLA requirements and full availability, without the occurrence of material irregular or disabling events and while coping with the pressure on the Bank's infrastructures, due to the state of emergency;
- Continuing to execute development projects in response to business demands, while integrating unplanned developments the need for which arose due to the state of emergency.

Involvement and contribution to the community in the Corona days

On the background of the crisis, the Bank applied itself to respond to the different calls for help. Inter alia, the Bank assisted fifteen hospitals in the purchase of respiratory machines and intensive care stations. Also, the Bank joined El Al Airlines in repatriating Israeli tourists from South America. At the same time, the Bank donated to Associations assisting Holocaust survivors, senior citizens and needy families: "Latet", "Lasova" and "Yad Ezer La-Haver", for the purchase of food parcels; to the "Israeli Spirit" in aid of boardinghouse children; to "WIZO" in aid of families leaving shelters and girls in risk situations; and to "Magen David Adom" for the purchase of equipment kits for the on-duty staff and more.

The Bank and ICC have launched an ambulance for the transportation, of seniors and handicapped persons confined to wheelchairs, in cooperation with the Savyonim Association, at no cost.

A designated application was introduced in July for Discount employees, within the framework of PayBox, for a direct and personal donation by the Bank's employees to the "The Spirit of Israel" and "Latet" Associations – a donation to these Associations that would be doubled by the Bank's Management, for the purpose of purchasing food packages for the New Year Holiday for needy families.

Also in this challenging period, Bank employees enrolled for different voluntary initiatives, the outstanding of which was where over one hundred Bank employees volunteered to provide online support to Holocaust survivors and old persons.

The human capital

Human resources management during the period of the Corona crisis

Following the operation of the Bank in an emergency format, in accordance with the guidelines, the workforce required to appear in person at the premises of the Bank has been reduced, while a part of the employees continuing to operate in a distant work format.

Operating in the aforesaid format necessitates taking the following measures in the field of human resources management:

- Translating the government guidelines and emergency regulations, which have been updated and altered from time to time, into a planned and operable format from the aspect of the Bank's human resources, including reducing the number of employees coming to Bank premises, massive shift to work from home and making nonessential employees take vacation;
- A split-up of significant units into work capsules in order to avoid contamination and maintain redundancy, including guidelines for managers regarding distant work processes;
- Splitting crucial units over several sites so as to minimize risks;
- Daily workforce planning and listing the employees required to work at the Bank and those that should work from home, including the necessary organization from the technical and logistical aspects (workstations, means of getting to work, meals, hygiene, etc.);
- Daily monitoring of the interfaces with sick employees and defining the impact thereof with regard to isolating employees and entire units and their return to normal activity;
- Mapping the population of employees defined as essential to arrive at the Bank's premises and providing specific response to access difficulties caused by reduced public transport.

Concurrently, measures have been taken in relation to communicating with employees and supporting them:

- A hotline for employees' queries by means of the human resources center;
- Support for employees and managers and assisting them throughout this period and answering their needs;
- Supporting employees that were sick with the Corona virus and employees required to self-isolate, as well as employees suffering from emotional distress due to the situation;
- Support for employees who are not required in the current emergency situation and are taking vacation as ordered by the Bank;
- Guiding the employees regarding conduct in this period, daily communication, delivery of messages and guidelines to all Bank employees.

Remuneration during the Corona crisis

On May 12, 2020, the Bank's management reached accords with the employees' representative committee with regard to remuneration during the Corona crisis period. Within this framework, an agreement was signed with the employees' committee regarding the Bank's participation in financing half of the vacation days that employees were obliged to spend at home and not come to work due to the Corona virus, with this being effective from March 17, 2020 and continuing through June 30, 2020 at the latest. It was also agreed that the Bank would allow the balance on employees' vacation days account to go into minus on expense of future vacation and will not offset the salary in respect of this period in 2020, but will spread the offset amount over the four consecutive years or would defer it to the termination of employment, the earlier of the two.

This arrangement will also apply to temporary employees and, as the Bank shall decide, also to staff employed under personal contracts.

In addition, on the same date, a collective agreement was signed with the employees' representative committee, which made changes to the wage agreement from February 21, 2019, whereby the salary increase due to be paid in July 2020 and the salary increase due to be paid in July 2021, would be consolidated into one increase, which would be paid in May 2021.

ICC. On June 29, 2020, the Management of ICC reached agreement with the representative committee of employees regarding remuneration during the Corona crisis. In this framework, an agreement has been signed with the representative committee of employees with respect to the participation of ICC in financing one half of the leave period of employees forced to keep away from work and stay at home due to the Corona pandemic. It has also been agreed that ICC would allow employees to exceed their accumulated balance of vacation days on account of future vacation, with no deduction of pay in respect of this period.

Organizational communication

Work in an emergency format has set the challenge of maintaining organizational communication in the days of the Corona crisis, during which, many employees were prevented from reaching the Bank offices. In view of the above stated, "FaceBank reaching you" website has been introduced – being the employees' "FaceBank" website in a version adapted to the mobile phone, enabling Bank employees to obtain diverse information and upload contents from anywhere and at any time. Immediately upon the outbreak of the crisis, the Bank's Management took strict action to update employees with the developing situation and to distribute, nearly daily, updating announcements to employees through diversified communication channels. The Bank's President & CEO held a weekly updating conversation with the Bank's managerial echelon, from the branch manager level and above, within the framework of which, it was also possible to present questions and subjects for discussion.

Improvement of Service

Maintaining service continuity during the Corona crisis period. The Bank has prepared for maintaining service continuity and accessibility to banking services on all channels with a view of assisting customers in continuing their regular activity. Preparations included solutions adapted to the changing economic condition of customers, with a view of assisting them in continuing their business activity, while protecting their health and the health of the Bank employees.

The handling of complaints. The annual report to the public regarding the handling of complaints in 2019, is available on the Bank's Internet website.

Rating of Liabilities of the Bank and some of its Subsidiaries

Rating of Liabilities of the Bank and some of its Subsidiaries. On May 7, 2020, Ma'alot announced the ratification of the Bank's rating and of MDB's rating at a level of AAA, with a stable outlook. On the same date, S&P ratified the international rating of the Bank and that of IDB New York at a level of BBB+ and revised the outlook to stable, all as stated in the immediate reports dated May 7, 2020 (reference nos. 2020-15-045030 and 2020-01-044977, respectively), the information provided therein being included herewith by way of reference.

On July 5, 2020, Moody's announced the ratification of the Bank's international credit rating at the level of "A3" with a positive outlook. All as stated in the immediate report dated July 5, 2020 (Ref. No. 2020-01-062932), the information contained therein is presented hereby way of reference.

Credit rating of the State of Israel. On April 23, 2020, the Fitch rating agency ratified the credit rating of the State of Israel at a level of A+, with a stable outlook. On April 24, 2020, the rating agency Moody's reduced the credit rating outlook of the State of Israel from "positive" to "stable", leaving the rating itself at the level of A1.

For details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies, see the 2019 Annual Report (p. 322-323).

Activity of the Group according to regulatory operating segments – additional details

Household Segment (Domestic operations) - additional details

Developments in the segment

In the first quarter of 2020 (until the middle of March, date on which the Corona crisis broke out) the Bank continued implementing measures to achieve the multi-year targets:

- Further improving the customer experience with the human and the digital channels, including deploying a customer experience approach drawn up in light of the findings from a comprehensive customer survey;
- Giving accessibility to a broad range of services and providing an advanced experience, 24/7 availability in the digital platforms (including being able to open make an account via the app and so forth) and educating customers to adopt the advanced services;
- Broadening the use of the “meeting with a banker” invitation service and the cashier and consultant services;
- Further regulating branch workloads for all contact channels: face-to-face, telephone and digital, by means of a control and command center at the Banking Division;
- Further improving and expanding the telephone call center with the aim of enhancing the availability of the telephone service;
- Upgrading the sales effectiveness by means of customized value offers on all channels;
- Continuing the development and use of analytical models as a tool in support of credit-granting decisions.

Branches. At the end of the second quarter, the Discount Group has 178 branches in operation in Israel (103 branches of the Bank and 75 branches of MDB).

For additional details, see the 2019 Annual Report (pp. 324-327).

Mortgage Activity

At the present time, the Bank operates 65 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.

Developments in the mortgage market

	June 30,		Change in %
	2020	2019	
	in NIS millions		
Total housing loans granted by the banks, excluding internal recycling of loans	37,040	32,099	15.4
Loans from State funds	349	366	(4.6)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the six months ended June 30,		Change in %	For the year ended December 31, 2019 In NIS millions
	2020	2019		
	In NIS millions			
From bank funds ⁽¹⁾	4,618	3,775	22.3	8,151
From Treasury funds ⁽²⁾	28	34	(17.6)	59
Total of new loans	4,646	3,809	22.0	8,210
Recycled loans	636	250	154.4	650
Total granted⁽³⁾	5,282	4,059	30.1	8,860

Footnotes:

- (1) Including new loans granted, secured by housing mortgages, in the amount of NIS 79 million in the first six months of 2020, compared to NIS 57 million as at June 30, 2019 and NIS 130 million in 2019.
- (2) Including standing loans in the amount of NIS 10 million in the first six months of 2020, as at June 30, 2019 and NIS 12 million in 2019.
- (3) At the Bank and M.D.B.

Legislative restrictions, regulations and special constraints applicable to the operations

Adjustments to Proper Conduct of Banking Business Directives for confronting the Corona virus crisis (Provisional Instruction).

The circular of the Supervisor of Banks dated March 19, 2020, states that it is permitted to approve a mortgage loan of up to a financing level of 70% of the value of the property, on condition that the loan is not granted for the purchase of an additional apartment. The circular dated May 5, 2020, permitted to approve a mortgage loan the ratio of the repayment installment thereof to free income shall not exceed 70% of the remaining income of the borrower after impairment to income caused by the Corona crisis. The Bank has to determine an overall limit to the volume of credit extended in terms of this relief.

Outline of the Supervisor of Banks for the deferral of loan repayment. In order to provide response to the credit needs of households and small and medium businesses, in view of the implications of the Corona crisis, the Supervisor of Banks published in May 2020, an outline for the deferral of mortgage and loan repayment in the banking system, which contains guidelines regarding consumer, business and housing loans. The outline allows the borrower to apply for a deferral of up to six months in the repayment of a mortgage. In July 2020, the Bank of Israel extended the validity of the outline and expanded it. According to the expanded outline, a borrower may submit, until October 30, 2020, an application for deferral of mortgage loan repayments for an additional period of six months, or for extension of an existing deferral until the end of 2020.

For details regarding guidelines and instructions of the Supervisor of Banks designed to restrain the mortgage market, see the 2015 Annual Report (pp. 469-471). For additional details, see the 2019 Annual Report (pp. 327-328).

Private Banking Segment (Domestic operations) - additional details

The Corona crisis, which started in February, is continuing, despite the recovery experienced in the capital markets, many customers have not yet resumed investments in the capital market.

For additional details, see the 2019 Annual Report (pp. 329-331).

Large businesses Segment (Domestic operations) - additional details

Reaching targets and business strategy – first half of 2020

The Bank has acted in accordance with the work plan from the corporate banking segment, while focusing on increasing risk adjusted return on risk assets and a customer-focused view. Among other things, the Bank acted to adjust its exposure in accordance with sectorial risk level evaluations, adjust the credit spreads to the risk level and to the reduction in exposure to activities involving a high level of risk.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

As of June 30, 2020, no deviations existed from the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as of June 30, 2020, there were no deviations from the limitations on "related persons". In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.

