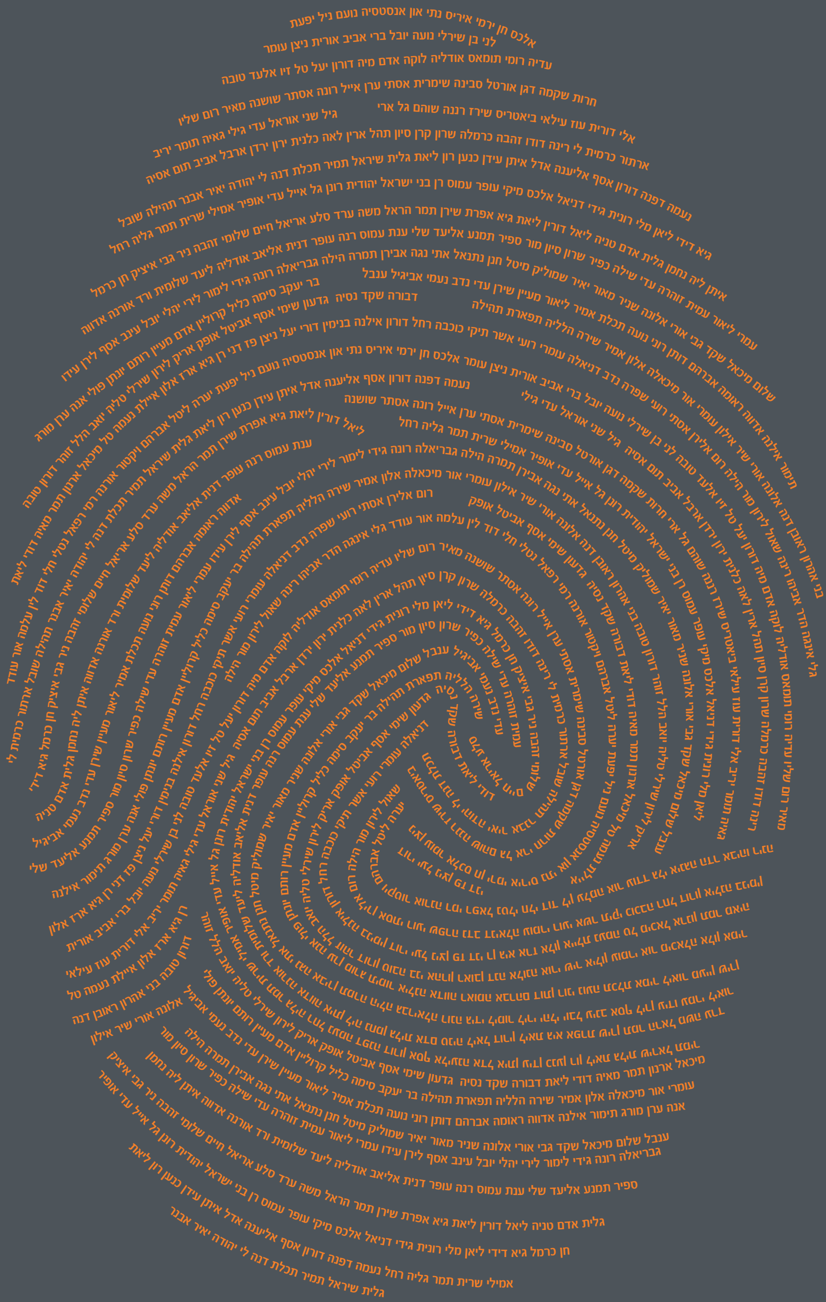
CONDENSED CONSSOLIDATED FINANCIAL REPORTS 1

AS AT 31.03.2020

מזרחי טפחות
MIZRAHI TEFAHOT



To see in each person **his personal imprint**

The Israel Securities Authority's MAGNA website also includes the following reports: A detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these condensed financial statements of interim periods, including XBRL format, a detailed risk management report and additional supervisory information, as stated, are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports.

Mizrahi-Tefahot Bank

Quarterly Condensed Financial Statements
As of March 31, 2020

Main Table of Contents

Mizrahi-Tefahot Bank

Report of the Board of Directors and management

Table of Contents

List of tables (charts) included in the Condensed Report of the Board of Directors and Management

Condensed Report of the Board of Directors and Management to Financial Statements as of March 31, 2020

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on May 31, 2020, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of March 31, 2020.

The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives of the Supervisor of Banks.

The condensed financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements as of December 31, 2019 and Note 1 to these condensed financial statements).

In conformity with the reporting structure stipulated by the Supervisor of Banks, additional information to these financial statements is provided on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

This additional information includes:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Details of equity instruments issued by the Bank
- Financial statements in XBRL file.

In conformity with the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013, the website also provides accessible reports.

Forward-Looking Information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Overview, targets and strategy

This chapter describes major developments in the Bank Group, its operating segments for the first quarter of 2020, performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2019 audited annual financial statements.

Condensed financial information and key performance indicators for the Bank Group

	2020	2019				2019
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
					NIS in millions	
Statement of profit and loss – highlights						
Interest revenues, net	1,347	1,352	1,214	1,543	1,231	5,340
Non-interest financing revenues	64	64	147	89	57	357
Commissions and other revenues	529	405	400	395	409	1,609
Total revenues	**1,940**	**1,821**	**1,761**	**2,027**	**1,697**	**7,306**
Expenses with respect to credit losses	345	119	70	99	76	364
Operating and other expenses	1,017	993	998	1,011	986	3,988
Of which: Payroll and associated expenses	644	628	650	648	636	2,562
Pre-tax profit	578	709	693	917	635	2,954
Provision for taxes on profit	200	247	251	318	213	1,029
Net profit(1)	**357**	**440**	**422**	**576**	**404**	**1,842**

Group net profit in the first quarter of 2020 amounted to NIS 357 million, compared to NIS 404 million in the corresponding period last year – a decrease by 11.6%. This reflects 9.1% annualized return on equity, compared to 11.3% in the corresponding period last year and 11.9% for all of 2019.
Net profit in the first quarter of this year includes revenues amounting to NIS 82 million (USD 23 million) with respect to agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" below.
Group net profit from current operations (excluding the aforementioned insurance revenues) in the first quarter of 2020 amounted to NIS 303 million, compared to NIS 404 million in the corresponding period last year – a decrease by 25.0%. This reflects 7.7% annualized return on equity, compared to 11.3% in the corresponding period last year and 11.9% for all of 2019.

The following major factors affected Group operating income in the first quarter of 2020 compared to the corresponding period last year:

Effect of the Corona Virus crisis

- Expenses with respect to credit losses in the first quarter of 2020, amounted to NIS 345 million compared with NIS 76 million in the corresponding period last year – an increase by NIS 269 million. The increase is primarily due to provision for credit losses on group basis, both with respect to debt in which a risk was found of potential impact to the client's repayment capacity, and with respect to an additional provision component ("Qualitative Component"), calculated by a methodology based on qualitative parameters (macro-economic benchmarks, such as unemployment and growth rates in conformity with the Bank of Israel forecast, and internal benchmarks, such as client ratings), and applies to all credit exposures at the Bank. The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. For more information about the provision for credit losses included on these financial statements, see below in chapter "Analysis of evolution of revenues and expenses" and in Notes 6 and 13 to the financial statements.
- Revenues from commissions in the first quarter of 2020 amounted to NIS 424 million, compared to NIS 383 million in the corresponding period last year, an increase by 10.7% due, *inter alia*, to increase in revenues from commissions on securities and from foreign currency conversions, due to significant increase in trading volumes, primarily in March, when the Corona Virus crisis started.

Other effects

- Financing revenues (including net interest revenues and non-interest financing revenues) increased in the first quarter of the year by 9.5% over the corresponding period last year. This is despite a 0.5% decrease in the (known) CPI in the first quarter of this year, compared to a 0.3% decrease in the corresponding period last year.
  For more information see under "Analysis of Development in financing revenues from current operations" below.
- Other revenues in the first quarter of 2020 included revenues amounting to NIS 82 million with respect to agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" below.