Review of the developments in the business sector in the first half of 2020

The Domestic economy shrank in the first half of 2020 at an unprecedented rate, following the crisis. The product and the business product recorded reductions of 10.1% and 11.9%, respectively (compared to the second half of 2019, in annualized terms). It is noted, that most of the impact in the first quarter occurred in March, with the restrictions imposed on traffic and employment. In April, the shutdown reached its peak, and so did the recorded level of impact. Accordingly, the decline in economic activity increased in the second quarter. The business product shrank in the second quarter by 33.4%, following the shrinking by 7.8% in the first quarter (in annualized terms).

Following are the factors that impacted the development of the business product in the first half of 2020 (all rates of the change are in annualized terms):

- Private consumption, which had served as a central growth generator in recent years, shrank by a steep rate of 22.4%. The decline in private consumption, which was very steep in the first quarter, grew even stronger in the second quarter;
- Exports (excluding startup companies and diamonds) regressed by 1.2%, with a most steep decline in income from tourism. Industrial exports recorded a steep increase in the first quarter, though shrinking steeply in the second quarter. Export of hi-tech services grew at a high rate in the first two quarters of the year;

- Investments in economic sectors (excluding ships and aircraft) recorded a steep decline of 13.6%, following a significant shrinking of investments in passenger cars (leasing). It is noted, that investments in residential construction recorded a steep decline of 20.7%. The two first quarters of the year were characterized by a steep regression in investments;
- Public consumption (excluding defense imports) shrank by 1.8%. It is noted, that contrasting trends were recorded in the two quarters (a steep decline in the first quarter with a steep increase in the second quarter);
- The import of goods and services (excluding defense, ships, aircraft and diamond imports) shrank at a steep rate of 22%, moderating the volume of the decline in the product.

Developments in the debt of the business sector

The debt of the business sector (excluding banks and insurance companies) amounted at the end of May 2020³ to NIS 977 billion, an increase of 1.6% compared with the end of December 2019 (all the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).

The increase in the total debt balance stems from the increase in debt to banks at the rate of 4.6%, and from an increase in the debt to institutional bodies at the rate of 2.4% (of which: an increase of approx. 5% in the balance of bonds held by institutional bodies). On the other hand, the debt to foreign residents and the debt to households recorded a reduction of 4.3% and 2%, respectively. As a result of the above stated trends, the weight of the banks in the total debt of the business sector increased reaching at the end of May 2020, a level of 49.4% (compared to 48% at the end of 2019).

During the months January-June, the business segment, excluding banks and insurance companies, raised bonds in an amount of NIS 21.6 billion (on the Tel-Aviv Stock Exchange and by means of non-listed bonds), compared to NIS 18 billion in the corresponding period last year.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of June 2020 was 2.14%, compared with 1.03% at the end of 2019 and 1.2% at the end of June last year.

Developments in the Segments' Markets

On the background of the spreading of Corona virus and the shutdown of economic activity around the world generally, and in Israel in particular, the study of developments in the economic sectors based on the current indices, updated retroactively, does not provide a full picture. We are in the midst of a vigorous and rolling event, within the framework of which, an across-the-board impairment of economic activity is expected, which will have an impact on activity in many sectors. Following is an estimate of the more vulnerable economic sectors.

Following are development directions in the principal economic sectors:

- The hotel, aviation and tourism sector – following a record high economic activity seen in this sector in 2019, activity was brought to a halt since the outbreak of the Corona crisis, excluding a partial return to operation in the hotel field; it is certain that these sectors are vulnerable in the present period;
- The industrial sector – in the course of 2019 and even in the beginning of 2020, this sector continued the trend of long-term expansion, as reflected in the sector's production and export data. Since the outbreak of the Corona crisis, the sector's activity has started to contract, as shown by the Purchase Managers Index for June 2020, which continues to remain below the threshold (50 points) between contraction and expansion. Notwithstanding the above, with respect to the historical low level (34.6 points) recorded in March, the most recent index (for June) indicated a rise of 6.5 points to a level of 45.0 points, inter alia, due to the gradual return to activity after the lockdown and restrictions;
- The commercial sectors (including diamonds) – Until the outbreak of the Corona crisis this sector enjoyed the continued growth in the purchase power of the Israeli consumer, however, faced the growing competition and increase in volume of the online trading. Following the lifting of the restrictions and the gradual return to activity, a steep rise was recorded in activity, though this may be attributed to "suppressed" demand. Looking ahead, to the extent that the negative economic sentiment continues and that the rate of unemployment continues to remain at a high level, eroding the purchasing power of the Israeli consumer, impairment is expected in economic performance;
- Real estate sector – for details, see below under "Construction and real estate activity".

³ The most updated data available at the time of submitting the report to print.

Anticipated Developments in the Segments' Markets

According to the growth forecast of July 2020 by the Bank of Israel, the product is expected to contract at the rate of 6.0% in 2020 (a downward adjustment of 1.5% as compared with the previous forecast), while inflation is expected to continue remaining within the negative territory (0.8%) alongside a continuing zero interest rate environment. In addition, the Government plans for providing liquidity to households and business owners (alongside the reduction in tax revenues), are expected to be reflected in an exceptional deficit of approx. 12% of the product, so that at the end of 2020 the debt/product ratio is expected to reach a level of 75%, higher by approx. 15% than its level prior to the crisis. At the applications level, except for public consumption, which would rise as stated, all other components of the product are expected to contract at a sharp rate. Moreover, in a scenario of a further lockdown following worsening morbidity, the said impairment in economic activity might even be much harder.

For details regarding the "Large businesses Segment", see the 2019 Annual Report (pp. 335-339).

Construction and Real Estate Activity

Developments in markets of the activity

Residential property. In the twelve months ended in May 2020, the general apartment price index recorded a rise of 2%. On the other hand, the last observation indicated a decrease of 0.7%, as part of the effects of the Corona crisis and the standstill in the sale of apartments due to the restrictions.

Notwithstanding the above, the basic data of the housing market remained unchanged – the continuing contraction on the supply side, as seen from the construction beginnings data (less than 50 thousand per annum), which continue to be at a low level compared with the annual addition to the number of households, this alongside the continuing decline in the mortgage interest rate to a historical low.

Income producing commercial real estate. The commercial property market has maintained stability in occupancy rates alongside the beginning of a minor reduction in rental prices, principally in the circle of cities around Tel Aviv. This concurrently with the continuation of the negative sentiment on the background of changes in consumption habits, and in particular due to the transition to online trading. The outbreak of the Corona crisis resulted in a sharp slowdown in activity together with a halt in rental payment by a part of the tenants, as expressed by impairment in value on the part of public companies relating to the reduction in cash flows expected in 2020, this without reflecting permanent impairment in value that may result from the crisis and all its implications. In continuation of the trend of erosion in rental fees, which had started prior to the crisis, the second quarter data indicate a decline in rental fees in central areas of the country.

Income producing office premises. Prior to the Corona, the office premises market has maintained stability, both in occupancy rates and in rental prices, backed-up by a growth in economic activity. However, in view of the correlation between the office premises sector and economic activity in general, the negative economic developments are expected to lead to impairment in activity of this sector, as reflected in reports regarding a slight reduction in prices in the second quarter of the year.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain sector, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector was 19.33% as of June 30, 2020, compared with 18.85% at the end of 2019.

Proper conduct of Banking Business Directive No. 315 in the matter of "limitation on sectorial indebtedness" was updated on January 12, 2020. The update allows a banking corporation to maintain the total indebtedness in respect of "real estate construction and manufacturing and trading in construction products" at 24% of total indebtedness of the public to the banking corporation, and this by a condition that the said total net indebtedness, of indebtedness in respect of the financing of projects jointly executed by the public and private segments, shall not exceed 20%. The amendment to the Directive takes effect on date of publication.

Relief in light of the Corona crisis. Proper Conduct of Banking Business Directive No. 250 was published on April 27, 2020, in which the rate of centralization in the real estate and construction sector was updated, net of indebtedness financing joint projects of the public sector with the private sector, to a rate of 22%. The Directive is to be in effect for a period of 24 months from date of expiry of the power of the Directive (namely, until the end of 24 months from September 30, 2020, or from a later date, if at all extended, in a period not exceeding 6 months).

For additional details, see the 2019 Annual Report (pp. 339-341).

Financial Management Segment (Domestic operations) - additional details

Non-Financial Companies

Legislative restrictions, regulations and special constraints applicable to the sub-segment

As of June 30, 2020, there was no violation of the restriction on investment in non-financial corporations pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details, see the 2019 Annual Report (p. 346).

Investment of the Group in private investment funds, venture capital funds and corporations

Discount Capital is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of June 30, 2020, the net investments of Discount Capital in these corporations and funds amounted to approx. US\$304.4 million. As of June 30, 2020, the maximum future commitment of Discount Capital for investment in these corporations and funds amounted to approx. US\$144.3 million.

Developments in the activity

Realizations. In the first half of 2020, Discount Capital has recognized income in the total amount of approx. NIS 8.4 million in respect of realizations of investments, compared with NIS 52.4 million in the corresponding period last year.

For additional details, see the 2019 Annual Report (pp. 343-345).

International Operations Segment - Additional Details

Activity in view of the Corona crisis

IDB New York has implemented several measures intended to maintain business continuity and respond, to the extent possible, to the needs of its customers and employees, and support them in dealing with the crisis. IDB New York has granted customers mitigating possibilities, including deferral of loan principal and interest payments, and extended loans fully guaranteed by the Government, within the framework of the plan of the Small Businesses Agency for the protection of wages. This plan offers loans to businesses undertaking to continue and engage their employees, and which under certain circumstances would turn into grants. In addition, in view of existing circumstances, IDB New York has modified its operating model, so that its services to customers continue undisturbed.

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On June 30, 2020, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.70% of total risk assets, as compared with 15.09% on December 31, 2019. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group.

The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

U.S. legislation. During the first quarter of 2020, the total assets of IDB New York exceeded the US\$10 billion. Subsequently, different regulatory requirements are expected to apply in continuation, to IDB New York, to which IDB New York is preparing accordingly. The application of the regulations, their scope and content, would, inter alia, be affected by the amount of total assets continuing to stay over a period over and above the said threshold. Inter alia, different regulations are expected to apply with respect to activity in derivatives and to the methodology of computing deposit insurance. Furthermore, and in accordance with the above stated, the activity of IDB New York would be subject to the supervision of the Consumer Financial Protection Bureau, the authority of which relates to compliance with different regulations intended for the protection of customers.

For additional details, see the 2019 Annual Report (pp. 346-348).

Additional Segments

For additional details regarding the Small and minute businesses segment (Domestic operations), see the 2019 Annual Report (pp. 331-333). For additional details regarding the Medium businesses segment (Domestic operations), see the 2019 Annual Report (pp. 334-335). For additional details regarding the Institutional bodies segment (Domestic operations), see the 2019 Annual Report (pp. 341).

Credit Card Operations

Developments in operations

The activity of ICC in view of the Corona crisis. The Board of Directors of ICC and its committees held frequent meetings in recent months dealing with the spreading of the Corona virus and its implications on ICC as regards different aspects, including the business continuity of the activity of the company, its preparation for different scenarios as well as preparation for "the day after". Furthermore, With the outbreak of the crisis, Management of the company directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the company's President & CEO, managed the different segments of the company's operations under the crisis, following developments closely and adopting measures to reduce the different risks and maintaining business continuity. The business divisions increased their monitoring and control operations over the condition of the credit portfolio of the company.

Joint distribution agreement with El-Al Company. For details, see Note 17 c to the condensed financial statements.

Support agreements with Visa Europe Limited. In February 2020, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC. This agreement has been signed following the announcement of VISA Europe regarding the increase in commission tariffs payable to it. ICC estimates that, the anticipated effect of the support agreement, on the one hand, and the raising of the VISA rates, on the other hand, is not expected to be material. This estimate may change in case the volume of operation under the "VISA" brand would be materially different from its volume at date of signing the agreement.

Agreement for the clearing of Isracard transactions. For details regarding the extension of the agreement, see Note 17 A (2) to the condensed financial statements.

Technological improvements and innovation at ICC

In May 2020, ICC introduced a new application, which enables an improved user experience with an easy and intuitive interface, while widening the information regarding use of the card and the possibilities for the different operations that may be transacted by the user.

ICC plans to introduce in the coming days a touchless payment service, enabling payments in trading houses that have the smart payment infrastructure (EMV), by use of the mobile telephone in a secured manner and with no need for entering a secret code.

For additional details see the 2019 Annual Report (pp. 348-354).

Technological improvements and innovation

General. The Bank acts constantly over the years to provide its customers with a selection of transactions and information on the digital channels while maintaining an optimal customer experience.

The Corona crisis, that erupted at the end of the first quarter, increased the importance of the activity on the digital channels, that allow receiving extensive information and transacting a wide selection of banking operations in an independent, simple, convenient and also secured way, which may be conducted by the customer from his home.

The contents of the marketing website have been updated in accordance with the need for changes in the preparations of the Bank, adapting the guidelines for the easy management of the bank account also from the home, for deferment of mortgage payments or for a loan application, this in accordance with both private and business customer needs.

At the business development and work plans levels, new and existing processes have been added and improved in order to facilitate customer banking operations in these times. At the same time, the Bank emphasized the attachment of new customers to the digital.

Direct channels

The following innovations and updates took place during the current activity in the second quarter of 2020:

Current accounts and foreign currency

Updates and improvements in the process of opening an account by means of the application. Different improvements and updates were added during the quarter to the process introduced at the end of 2019 by the application for private individuals, including regulatory adjustments, blocking where required, etc.

Updating the maximum amounts for checks deposited through the application. The maximum amounts for checks deposited by use of the application have been increased. The maximum amount was updated in respect of a single check, the total daily deposits and the total monthly deposits. The update applies to the applications for private individuals and for business+.

Increasing the amount in respect of Government payment vouchers. The amount regarding Government payment vouchers by means of the website has been increased to up to NIS 100,000 per single voucher. This applies to the private individuals website.

Multi-data viewing. The possibility of viewing current account movements, checks as well as foreign currency transactions by means of downloading an Excel table has been added, even when thousands of entries are involved (until now, this possibility had been limited to 500 entries only). This applies to the private individuals and the business+ websites and also to the website in English.

Summarized information regarding current accounts in Israeli and in foreign currencies. A new query has been added, which summarizes on one screen all essential details regarding an Israeli currency account or a foreign currency account of the customer. (Such information is mostly required by customers who expects credits in foreign currency, and would now be able to easily transmit the information in a summarized manner to third parties). This applies to the private individuals and the business+ websites and also to the website in English.

Producing a dishonored check printout. The ability to produce a check printout has been added even where no photo/picture of the check exists. This applies to the private individuals and to the business+ websites and also to the website in English.

Deposits

Standing order for depositing funds through the application. The possibility has been added for the deposit of funds by a standing order also by means of the application for private individuals. The customer is referred to the relevant website with no need for further identification.

Premature withdrawal of a key savings deposit through the digital. The possibility has been added for the premature withdrawal of a key savings deposit through the digital (following the possibility added in the first quarter for the withdrawal/premature withdrawal of a deposit). The premature withdrawal is only in respect of the whole amount of the deposit and is not possible in respect of a part thereof. This applies to the private individuals and to the business+ websites as well as to the private individuals and to the business+ applications.

Credit cards

Spreading the monthly credit card charge. The possibility has been added of "spreading the monthly credit card charge" by entering the website of the issuer with no need for further identification (for ICC and MAX credit cards). This applies to the private individuals and to the business+ websites as well as to the private individuals and to the business+ applications.

The credit card lobby – additional upgrades. The information regarding transactions and trading houses has been expanded, a new field has been added showing the conversion rate applying to foreign currency transactions involving double conversion now showing to the customer the conversion process in full. This applies to the private individuals and to the business+ websites and also to the website in English.

Credit

Immediate loan through the application. The process of obtaining an immediate loan through the application has been renewed and improved with a remodeled and upgraded design, providing an advanced customer experience. *Has been gradually deployed on the private individuals application.

Addition of a possibility for a credit application to the banker while conducting a loan process. A customer who is in the process for obtaining a loan, and is interested in increasing the amount of the loan or in obtaining another loan, has now the possibility of changing into a process at the end of which an approach would be delivered by clicking "contact", for the continued treatment and examination by a banker at the branch to turn the approach into a credit application. This was gradually deployed on the private individuals application.

Request for deferment of loan repayments applying to an existing loan. A possibility has been added regarding an application for deferment of repayment of an existing loan. The customer will fill out and send a contact form for further treatment by the banker within three business days. This applies to the private individuals application.

Repayment in full of a loan. The possibility has been added for the premature repayment in full of a loan bearing variable interest obtained through the digital, with no charge of an early repayment commission. This applies to the private individuals application.

Customer experience

Delivery of files to the banker via correspondence through the application. Within the framework of consolidation of the communication channels and the new correspondence through the application that has been recently introduced, a possibility has been added for the "delivery of files to the banker" (forms and files) by means of the application, directly to the relevant branch. The application is directed automatically to the branch of the customer and the attached files are retained within the framework of the correspondence history with the banker, so that the customer may review them at any time. This applies to the private individuals application.

Graphic indication in selecting a new password. When typing in a new password, the customer would receive assistance in choosing a password complying with the Bank's guidelines, so that for every section in the guidelines a mark of "V" or "X" would appear. The change will appear in the following processes: "forgot password" (in the private individuals website only), renewal of an outdated password, initiated change of a password in "my profile". This applies to the private individuals and to the business+ websites and also to the website in English.

Transfer from the Hebrew website to the English website and vice versa. The possibility of transfer between the private individuals website in Hebrew to the English website and back has been added, with no need for signing-out and re-entry.

Digital for business

Business file. Within the framework of the business file service, introduced in 2019 as part of the cross-Bank project for the more efficient use of cash, a possibility has recently been introduced for deposit of checks and vouchers. In addition to the possibility of depositing cash through the business file service, it is now possible to declare the amount of cash/checks/vouchers by means of the application, put all of them into an envelope, scan the barcode printed on the envelope and deliver it to the Bank branch. Upon delivery of the envelope to the Bank, the account of the customer would be credited immediately. This applies to the business+ application.

RTGS transfers through the business+ application. The existing ability for direct RTGS transfers on the business+ website has been added also to the business+ application.

Receipts of foreign currency in foreign trade transactions. Foreign trade customers will now receive an SMS notice regarding a foreign currency receipt, enabling them to enter the business website for confirmation of the receipt. The confirmation would then be passed to a banker, who would complete the process vis-à-vis the customer. (At this stage, the customer would be able to confirm receipts to his account only in the currency of the receipt). This applies to the business+ website.

Opening a foreign currency account through a conversion into foreign currency process on the business+ application. In the course of the process for conversion into foreign currency, where the customer does not have an account in the currency chosen by him, he would be transferred to a very short process (two screens) of opening an account for that specific currency.

Information regarding credit card transactions also for businesses. Similar to the private individuals application, a more detailed information regarding transactions is presented, including a map showing the location of the trading house and a graph presenting the use made by the credit card in recent months. This applies to the business+ application.

Presentation of recurring and future transfers. The possibility has been added of viewing on the application of recurring and future transfers ordered by the customer (this, in addition to the possibility of viewing transfers made at the branch or by TeleBank). Furthermore, this possibility has been added also to the advance search on the application. This applies to the business+ application.

"My profile" on the business+ application. The possibility has been added of entering the settings of "My profile" also through the business+ application.

Different changes and improvements in CM and foreign trade.

Main developments in the Israeli economy and around the world in the first half of 2020

Developments in the Global economy

General. An unprecedented contraction was recorded in the first half of 2020 in the global economic activity and in global trade, following the spreading of the Corona pandemic and the adopted prevention measures. The difficulty in containing the epidemic hinders the return of economic activity to routine. Accordingly, international research bodies have sharply downgraded the growth forecasts for the coming two years. Uncertainty is at a very high level and economic risks are significant, and in particular, the risk that an additional outbreak of the pandemic would lead to an additional shutdown of the global economy.

The product in the US shrank in the second quarter at a steep rate of 32.9% (in annualized terms)- the worst growth data since World War II. Growth in the Eurozone was even worse, and reflected a shrinking of 48.8% in the product (in annualized terms). The force of the shrinking demonstrates the impairment caused to the economies following the shutdown of activity, which reached its peak in the month of April.

The spread of the crisis has led to a concerted response by the world's central banks, led by the Fed, which have taken unprecedented steps, including making steep interest cuts and supplying liquidity to the markets. At the present time, the central banks are focusing on supporting the credit market, with the aim of ensuring the flow of credit to the markets, in order to prevent a much heavier impairment of economic activity. Alongside the monetary measures, many governments are adopting expansionary measures, which include increase in public expenditure, compensation of those affected by the crisis and the granting of loans and guarantees to corporations.

Financial markets. The world's equity markets have suffered strong jolts although, toward the end of March, there was a gradual recovery against the background of the steps taken by the central banks and governments. The trend of recovery continued in the second quarter, so that in total for the first half of the year, the leading indices around the world recorded relatively moderate decrease in prices.

The changes in selected share indices recorded in the first half of the years 2019 and 2020

Index	2020	2019
500 S&P	(4.0%)	17.3%
DAX	(7.1%)	17.4%
MSCI Emerging Markets	(11.0%)	9.2%

In the first weeks of the crisis, trading in government bonds had been very highly volatile. However, following the massive intervention by the central banks, volatility was significantly reduced, and during the second quarter returns recorded stability. At the end of the second quarter, US government bonds for ten years were traded at 0.66%, similarly to that of the end of the first quarter of 0.67%, and 1.92% at the end of 2019. In Germany, the return for ten years was traded at the end of the period at a negative level of -0.45%.

The returns on government bonds

Return on bonds for 10 years	June 30, 2019	December 31, 2018
U.S.A.	0.7%	1.9%
Germany	(0.45%)	(0.19%)

During March, against the background of the steep declines in the markets and the dollar's difficult liquidity situation, the foreign currency market saw exceptional volatility, which supported the strengthening of the US dollar in the first quarter. The trend was overturned in the second quarter, and the dollar weakened on the background of the positive sentiment in the markets. In conclusion for the first half the dollar basket (the "dollar index") appreciated by 1.0%.

Changes in the U.S. dollar against selected currencies in the first half of the years 2019 and 2020

Exchange rate	2020	2019
EUR	(0.2%)	0.8%
JPY	(0.6%)	(1.7%)
GBP	6.9%	0.5%

As a result of the crisis and the shutdown of global activity, commodity prices around the world decreased steeply in the first quarter. The price of oil led this negative trend with a drop of tens of percent. A partial recovery was recorded in the second quarter on the background of the gradual return to economic activity in the world and expectations for recovery in demand. The status of gold as a secure and liquid asset, together with an expansionary fiscal and monetary policy in a significant scope, supported the steep increase in its price in the first half of the year.

Changes in selected commodities indexes in the first half of the years 2019 and 2020

	2020	2019
The commodities index - GSCI	(25.4%)	13.6%
The oil price (BRENT)	(37.7%)	23.7%
The oil price (WTI)	(35.7%)	28.8%
Gold	17.4%	9.9%

Main Developments in the Israeli Economy

General

Economic activity has shrunk at an unprecedented rate in the wake of the Corona crisis and Government measures taken to block the spreading of the virus. In the second quarter, the product shrank by 28.7% (in annualized terms), following a decline of 6.8% in the first quarter. Among the applications of the product, private consumption recorded the steepest regression in the second quarter, with a decline of approx. 43%. Investments in fixed assets dropped by approx. 27% and exports by approx. 28%. It is noted, that the decline in exports would have been steeper, were it not for the export of hi-tech services, which managed to maintain a high level of activity and even grow. On the other hand, a steep increase in public consumption (mostly defense consumption) alongside the steep decline in imports moderated the volume of decline in the product.

The high scope of the shutdown at the beginning of the crisis caused an unprecedented shock to the labor market, when since the middle of March over one million employees were dismissed or laid off on unpaid leave. The scope of the shutdown was especially high in the low wages sectors, and accordingly, the weaker populations in the employment market were those most heavily affected. Following the Passover Holiday, a gradual process of removal of limitations has begun, and hundreds of thousands of employees returned to work from unpaid leave. Notwithstanding the above, the level of damage to employment remained very high. In accordance with data of the Central Bureau of Statistics ("CBS"), the wide unemployment rate, which includes employees on unpaid leave due to the Corona, and those who had given up looking for work in view of the crisis, amounted in June to approx. 12%, as compared with 3.5% prior to the crisis.

Developments in economic sectors

The gradual process of lifting the restrictions, which began after the Passover holiday, brought about improvement in economic activity; however, the level of activity remained low in relation to the level existing prior to the crisis. The increase in the contamination rate, which started towards the end of the second quarter, overclouded the economic recovery process. Purchases by means of credit cards is lower by approx. 10% compared with the beginning of the year. In the sectors where the main limitations have not been lifted/partially lifted, the level of purchases is significantly lower compared with the level at the beginning of the year.

Developments in foreign activities of the Israeli economy

In the months January to June 2020 direct investments in Israel (through banks) by foreign residents amounted to US\$5.3 billion, compared to US\$4.7 billion in the first half of 2019. Financial investments by foreign residents in Israeli financial assets (shares and government bonds) traded abroad increased by US\$10.3 billion, compared to a decline of approx. US\$30 million in the first half of 2019. It is noted that all the growth is attributed to a growth in investments in government bonds. Financial investments by foreign residents in the Tel Aviv Stock Exchange recorded in the reviewed period, a growth of US\$3.8 billion (following a growth of US\$4.4 billion in government bonds and short-term loans "MAKAM"), compared to net realizations of US\$2.4 billion in the first half of 2019.

Financial investments by Israeli residents in marketable securities abroad amounted in the months January to June 2020 to US\$5.1 billion, compared to US\$2.8 billion in the first half of 2019. A growth of US\$7.6 billion was recorded in shares compared to a decline of US\$2.5 billion in bonds.

The changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January- June 2020	January- June 2019
	US\$ million	
Total direct investments through banks	5,314	4,747
Total financial investments	14,144	(2,459)
Of which: Government bonds and MAKAM	15,699	(851)
Shares	(1,132)	(2,125)

Investments abroad by Israeli residents	January- June 2020	January- June 2019
	US\$ million	
Total direct investments	164	1,222
Total financial investments	5,132	2,786

Developments in inflation and foreign exchange rates

The decline in the inflationary environment, which had already begun prior to the crisis, has increase in the wake thereof. The annual inflation and the "core inflation" (excluding energy, fruit and vegetables) are found in a negative territory, and in June amounted to -1.1% and -0.5%, respectively. The inflationary forecasts for the coming year are significantly lower than the lower limit of the price stability target. Inflation contracts for one year were traded towards the end of June at a level of 0.2%.

In March, the shekel devalued at a very steep rate on the background of the sharp decline in the markets and the dollar liquidity distress. Following this, the Bank of Israel provided liquidity to the market, volatility decreased and the shekel gained strength again. The appreciation trend of the shekel continued in the second quarter and led the Bank of Israel to resume the purchase of foreign currency. In total for the first half of the year, the shekel devalued at a moderate rate against the US dollar and the Euro (0.3% and 0.1%, respectively).

Fiscal and monetary policy

Fiscal policy. A deficit of NIS 58.2 billion was measured in the first half of the year in the budgetary activity of the Government, compared to a deficit of NIS 22 billion in the corresponding period last year. The cumulative deficit for the twelve months ended in June 2020, amounted to 6.8% of the GDP.

Monetary policy. The Bank of Israel adopts a large number of tools in order to support the economy and the liquidity of the financial markets, including the purchase of government bonds. In its announcement of the interest rate dated July 6, the Bank of Israel informed of the introduction of additional assistance tools: the purchase of corporate bonds on the secondary market in an amount of NIS 15 billion, renewal of loans to the banks for the purpose of supporting small and minute businesses and allowing banks to use also mortgage portfolios as collateral for credit under the special program. The Bank of Israel emphasized that it will expand the use of existing tools, including interest tools, and will introduce additional tools, if required.

Change in the monetary base. A steep increase was recorded in March 2020 in the M1 money supply (cash held by the public and shekel current account deposits), at the rate of approx. 11% (compared to that of February 2020). The growth continued also in the second quarter, so that in total for the first half of 2020 the money supply increased by 16%. Of this, current account deposits grew by 17.1% and cash grew by 10.5%. In the corresponding period last year, the M1 money supply grew by 5.5%. Concurrently, a steep increase was recorded in non-linked deposits of up to one year, so that the M2 money supply (M1 with the addition of non-linked deposits of up to one year) also reflects a two-digit growth (a growth of 16.0% as of the end of June).

The monetary base recorded a steep growth of NIS 17.1 billion in the first half of 2020, compared to a growth of NIS 3.8 billion in the corresponding period last year. During the reviewed period, the supply of cash by the Government amounted to NIS 16.5 billion. The Bank of Israel provided liquidity by means of purchase of foreign currency, monetary loans to banks and open market operations (including purchase of government bonds and a significant reduction in the volume of short-term loan ("MAKAM") issues). On the other hand, it neutralized a part of the money supply (Government and Bank of Israel) by means of a significant increase, in an unprecedented volume, of shekel deposit tenders.

Sources for the change in the monetary base

	January-June	
	2020	2019
	In NIS billion	
Operations on the Capital Market	51.9	(7.8)
The Shekel deposits tender	(78.0)	16.0
Foreign currency conversion	21.3	0.3
Government activity	16.5	(4.5)

Capital market

The adjustment in the share indices on the Tel Aviv Stock Exchange has been moderate in relation to leading indices around the world. In total for the first half, the TA 125 index fell by 18%.

The changes recorded in selected share indices in the first half of 2019 and 2020

Index	Change during the first half of	
	2020	2019
TA 35	(20.3%)	9.2%
TA 125	(18.0%)	11.4%
TA banks	(29.0%)	17.3%
TA Global-Blutech	13.8%	13.3%
Real-estate 15	(35.8%)	32.9%

At the beginning of the year, trading in government bonds in Israel was marked by a decline in returns, however, with the intensification of the crisis, the trend has turned around and returns on bonds increased sharply. The sharp rise in returns led the Bank of Israel to introduce in March a plan for the purchase on the secondary market of government bonds in the volume of NIS 50 billion (well higher than the amount of purchases made in 2009, of NIS 18 billion). The purchase plan of the Bank of Israel has significantly reduced returns. The Bank of Israel emphasized that it will expand the plan, if required. As of the end of June, the Bank of Israel purchased government bonds in a cumulative amount of NIS 23.4 billion. The return on a ten-year shekel bond (government-shekel 0330) amounted at the end of the second quarter to 0.62%, compared to 1.07% at the end of March and 0.96% at the end of 2019.

The changes recorded in selected bond indices in the first three months of 2019 and 2020

Index	Change during the first half of	
	2020	2019
General bonds	(1.7%)	4.9%
General Government bonds	1.5%	4.5%
Shekel Government bonds	1.9%	3.7%
Linked Government bonds	0.9%	5.7%
General Corporate bonds	(6.4%)	5.6%
Linked Corporate bonds	(6.3%)	6.1%
Shekel Tel-Bond	(6.4%)	5.0%

A steep rise in margins was recorded on the corporate bond market towards the end of February, which stopped following the announcement regarding the Bank of Israel involvement in the bond market and the halt in the trend of withdrawal from mutual funds. Notwithstanding the above, during the month of June, corporate bond margins resumed spreading again. This development led the Bank of Israel to introduce on July 6, the plan for the purchasing of corporate bonds on the secondary market.

In the first half of 2020, the raising of funds through issue of corporate bonds of Israeli corporations amounted to NIS 30.2 billion, of which an amount of NIS 21.6 billion excluding banks, insurance and finance. This, as compared to NIS 31.8 billion and NIS 18 billion, respectively, in the first half of 2019. It is noted that in the days following the announcement by the Bank of Israel (as stated on July 6), the raising of fund through corporate bonds on the primary market increased, in particular by non-financial corporations.

The asset portfolio held by the public

The value of the financial assets portfolio held by the public declined during the months January to May 2020 by 1.0%, amounting at the end of May to approx. NIS 4 trillion. The decrease stemmed from a steep decline of 15.7% in the equities component in Israel, and from a relatively moderate decline in the equities component abroad and in the linked component (-0.7% and -0.8%, respectively). On the other hand, an increase was recorded in the foreign currency linked component and in the non-linked component.

The distribution of the asset portfolio held by the public

	May 31, 2020	December 31, 2019
Shares	22.2%	24.4%
Non-linked assets	37.9%	36.5%
CPI linked assets	28.2%	28.1%
Foreign currency linked assets	11.7%	11.0%

Principal economic developments in July and August 2020⁴

The current data for July 2020 indicated moderation in global economic activity following a quick recovery in May and June (upon exiting the lockdown). The increase in Corona cases around the world over clouds the recovery process.

The interest rate announcement by the FED at the end of July was not surprising, and the policy remained unchanged. Notwithstanding this, senior FED executives are concerned by the recurring outbreak of the Corona and its negative effect on the economy, noting that the forecasts regarding the US economy would be affected by the spreading of the disease. The FED conducts an examination of its policy and considers additional measures in order to support the economy. There are signs that in its next announcement of the interest rate in September, the Fed will declare new future guidelines, which would indicate intention to maintain the interest rate at its low level for a very long period of time. Such expectations in the market have supported an increase in inflationary expectations and a decline in real-term returns in the US.

In Europe, the heads of the Union reached an agreement for the establishment of a Recovery Fund in the amount of Euro 750 billion, of which, an amount of Euro 390 billion would be distributed as grants and the balance as loans. The approval for the establishment of the Fund serves as a significant precedent in the Eurozone, as this is the first time that financially strong countries transfer money to weak countries by way of grants.

The US dollar continued to weaken globally on the background of the reduction in the real returns differential between the US and the developed countries, a more moderate recovery in the US following the renewed outbreak of the Corona virus, and the positive sentiment supporting the transition of investors to developing economies. Gold was traded at a record high, concurrently with the continuing positive trend regarding share indices around the world.

In Israel, the economic activity indicators point at the stabilization of economic activity at a low level. The Consumer Confidence Survey for July, conducted by the CBS, reflects pessimism of the public with respect to the economic condition of households and of the State. The Consumer Confidence Index fell in July to -30, similarly to its lowest value measured during the lockup period (the month of April).

The negative annual inflation rate was slightly moderated in July, being supported by the recovery in prices of energy. Notwithstanding, Index contract present an inflation rate of 0.1% in one year - a low level compared with the end of June, this in contrast to the global trend.

As expected, the Government deficit increased in July (to 7.2% of the product), however, the pace of execution of the economic plan devised to confront the Corona crisis continues to be low. In addition, the political uncertainty has grown on the background of the lack of agreement with respect to the budget.

In its decision of August 24, regarding the interest rate, the Bank of Israel made no changes in policy. In the opinion of the Bank of Israel, activity in the market remained moderate, and the second wave of the Corona pandemic continues to be noticed in the economy.

⁴ All data relate to the period from July 1, 2020 and until August 24, 2020.

Legislation and Supervision

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

Regulation in the wake of the Corona crisis

Against the background of the spread of the Corona virus, various measures have been taken by the government and by the various supervisory authorities to cope with its implications and to support economic activity.

Special Authority for Confronting the New Corona Virus Act (Provisional instruction), 2020, Special Authority for Confronting the New Corona Virus Regulations (Provisional instruction) (Restrictions on activity), 2020, Special Authority for Confronting the New Corona Virus Regulations (Provisional instruction) (Restrictions on activity at workplaces), 2020 and Public Health Order (Novel Corona virus) (Home Isolation and Various Directives) (Temporary Provision), 2020. Various aspects regarding the business conduct in the special situation were regulated, including how to employ employees at the bank and receiving a crowd.

Online registration of pledges. On April 13, 2020, a procedure was implemented for the registration/change of pledge details with the Registrar of Companies via email. This arranges for the registration of pledges and their updating in light of the difficulties created in obtaining original documents during this period. In addition, the Real Estate Regulations (Administration and Registration) (Temporary Provision), 2020 were published on April 2, 2020; these regulations prescribe different ways for the online registration of a mortgage.

Remote payments for a new apartment. On April 23, 2020, the position of the Sale Law Commissioner was published, which sets out the various terms and conditions regarding this matter.

Emergency Regulations (Novel Corona virus) (Accessibility of Financial Services), 2020. Within the framework of the regulations promulgated on April 7, 2020, which took effect retroactively from March 15, 2020, the Executions Law was amended, whereby the restrictions imposed on a debtor in relation to use of a charge card will not be imposed on an immediate debit card, even in the case of an account not having a credit balance. Additionally, the Charge Cards Law was amended, in the framework of which, the section dealing with criminal liability was amended, whereby it will be applied with regard to charging a customer with a payment for a transaction that was performed using a charge card without the customer's consent, and additionally the arrangement prescribed in relation to signing a charge card contract was also amended. An Act was passed on August 20, 2020, which extends the arrangements determined in the Emergency Regulations. A draft Banking Order (Customer service) was published on August 2, 2020, as a Provisional Instruction for a period of six months, in the matter of supervision over service regarding immediate debit card fee, warning letter issued by a lawyer, and transaction through the call-center involving a bank clerk.

Draft Insolvency and Economic Recovery Act (Amendment No. 4) (Stay of proceedings in order to form and approve a debt arrangement) (Provisional Instruction – the new Corona virus), 2020. The draft was published on July 16, 2020, designed to allow borrowers, private individuals and corporations, to obtain a Stay of Execution Order for a limited period of three months.

Directives of the Supervisor of Banks in the wake of the Corona crisis

Since the outbreak of the crisis, the Supervisor of Banks has initiated various regulatory measures aimed at enabling the banking system to fulfill its role during the period of the crisis and thereafter. These measures have been accompanied by additional government steps taken to support economic activity during this period.

Inter alia, the following measures should be mentioned:

Temporary directives dealing with the limitation of face-to-face services during the crisis, while providing banking services in a way not requiring having to be physical present at the branch. These include, the Supervisor of Banks having ordered to reduce temporarily the number of branches open to business and the services available therein, as well as the easing of various requirements, such as the requirements that need to be fulfilled when providing telephone service, when performing transactions by telephone or by digital means, and when joining channels by telephone. Also received was the guideline by the Supervisor of Banks, allowing distant transactions also as regards populations in respect of which certain limitations exist, such as: bankrupt customers, customers under insolvency proceedings, custodians and persons in respect of whom custodians had been appointed.

Temporary directives intended to enable the banking system to support the credit needs of the economy and to assist households and businesses to cope with the effects of the crisis. These include, the easing of the capital adequacy requirements (see above "Capital and the Capital Adequacy"), relieving various restrictions applying to the grant of housing loans (see above "Mortgage Activity") and to the way that customers' credit irregularities are handled. Additionally, various reliefs were provided, such as in relation to the possibility of the Bank increasing credit facilities on the current accounts of its customers, and the provisions of Proper Conduct of Banking Business Directive No. 329, which deals with "any purpose" loans secured by a pledge on housing, have been amended (see above "Mortgage Activity") and a voluntary outline for the deferral of repayments of mortgages and loans, in order to support the credit needs of households and of small and

medium businesses. In addition, on March 22, 2020, the Emergency Regulations (Checks Without Cover), 2020 were promulgated and, on March 23, 2020, the guidelines of the Supervisor of Banks were published under the powers granted to her by these regulations, which in accordance therewith postpone placing a restriction on an account and its owner due to checks being refused as a result of an account having insufficient funds, for a limited period, taking effect from March 4, 2020. Permanent Regulations were published on June 17, 2020, in the matter of the permanent deduction of checks dishonored due to lack of funds, in the period from March 4, 2020 until June 22, 2020, from the number of dishonored checks for the purpose of imposing limitations on an account. The Dishonored Checks Regulations (Limitation on the application of the Act due to the continuing Corona crisis), 2020, were approved on August 25, 2020, relating to the period from June 23, 2020 and until August 10, 2020.

Directives dealing with supporting the ongoing operations of the banking system during the crisis. Proper Conduct of Banking Business Directive No. 301, which deals with the board of directors, has been amended, so inter alia, it has been prescribed that meetings of the board of directors that are held via means of communication are to be considered as meetings held with the physical presence of the directors for the purpose of compliance with the participation obligation prescribed by law. In addition, the discretion of the chairman of the board of directors has been extended with regard to the date and frequency of discussions conducted by the board of directors and its committees on the topics specified in this and other directives. Additionally, extensions of been granted in relation to various dates for executing obligations pursuant to supervisory directives (such as, in responding to public complaints, in closing accounts, etc.).

Reliefs in the duty to report to the Banking Supervision Department that are intended to enable the banking system to function at a lower manpower level, alongside specific reporting requirements aimed at providing the Banking Supervision Department with the tools needed to monitor the state of the economy. On March 31, 2020, a temporary directive was issued on the subject of various temporary reliefs in reporting to the Banking Supervision Department (by freezing the reporting, deferral of reporting dates, etc.).

Deferring the dates on which various directives are to take effect so as to allow the financial system to focus on handling the crisis. The dates on which the various stages of the Proper Conduct of Banking Business Directive, dealing with API open banking (see the 2019 annual report; p. 375), are to take effect have been deferred for three months. The date on which the Proper Conduct of Banking Business Directive dealing with outsourcing is to take effect has been deferred for six months until September 30, 2020, subject to the implementation of the requirements in relation to new outsourcing agreements being signed during this period.

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The second half yearly report of the Committee for the Examination of Competition in the Credit Market. On April 7, 2020, the report, which was prepared prior to the implications of the Corona crisis being known, was published. According to the report, significant progress has been made in removing the barriers to competition and in recent years certain pro-competition indicators have been noted in the consumer credit market. The report contains reference to a test in respect of Discount Bank and ICC. The test will finally be carried out only in 2020 and, in any case, it will only serve as an indication for the Committee, which can exercise its judgment in reaching its decision on this topic.

The Economic Plan Act (Legislative Amendments to Implement the Economic Policy for the 2019 Budget Year), 2018. Indirect amendment of the Banking Act (Customer Service). As a result of the Corona crisis, on April 2, 2020, a draft of the Economic Plan Regulations (Legislative Amendments to Implement the Economic Policy for the 2019 Budget Year) (Deferral of the Date for Chapter 2 to Take Effect), 2020 was published, within the framework of which, it was proposed to defer the date on which the Act will take effect by six months (until September 22, 2021).

Establishment of a digital bank in Israel

On March 8, 2020, Proper Conduct of Banking Business Directive No. 480, which deals with adjustments to the Proper Conduct of Banking Business Directives applicable to a new bank and to a banking corporation in the process of being established, was published. The Directive prescribes the adjustments and exemptions from existing Proper Conduct of Banking Business Directives with the aim of aligning regulation with the level of risk to which a new banking corporation or a banking corporation in the process of being established, which meets the terms and conditions specified in the directive, is exposed.

Legislation and Standards in the matter of Debt Collection

Draft of the Debt Execution Regulations (Amendment No. ___), 2020. The draft was distributed in February 2020 and relates to the disposal of assets, the rights in which are registered with the Land Registry Office and have been pledged by their owner in favor of the bank. According to the draft, an execution case can be opened only if the asset is registered in the name of the pledger. Additionally, disposal proceedings can be opened only if the details of the registered owner of the property are complete. Where identification details are missing, the Registrar of Executions is required to apply to the Land Registrar to ensure that full identification has been arranged. These amendments are expected to have an effect on the Bank's disposal proceedings.

Operation of the debt execution system during the special state of emergency. In accordance with the guidelines of the Execution Office, cases can be opened and various applications submitted online at the Execution Office, until the end of the special state of emergency or until further notice.

Uncovered Checks Bill (Amendment – Duty to provide notice to the customer prior to the dishonor of a check), 2020. On June 24, 2020, the Knesset, in a preliminary reading, approved this private Bill. The essence of the Bill deals with imposing a duty on a banking corporation to provide the customer with a notice prior to dishonoring a check drawn on his account, giving him time to deposit funds in his account to cover the check.

Economic Competition

Exemption from approval of a restrictive arrangement in connection with a holding and joint activity within the framework of BCC. The Competition Commissioner issued on June 18, 2020, his decision regarding a conditional exemption from a restrictive arrangement between Bank Clearing Center Ltd. (BCC) and the banks. The exemption would be valid for a period of five years since date of publication. The exemption allows a provider of payment services to join BCC as a participant, subject to the terms detailed therein.

Signing of the mutual recognition agreement. On March 25, 2020, an amendment was signed to the mutual recognition agreement between the banks in Israel, which would take effect upon the signing of the Appendices to the agreement by all parties thereof. The agreement was amended in light of the Competition Commissioner's exemption dated July 30, 2018 (see the 2019 annual report, p. 371) and allows every supervised issuer and operator of ATMs to join the agreement. The First Digital Bank (in formation) Ltd. signed in May 2020, the Addendum for joining the agreement.

Legislation and Regulation Amendments relating to the Capital Market

Permit to make a proposal to provide trading services via overseas stock exchanges. On April 1, 2020, the Bank received such a permit from the Israel Securities Authority, in accordance with the terms and conditions of a general permit pursuant to Section 49A of the Securities Act.

Analysis work. The Rules regulating engagement in investment consulting, in investment marketing and in the management of investment portfolios (obtaining benefits in respect of analysis work), 2020, were published on the Official Gazette on June 23, 2020. A banking corporation, which controls an underwriter who is involved or expected to be involved in the issuance of a reviewed corporation, may provide an analysis work that complies with the terms detailed in the Rules, including rules for the reduction of possible conflict of interests.

Establishment of a designated Stock Exchange. A Memorandum of the Securities Act (Amendment No. ___) (A designated Stock Exchange), 2020, was published on July 2, 2020. The proposed Act lays the infrastructure for the establishment of a designated Stock Exchange in Israel – providing trading platforms in volumes not comparable with those of a principal Stock Exchange and having special designation or characteristics.

Providing pension consulting services by digital means. A Memorandum of the Financial Services Supervision Act (Consulting, marketing and pension clearing system) (Amendment No. 11), 2020, was published on July 12, 2020, the purpose of which is to allow banking corporations to provide pension consulting services by telephone or by digital means.

U.S. legislation

The amendments to the Volcker Rule, which took effect on January 1, 2020, are expected to be applied as from January 1, 2021. The purpose of these amendments is to simplify, clarify and modify the provisions of the law, on the basis of experience gathered since its enactment, while maintaining the purpose of this legislation. The amendments are not expected to affect the Bank's operations.

In addition, a series of amendments to the Act becoming effective on October 1, 2020, relates to limitations detailed in the Act regarding self operations by financial institutions and regarding investment and sponsoring activities for particular funds, with a view of preventing speculative activities by financial institutions and maintaining their stability. The amendments exclude from the limitations stated in the Act certain classes of funds, amend existing exceptions, and exclude the prohibition of providing credit to certain funds, with a view of simplifying existing rules and compliance therewith, defining the extraterritorial effectiveness of the Act, and permitting the activity of funds that do not have the risk characteristics, which the original Act intended to deal with.

The Bank is studying the said amendments and their implications on the activity of the Discount Group, if at all.

Various Legislation Matters

Payment Services Act, 2019. On February 17, 2020, the Knesset passed the Payment Services Act (Amendment No. 1) (Deferral of application date), 2019, whereby Section 77 of the Act was amended to defer its application date by 9 months to October 14, 2020.

Draft Memorandum of the Electronic Clearing of Checks and of Uncovered Checks Act (Legislation amendments), 2020. The Memorandum was published by the Ministry of Justice. Towards the entry into effect of Section 5B1 of the Banking Act (Customer service), 1981, dealing with the movement of customers between banks, it is proposed to amend the Electronic Clearing of Checks Act, 2016, and the Uncovered Checks Act, 1981, with the aim of adapting them to the movement of customers between banks; to impose monetary sanctions with respect to violation of the instructions of the Electronic Clearing Act; and determine in the Uncovered Checks Act, that the Minister of Justice (in consultation with the Governor of the Bank of Israel) would have the authority to determine exceptions to the Act in periods of emergency such as the Corona crisis.

Memorandum of the Provision of Financial Information Services Act, 2020. The Ministry of Finance published the Memorandum on June 24, 2020, proposing the regulation of all the activities included in providing financial information services, both by entities providing this service and financial entities maintaining financial information relating to customers.

The Memorandum is to replace the regulation existing in the Regulated Financial Services Act with respect to the service for comparison of financial costs. In accordance with the Memorandum, financial information services include, inter alia, the service of collecting financial information from different data sources; comparison of prices, costs or returns; delivery of information to financial suppliers for the purpose of obtaining, on behalf of the customer, offers for financial services that the customer uses or want to use, or in order to assist the customer in engaging such suppliers; as well as consulting regarding financial management. It is proposed to determine that the use of financial information relating to a customer would be for the benefit of that customer only and for assisting him only in his financial management. The regulation is intended to provide response to different issues relating to the customer's privacy protection and to the data protection. It is also proposed to set restrictions to be imposed on the provider of the service regarding activities that put him in a conflict of interests situation.

Privacy Protection Bill Memorandum (Amendment No. __)(Definitions and Reduction in Registration Duty), 2020. The Memorandum was published by the Ministry of Justice on July 27, 2020. The proposed Amendment deals with the reduction in the duty of registration applying to data bases, and with changes to the definitions applying to personal data, in order to adapt them to technological developments and advanced legislation in different countries, headed by the data protection regulations of the European Union (GDPR). Inter alia, it is proposed to widen the definition of the term "information" so as to include data relating to an identified person or which may be so identified, to replace the definition of "sensitive information" by a wide definition for the term "information having special sensitivity".

Directives of the Supervisor of Banks

Proper Conduct of Banking Business Directive in the matter of API. A Directive regarding the implementation in Israel of the open banking standard (Directive No. 368) was published on February 25, 2020. The Directive details the requirements of the Bank of Israel from the banks and credit card companies regarding this field, with the aim of defining the infrastructure for open banking in Israel.

The dates for the entry into effect of the Directive are as follows: Implementation of open banking for information viewing purposes only – December 31, 2020; Conducting a single payment operation and information regarding credit cards – July 1, 2020; Information regarding savings deposits, deposits, credit and securities – December 31, 2021. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. In accordance with the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to

provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2019 Annual Report (p. 375) and "Technological improvements and innovation" above.

Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. An additional draft of Proper Conduct of Banking Business Directive was published on February 19, 2020, in the matter of "management of consumer credit", which is proposed to take effect on September 30, 2020. The draft puts together the expectations regarding the activity of the banking system with respect to households, which must be responsible, appropriate and fair. On April 1, 2020, the Capital Market Commissioner issued a draft circular regarding consumer credit management instructions, which regulates similar principles to those for the granting of consumer credit by entities supervised by the Capital Market Authority, with the aim of creating a comprehensive arrangement and secure proper and responsible conduct of all factors granting credit.

Draft Proper Conduct of Banking Business Directive in the matter of dormant deposits. A draft new Proper Conduct of Banking Business Directive was published on August 3, 2020, which is designed to regulate the treatment of dormant deposits from the aspects of locating the customer and investing the funds. The Directive changes the definition of a dormant deposit, details and expands the duties imposed on the banking corporation in locating the customer. Concurrently, an amendment of the Banking Order (Dormant deposits), 2000, is requested, which changes the way of investment of funds relating to dormant deposits.

Draft Proper Conduct of Banking Business Directive in the matter of relations of banking corporations with providers of cost comparison services. On August 10, 2020, the Supervisor of Banks published an updated draft, which regulates relations of a banking corporation with providers of cost comparison services.

Different guidelines

Letter of the Ministry of Justice pertaining to Regulation 4(c) of the Debit Card Regulations regarding the manner of providing details of transactions made by use of credit cards and the clarification of the Bank of Israel in this matter. A letter was received on May 27, 2020, from the office of the Deputy Attorney General to the Government (Civil Law), which states that an issuer of credit cards, who had changed at his initiative the manner of providing details of the monthly transactions, by way of informing the customer in advance and applying an "opt out" mechanism, is not in compliance with the requirements of the law. The letter states the requirements for the purpose of changing into providing customers with details of transactions by digital means. A clarification letter in this matter by the Bank of Israel was received on June 17, 2020, according to which, disclosure regarding the transition to providing details of transaction by digital means and the discontinuation of sending printed statements by ordinary mail, must be given in a designated and clear notice separately from other notices.

The Bank of Israel announcement regarding the duty of representation in clearing transactions or in the rules of the BCC system. On May 25, 2020, the Bank received a letter from the Bank of Israel addressed to all participants in Banking Clearing Center Ltd. (BCC). According to the letter, it is required to amend the rules of the BCC system, according to which, inter alia, a participant in clearing in the BCC system ("representing agent") may not unreasonably refuse to represent, as regards clearing, a provider of payment services holding an appropriate license and who had signed on the rules of the system (representation regarding clearing – debiting/crediting transactions in the represented account cleared in the RTGS account of the representing agent). Furthermore, until such time when an arrangement regarding a default in the system would be implemented, which would also enable entities that do not have an account with the Bank of Israel to participate in the default arrangement and themselves sign the system rules – a participant in clearing on the BCC system may not unreasonably refuse to represent the provider of payment services under the system rules, even if he had not yet signed the default agreement and the system rules, on condition that he complies with the access terms and connection requirements. Following the implementation of the default in clearing arrangement and the signing on the rules of the system, the duty to represent providers of payment services with respect to the system rules will no longer apply.

Max It Finance Ltd. had approached the Bank with a request to be represented in BCC's clearing and system rules, and the Bank delivered to it the requirements and terms document with respect to such representation.

Letter in the matter of immediate payments services. In a letter dated April 16, 2020, the Supervisor of Banks required all participants in Bank Clearing Center ("BCC") (including participants who are not part of the immediate payment service on the charge side) to make preparations for allowing their customers to receive payments by means of the immediate payment service, and this by August 2020. The Bank is preparing for this matter.

Government program for acceleration of the digital services to the public and for the promotion of digital learning. The program was approved by a Government decision dated July 22, 2020, and is designed to accelerate the characterization and establishment of the required infrastructure, in order to enable the public to transact at a distance all business with Government offices and other public bodies. The program proposes to promote the use of simple and convenient digital identification means for electronic signature on the financial system, and to promote a digital process of delivery and safekeeping of guarantees issued by financial institutions in favor of Government offices.

For further details regarding "Legislation and Supervision", see the 2019 Annual Report (pp. 364-377).

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in the 2019 Annual Report (pp. 205-209) and Note 10 to the condensed financial statements.

Additional Legal Proceedings

- Approach in accordance with Section 198 of the Companies Act.** On December 14, 2016, the Bank received an approach headed "approach in accordance with Section 198A of the Companies Act, 1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 26 C to the financial statements, section 13.2).

On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.

On June 24, 2018, the power of a Court verdict was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file a new disclosure motion under Section 198A of the Companies Act, and/or a motion for approval of a derivative action, this within ninety days from date of the verdict and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.

On February 6, 2020, a motion for the disclosure of documents under Section 198A of the Companies Act was resubmitted to the Tel Aviv District Court. The motion requests the Court to instruct Discount Bank and MDB to deliver documents listed in the motion for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.

The Bank has to respond to the motion by November 1, 2020. The hearing of the motion is fixed for November 29, 2020.
- Legal proceeding in Belgium.** Within the framework of proceedings for the enforcement of a Court verdict given in Belgium, conducted by the Bank for some time against a Belgian corporation, which is not a customer of the Bank, the said corporation filed on May 13, 2019, a criminal action with a Court of first instance in Antwerp, Belgium, against the Bank and against its former employee, claiming that the Bank had forged and acts on the basis of forged documents. On December 24, 2019, the Attorney representing the Bank in the proceedings informed that the motions that had been submitted by the representative of the Belgian company were dismissed, and a hearing was fixed for March 26, 2020, in order to reach conclusion of the proceedings and the closing of the case (following rejection of the motions of the Belgian company, as stated above). The said discussion was deferred to October 1, 2020.
- Merger of Municipal Bank.** On April 16, 2020, Jerusalem Bank filed an appeal with the Supreme Court against the decision of the Competition Tribunal to reject in limine the appeal that had been filed by Jerusalem Bank against the decision of the Competition Commissioner to approve the merger with Municipal Bank. The hearing of the appeal is fixed for March 8, 2021. For further details, see the 2019 Annual Report (pp. 210-211; subsection 18).
- On March 27, 2017, ICC received notice of a lawsuit filed against it with the Lod-Central District Court, together with a motion for approval of the action as a class action suit. The Plaintiff claims that in accordance with the letter of the agreement between it and ICC, where a transaction had been cancelled prior to the crediting of the trading house, ICC is not entitled to charge the trading house with the full amount of the clearing commission, unless in cases where the transaction had been effected manually and not by use of the electronic POS instrument. Alternatively, the Plaintiff argues that a contractual instruction permitting ICC to charge in full the clearing commission also where the clearing service had not been rendered in full (due to cancellation of the transaction), comprises a "discriminating term in a uniform contract", that has to be abolished or changed. The Plaintiff estimates the damage caused to all class members at NIS 45 million.

A preliminary hearing of the case was held on March 28, 2019. The parties had conducted mediation proceedings in which they were not successful in concluding the dispute by agreement. Therefore, summing-up briefs have been filed with the Court.

On May 25, 2020, the Court admitted the motion for the conduct of the case as a class action suit.

On June 24, 2020, ICC filed a motion with the Supreme Court requesting an extension of the period for submission of a request for permission to appeal the decision of the District Court, Central Region, in view of the intention of the parties to refer to mediation proceedings. The Supreme Court handed its decision on June 25, 2020, granting an extension of the period for submission of a request for permission to appeal until September 6, 2020, or until the end of thirty days from the conclusion of the mediation proceedings, whichever is earlier. On July 8, 2020, ICC submitted a motion to the District Court, Central Region, requesting an extension of the period for submission of a defense brief on the same grounds. On July 9, 2020, the District Court granted an extension of the period for submission of the defense brief until December 15, 2020, requesting information regarding the status of the mediation proceedings by October 15, 2020.

For additional details, see the 2019 Annual Report (pp. 378-379).

Material Legal Proceedings settled in the first half of 2020

1. For details regarding the motion for approval of an action as a class action suit, in respect of which, a request for withdrawal from the motion was filed on January 2, 2020, see the 2019 Annual Report (p. 208).
2. For details regarding an action that had been filed against the Bank and against MDB, in respect of which, a compromise agreement was signed in January 2020, see Note 10 B section 4.2 (a) to the condensed financial statements.
3. For details regarding a motion for approval of an action as a class action suit, which the Court had dismissed in limine, and with respect to an appeal filed against this decision with the Supreme Court, see Note 10 B section 4.5 to the condensed financial statements.
4. For details regarding a Plea to the Supreme Court, sitting as a High Court of Justice, which was rejected by the Court on July 27, 2020, see Note 17 A to the condensed financial statements.

Proceedings regarding Authorities


1. **Privacy Protection Authority.** The Authority announced on February 16, 2020, the starting of a regulatory administrative process under the Privacy Protection Act, for the examination of circumstances of the PayBox event, and demanded information and documents relating to the event.
2. **Requirement made by the Public Inquiries Unit at Bank of Israel.** A letter was received on February 9, 2020, from the Public Inquiries Unit of the Bank of Israel, the headline thereof being a demand for the rectification of faulty disclosure to customers of ICC, within the framework of which, ICC is, inter alia, required to examine the disclosure provided in notices sent by the company to its customers. ICC responded to the letter on February 20, 2020.
3. **Requests for data from the Competition Authority.** During the first half of 2020, requests for data regarding the following matters were received: clearing payments and diamonds.
4. **Request by the Securities Authority for delivery of documents.** On June 1 and 18, 2020, the Bank received letters from the Securities Authority requesting the delivery of documents, in terms of its authority under the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment portfolio Management Act, 1995. The Bank delivered the requested material.

For additional details, see the 2019 Annual Report (p. 380).



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Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses

Part "A" - Average balances and interest rates – assets

	For the three months ended June 30					
	2020			2019		
	Average balance ⁽²⁾ In NIS millions	Interest income	Rate of income In %	Average balance ⁽²⁾ In NIS millions	Interest income	Rate of income In %
Interest bearing assets:						
Credit to the public: ⁽³⁾						
In Israel	150,674	1,335	3.59	139,126	1,611	4.71
Abroad	24,406	209	3.47	23,717	309	5.31
Total credit to the public	175,080	*1,544	3.57	162,843	*1,920	4.80
Credit to the Government:						
In Israel	4,174	21	2.03	3,307	27	3.31
Total credit to the Government	4,174	21	2.03	3,307	27	3.31
Deposits with banks:						
In Israel	3,539	4	0.45	2,745	12	1.76
Abroad	380	-	-	250	1	1.61
Total deposits with banks	3,919	4	0.41	2,995	13	1.75
Deposits with central banks:						
In Israel	26,246	7	0.11	11,607	8	0.28
Abroad	1,122	-	-	465	3	2.61
Total deposits with central banks	27,368	7	0.10	12,072	11	0.36
Securities borrowed or purchased under agreements to resell:						
In Israel	605	-	-	731	-	-
Total securities borrowed or purchased under agreements to resell	605	-	-	731	-	-
Bonds held for redemption and available for sale: ⁽⁴⁾						
In Israel	28,649	91	1.28	25,060	114	1.83
Abroad	9,106	70	3.11	8,418	53	2.54
Total bonds held for redemption and available for sale	37,755	161	1.72	33,478	167	2.01
Trading bonds: ⁽⁴⁾						
In Israel	1,887	-	-	1,717	8	1.88
Abroad	60	1	6.84	74	-	-
Total trading bonds	1,947	1	0.21	1,791	8	1.80
Other assets:						
Abroad	678	4	2.38	690	4	2.34
Total other assets	678	4	2.38	690	4	2.34
Total interest bearing assets	251,526	1,742	2.80	217,907	2,150	4.01
Debtors in respect of credit card operations	8,704			9,092		
Other non-interest bearing assets ⁽⁵⁾	20,902			15,416		
Total assets	281,132			242,415		
Of which: Total interest bearing assets attributable to operations abroad	35,752	284	3.22	33,614	370	4.48
* Fees and commissions included in interest income from credit to the public		73			81	

For footnotes see page 231.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	For the three months ended June 30					
	2020			2019		
	Average balance ⁽²⁾ In NIS millions	Interest expenses	Rate of expense In %	Average balance ⁽²⁾ In NIS millions	Interest expenses	Rate of expense In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	53,702	3	0.02	39,010	2	0.02
In Israel - Time deposits	93,938	130	0.55	93,251	246	1.06
Total deposits from the public in Israel	147,640	133	0.36	132,261	248	0.75
Abroad - On call	15,536	31	0.80	12,568	53	1.70
Abroad - Time deposits	7,172	23	1.29	10,317	64	2.50
Total deposits from the public outside Israel	22,708	54	0.95	22,885	117	2.06
Total deposits from the public	170,348	187	0.44	155,146	365	0.94
Deposits from the Government:						
In Israel	164	-	-	168	-	-
Abroad	77	-	-	62	-	-
Total deposits from the Government	241	-	-	230	-	-
Deposits from central banks:						
In Israel	1,044	-	-	-	-	-
Total deposits from central banks	1,044	-	-	-	-	-
Deposits from banks:						
In Israel	4,670	6	0.51	3,778	5	0.53
Abroad	3,266	8	0.98	1,635	10	2.47
Total deposits from banks	7,936	14	0.71	5,413	15	1.11
Securities lent or sold under agreements to repurchase:						
Abroad	824	2	0.97	607	5	3.34
Total securities lent or sold under agreements to repurchase	824	2	0.97	607	5	3.34
Bonds and subordinated debt notes:						
In Israel	11,683	76	2.63	8,266	170	8.48
Total bonds and subordinated debt notes	11,683	76	2.63	8,266	170	8.48
Other liabilities:						
In Israel	57	-	-	46	-	-
Total other liabilities	57	-	-	46	-	-
Total interest bearing liabilities	192,133	279	0.58	169,708	555	1.31
Non-interest bearing deposits from the public						
Creditors in respect of credit card operations	48,655			37,534		
Other non-interest bearing liabilities ⁽⁶⁾	9,108			7,665		
Total liabilities	261,872			224,233		
Total capital resources	19,260			18,182		
Total liabilities and capital resources	281,132			242,415		
Interest spread		1,463	2.22		1,595	2.70
Net return on interest bearing assets: ⁽⁷⁾						
In Israel	215,774	1,243	2.32	184,293	1,357	2.98
Abroad	35,752	220	2.48	33,614	238	2.86
Total net return on interest bearing assets	251,526	1,463	2.35	217,907	1,595	2.96
Of which: Total interest bearing liabilities attributable to operations abroad						
	26,875	64	0.96	25,189	132	2.11

For footnotes see page 231.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the three months ended June 30					
	2020			2019		
	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	176,352	1,254	2.87	149,556	1,243	3.37
Total interest bearing liabilities	(131,832)	(97)	(0.29)	(113,607)	(105)	(0.37)
Interest spread		1,157	2.58		1,138	3.00
CPI-linked shekels:						
Total interest bearing assets	19,679	89	1.82	18,689	401	8.86
Total interest bearing liabilities	(10,999)	(57)	(2.09)	(10,252)	(224)	(9.03)
Interest spread		32	(0.27)		177	(0.17)
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	19,743	115	2.35	16,048	136	3.43
Total interest bearing liabilities	(22,427)	(61)	(1.09)	(20,660)	(94)	(1.83)
Interest spread		54	1.26		42	1.60
Total operations in Israel:						
Total interest bearing assets	215,774	1,458	2.73	184,293	1,780	3.92
Total interest bearing liabilities	(165,258)	(215)	(0.52)	(144,519)	(423)	(1.18)
Interest spread		1,243	2.21		1,357	2.74

For footnotes see next page.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	For the three months ended June 30 2020 Compared to 2019		
	Increase (decrease) due to change ⁽⁸⁾		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	102	(378)	(276)
Abroad	6	(106)	(100)
Total credit to the public	108	(484)	(376)
Other interest bearing assets:			
In Israel	38	(84)	(46)
Abroad	10	4	14
Total other interest bearing assets	48	(80)	(32)
Total interest income	156	(564)	(408)
Interest bearing liabilities:			
Deposits from the public:			
In Israel	14	(129)	(115)
Abroad	-	(63)	(63)
Total deposits from the public	14	(192)	(178)
Other interest bearing liabilities:			
In Israel	25	(118)	(93)
Abroad	4	(9)	(5)
Total other interest bearing liabilities	29	(127)	(98)
Total interest expenses	43	(319)	(276)
Net interest income	113	(245)	(132)

Footnotes:

- (1) The data is presented after the effect of hedge derivative instruments.
- (2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.
- (3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.
- (4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 6 million and NIS 480 million, respectively; 2019 – NIS 10 million and NIS 130 million respectively.
- (5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.
- (6) Including derivative instruments.
- (7) Net return – net interest income divided by total interest bearing assets.
- (8) The quantitative impact has been computed by multiplying the Interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the Interest spread between the periods.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "E" - Average balances and interest rates - assets

	For the six months ended June 30					
	2020			2019		
	Average balance ⁽²⁾ In NIS millions	Interest income	Rate of income In %	Average balance ⁽²⁾ In NIS millions	Interest income	Rate of income In %
Interest bearing assets:						
Credit to the public: ⁽³⁾						
In Israel	149,316	2,677	3.62	137,561	2,909	4.27
Abroad	23,998	468	3.94	23,435	609	5.26
Total credit to the public	173,314	*3,145	3.66	160,996	*3,518	4.42
Credit to the Government:						
In Israel	3,886	41	2.12	3,287	48	2.94
Total credit to the Government	3,886	41	2.12	3,287	48	2.94
Deposits with banks:						
In Israel	3,506	15	0.86	2,554	24	1.89
Abroad	263	-	-	235	1	0.85
Total deposits with banks	3,769	15	0.80	2,789	25	1.80
Deposits with central banks:						
In Israel	23,488	20	0.17	11,575	15	0.26
Abroad	684	1	0.29	516	6	2.34
Total deposits with central banks	24,172	21	0.17	12,091	21	0.35
Securities borrowed or purchased under agreements to resell:						
In Israel	634	-	-	740	-	-
Total securities borrowed or purchased under agreements to resell	634	-	-	740	-	-
Bonds held for redemption and available for sale: ⁽⁴⁾						
In Israel	27,032	172	1.28	25,517	209	1.64
Abroad	8,814	122	2.79	8,606	109	2.55
Total bonds held for redemption and available for sale	35,846	294	1.65	34,123	318	1.87
Trading bonds: ⁽⁴⁾						
In Israel	2,112	5	0.47	2,062	17	1.66
Abroad	67	1	3.01	75	1	2.68
Total trading bonds	2,179	6	0.55	2,137	18	1.69
Other assets:						
Abroad	674	11	3.29	693	8	2.32
Total other assets	674	11	3.29	693	8	2.32
Total interest bearing assets	244,474	3,533	2.91	216,856	3,956	3.68
Debtors in respect of credit card operations	9,452			8,637		
Other non-interest bearing assets ⁽⁵⁾	19,461			14,980		
Total assets	273,387			240,473		
Of which: Total interest bearing assets attributable to operations abroad	34,500	603	3.53	33,560	734	4.42
* Fees and commissions included in interest income from credit to the public		156			163	

For footnotes see page 235.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "F" – Average balances and interest rates – liabilities and equity

	For the six months ended June 30					
	2020			2019		
	Average balance ⁽²⁾ In NIS millions	Interest expenses	Rate of expense In %	Average balance ⁽²⁾ In NIS millions	Interest expenses	Rate of expense In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	50,119	8	0.03	38,686	5	0.03
In Israel - Time deposits	94,010	281	0.60	92,481	415	0.90
Total deposits from the public in Israel	144,129	289	0.40	131,167	420	0.64
Abroad - On call	14,654	81	1.11	11,974	96	1.61
Abroad - Time deposits	7,728	63	1.64	9,918	124	2.52
Total deposits from the public outside Israel	22,382	144	1.29	21,892	220	2.02
Total deposits from the public	166,511	433	0.52	153,059	640	0.84
Deposits from the Government:						
In Israel	160	-	-	170	-	-
Abroad	68	1	2.96	72	1	2.80
Total deposits from the Government	228	1	0.88	242	1	0.83
Deposits from central banks:						
In Israel	522	-	-	-	-	-
Total deposits from central banks	522	-	-	-	-	-
Deposits from banks:						
In Israel	4,665	14	0.60	3,940	12	0.61
Abroad	2,683	20	1.50	2,023	24	2.39
Total deposits from banks	7,348	34	0.93	5,963	36	1.21
Securities lent or sold under agreements to repurchase:						
Abroad	776	5	1.29	719	10	2.80
Total securities lent or sold under agreements to repurchase	776	5	1.29	719	10	2.80
Bonds and subordinated debt notes:						
In Israel	12,376	141	2.29	8,351	251	6.10
Total bonds and subordinated debt notes	12,376	141	2.29	8,351	251	6.10
Other liabilities:						
In Israel	57	1	3.54	43	2	9.52
Total other liabilities	57	1	3.54	43	2	9.52
Total interest bearing liabilities	187,818	615	0.66	168,377	940	1.12
Non-interest bearing deposits from the public	45,698			37,639		
Creditors in respect of credit card operations	9,630			9,066		
Other non-interest bearing liabilities ⁽⁶⁾	11,152			7,307		
Total liabilities	254,298			222,389		
Total capital resources	19,089			18,084		
Total liabilities and capital resources	273,387			240,473		
Interest spread		2,918	2.25		3,016	2.56
Net return on interest bearing assets: ⁽⁷⁾						
In Israel	209,974	2,485	2.38	183,296	2,537	2.79
Abroad	34,500	433	2.53	33,560	479	2.87
Total net return on interest bearing assets	244,474	2,918	2.40	216,856	3,016	2.80
Of which: Total interest bearing liabilities attributable to operations abroad	25,909	170	1.32	24,706	255	2.07

For footnotes see page 235.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "G" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the six months ended June 30					
	2020			2019		
	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	171,501	2,561	3.01	148,147	2,453	3.34
Total interest bearing liabilities	(127,974)	(207)	(0.32)	(112,624)	(207)	(0.37)
Interest spread		2,354	2.69		2,246	2.97
CPI-linked shekels:						
Total interest bearing assets	19,574	131	1.34	18,435	481	5.29
Total interest bearing liabilities	(11,514)	(94)	(1.64)	(10,155)	(288)	(5.75)
Interest spread		37	(0.30)		193	(0.46)
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	18,899	238	2.53	16,714	288	3.48
Total interest bearing liabilities	(22,421)	(144)	(1.29)	(20,892)	(190)	(1.83)
Interest spread		94	1.24		98	1.65
Total operations in Israel:						
Total interest bearing assets	209,974	2,930	2.81	183,296	3,222	3.55
Total interest bearing liabilities	(161,909)	(445)	(0.55)	(143,671)	(685)	(0.96)
Interest spread		2,485	2.26		2,537	2.59

For footnotes see next page.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "H" – Analysis of changes in interest income and expenses

	For the six months ended June 30		
	2020 Compared to 2019		
	Increase (decrease) due to change ⁽⁸⁾		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	211	(443)	(232)
Abroad	11	(152)	(141)
Total credit to the public	222	(595)	(373)
Other interest bearing assets:			
In Israel	62	(122)	(60)
Abroad	5	5	10
Total other interest bearing assets	67	(117)	(50)
Total interest income	289	(712)	(423)
Interest bearing liabilities:			
Deposits from the public:			
In Israel	26	(157)	(131)
Abroad	3	(79)	(76)
Total deposits from the public	29	(236)	(207)
Other interest bearing liabilities:			
In Israel	46	(155)	(109)
Abroad	5	(14)	(9)
Total other interest bearing liabilities	51	(169)	(118)
Total interest expenses	80	(405)	(325)
Net interest income	209	(307)	(98)

Footnotes:

- (1) The data is presented after the effect of hedge derivative instruments.
- (2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.
- (3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.
- (4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 9 million and NIS 471 million, respectively; 2019 – NIS 5 million and NIS 17 million respectively.
- (5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.
- (6) Including derivative instruments.
- (7) Net return – net interest income divided by total interest bearing assets.
- (8) The quantitative impact has been computed by multiplying the Interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the Interest spread between the periods.

Appendix no. 2 – Additional details – securities portfolio

1. Available-for-sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	June 30, 2020			
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Non government bonds				
Various sectors*	2,695	2,726	64	33
Financial services ⁽¹⁾	8,753	8,929	211	35
Total non government bonds	11,448	11,655	275	68
Government bonds				
U.S. government	448	494	46	-
Israel Government	17,202	17,662	545	85
Other Governments	200	199	2	3
Total government bonds	17,850	18,355	593	88
Total bond in the available-for-sale portfolio	29,298	30,010	868	156

* Including the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 65-219 million, each, in municipal bonds of Washington state, in bonds of of the Texas state and in bonds of the New York City.

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

	June 30, 2020			
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Banks and banking holding companies ⁽²⁾	1,032	1,044	18	6
Ginnie Mae	5,985	6,158	173	-
Freddie Mac	185	192	7	-
Fannie Mae	247	257	10	-
Other	1,304	1,278	3	29
Total financial services	8,753	8,929	211	35

Appendix no. 2 – Additional details – securities portfolio (continued)

1. Available-for-sale bonds - data according to economic sectors (continued)

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

	June 30, 2020			
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
North America	115	117	2	-
Western Europe ⁽³⁾	468	472	10	6
Israel	60	60	-	-
Australia	389	395	6	-
Total banks and banking holding companies	1,032	1,044	18	6

(3) Details by countries of investment in bonds of banks and banking holding companies in the available-for-sale portfolio in Western Europe

Britain	77	78	2	1
Sweden	35	35	-	-
France	264	262	3	5
Netherlands	58	59	1	-
Denmark	34	38	4	-
Total	468	472	10	6

2. Held-to-maturity securities - data according to economic sectors

Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

	June 30, 2020			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
In NIS millions				
Non government bonds				
Public and community services	177	182	7	2
Financial services*	266	272	8	2
Total non government bonds	443	454	15	4
Total Government bonds	7,248	7,590	342	-
Total bonds in the held-to-maturity portfolio	7,691	8,044	357	4
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	96	101	5	-
Freddie Mac	114	114	2	2
Fannie Mae	56	57	1	-
Total financial services	266	272	8	2

Appendix no. 2 – Additional details – securities portfolio (continued)

3. Trading Bonds - data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	June 30, 2020			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
In NIS millions				
Non government bonds				
Various sectors	73	67	-	6
Financial services	55	57	2	-
Total non government bonds	128	124	2	6
Total government bonds	1,172	1,190	19	1
Total bonds in the trading portfolio	1,300	1,314	21	7

Appendix no. 3 – Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks.

The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 11 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part B of the aforementioned Note.

(1) Details according to rating of balance-sheet balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of June	As of
	30	December
	2020	2019
In NIS million		
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	197	125
With an A+ rating	1,173	657
With an A rating	117	59
With an A- rating	7	5
With a BBB+ rating	65	43
With a BBB- rating	1	-
Not rated	104	108
Total against foreign banks	1,664	997
Total against Israeli banks	530	382
Total Balance-sheet balances of assets deriving from derivative instruments	2,194	1,379

Appendix no. 3 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank

	As of	
	As of June	December
	30	31
	2020	2019
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	4
With an AA- rating	-	2
With an A+ rating	136	75
With an A rating	8	7
With an A- rating	4	3
With an BBB+ rating	2	3
Total against foreign banks	150	94
Total against Israeli banks	7	9
Total Off Balance-sheet balances of assets deriving from derivative instruments	157	103

Appendix no. 3 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 11 to the condensed financial statements according to the overall credit to the public risk per economic sectors

	As of June 30, 2020	As of June 30, 2019	As of December 31, 2019
in NIS million			
Agriculture		-	-
Industry:			
Machines, electrical and electronic equipment	13	13	25
Mining, chemical industry and oil products	107	60	75
Other	57	32	30
Total industry	177	105	130
Construction and real estate:			
Acquisition of real estate for construction	123	48	79
Real estate holdings	496	151	154
Other	20	11	11
Total Construction and real estate	639	210	244
Electricity and water	253	358	356
Commerce	241	125	215
Hotels, hotel services and food	30	43	30
Transportation and storage	41	49	33
Communications and computer services	38	22	34
Financial services:			
Financial institution (excluding banks)	1,270	1,038	1,106
Private customers active on the capital market	505	291	270
Financial holding institutions	761	1,400	1,083
Insurance and provident fund services	-	-	-
Total financial services	2,536	2,729	2,459
Business and other services	24	17	31
Public and community services	135	41	62
Private individuals - housing loans	-	-	-
Private individuals - other	7	16	9
Total credit risk in respect of derivative instruments	4,121	3,715	3,603
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.	(1,918)	(1,721)	(1,971)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)	2,203	1,994	1,632

Appendix no. 3 – Additional details (continued)

2. Details of the investment in government bonds

Note 5 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	June 30, 2020		December 31, 2019	
	Book value	Fair value ⁽¹⁾	Book value	Fair value ⁽¹⁾
	In NIS millions			
Of the Israeli Government	26,084	26,426	23,784	24,026
U.S. government	510	510	1,591	1,591
Other governments	199	199	92	92
Total	26,793	27,135	25,467	25,709

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 4 – Composition of credit to the public by regulatory operating segments as of March 31, 2020

	March 31, 2020
	In NIS millions
Domestic operations:	
Households*	69,345
Private banking*	326
Small and minute businesses	⁽¹⁾ 36,291
Medium businesses	⁽¹⁾ 12,974
Large businesses	⁽¹⁾ 41,336
Institutional bodies	770
Total Domestic operations	161,042
Total International operations*	25,173
Total credit to the public	186,215
Allowance for credit losses	(3,028)
Total net credit to the public	183,187
*Of which – Housing loans	38,391

Footnote:

(1) Reclassified – improvement in the classification of customers with no reported turnover.

Appendix no. 5 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313.
Special mention debt	A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as "impaired", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net fees and commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 5 – Glossary (continued)

Forward looking information	<p>Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968.</p> <p>The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans.</p> <p>Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to...", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by Management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain.</p> <p>The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets.</p> <p>The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.</p>
Financial instrument	<p>Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions:</p> <ul style="list-style-type: none"> A. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. B. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 6 – Index

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Mercantile Discount Bank

Capital Market And Investments

Tafnit Discount Asset Management

Discount Capital

Discount Capital Underwriting

Discount Manpikim

Credit Cards Companies

Israel Credit Cards

Diners Club

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA

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Staten Island, NY Branch:

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Brooklyn, NY Branch:

705 Avenue U

Short Hills, NJ Branch:

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Beverly Hills, CA Branch:

9401 Wilshire Boulevard, Suite 600

Downtown Los Angeles, CA Branch:

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