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

	As of March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
					NIS in millions
Balance sheet – key items					
Balance sheet total	284,731	273,244	267,001	264,223	260,011
Loans to the public, net	210,230	204,708	202,578	200,728	196,271
Cash and deposits with banks	56,385	51,672	47,125	48,700	48,396
Securities	8,709	10,113	10,566	8,816	9,130
Buildings and equipment	1,437	1,457	1,384	1,375	1,387
Deposits from the public	223,189	210,984	207,832	205,188	204,777
Debentures and subordinated notes	30,237	33,460	30,442	31,596	27,721
Deposits from banks	924	714	673	554	619
Shareholders' equity(1)	16,371	16,033	15,755	15,740	15,121

Development of balance sheet items shows consistent growth in Bank business:

- Total assets as of March 31, 2020 amounted to NIS 284.7 billion – an increase by NIS 24.7 billion or 9.5% compared to March 31, 2019.

- Loans to the public, net as of March 31, 2020 amounted to NIS 210.2 billion – an increase by NIS 14.0 billion or 7.1% compared to March 31, 2019; of this, increase by NIS 5.5 million in the first quarter of 2020 was significantly impacted by the Corona Virus crisis and the growing need of Bank clients, primarily business clients, to utilize existing credit facilities available to them, and to increase in housing loans.

- Deposits from the public as of March 31, 2020 amounted to NIS 223.2 billion – an increase by NIS 18.4 billion or 9.0% compared to March 31, 2019, of which increase by NIS 12.2 billion in the first quarter of 2020, primarily due to significant transition of client funds from the capital market to Bank deposits.

- Shareholder equity as of March 31, 2020 amounted to NIS 16.4 billion – an increase by NIS 1.3 billion or 8.3% compared to March 31, 2019. See also chapter "Capital adequacy" below.

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Key financial ratios (in percent)

	2020 First quarter	2019 Fourth quarter	Third quarter	Second quarter	First quarter	2019 Annual
Key performance benchmarks						
Net profit return on equity[(1)(2)]	9.1	11.5	11.1	15.8	11.3	11.9
Net profit return on risk assets[(1)(2)(3)]	0.86	1.09	1.06	1.48	1.06	1.17
Return on average assets[(2)]	0.51	0.65	0.64	0.88	0.63	0.70
Deposits from the public to loans to the public, net	106.2	103.1	102.6	102.2	104.3	103.1
Ratio of Tier I capital to risk components	9.89	10.14	10.13	10.23	10.12	10.14
Leverage ratio[(4)]	5.40	5.55	5.62	5.67	5.54	5.55
(Quarterly) liquidity coverage ratio[(5)]	117	121	122	118	120	121
Ratio of revenues to average assets[(2)]	2.81	2.72	2.68	3.13	2.65	2.76
Operating expenses to total revenues (Cost-income ratio)[(6)]	52.4	54.5	56.7	49.9	58.1	54.6
Basic earnings per share (in NIS)	1.52	1.88	1.80	2.46	1.73	7.86
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.91	0.82	0.81	0.80	0.80	0.82
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.41	1.36	1.29	1.28	1.25	1.36
Expenses with respect to credit losses to loans to the public, net for the period[(2)]	0.66	0.23	0.14	0.20	0.15	0.18
Ratio of net accounting write-offs to average loans to the public[(2)]	0.16	0.12	0.07	0.13	0.14	0.11
Additional information						
Share price (in NIS) at end of the quarter	66.23	92.00	86.40	82.00	74.60	92.00
Dividends per share (in Agorot)[(7)]	75	72	[(8)]167	–	–	178
Ratio of net interest revenues to average assets[(2)]	1.95	2.02	1.84	2.38	1.92	2.02
Ratio of commissions to average assets[(2)]	0.61	0.58	0.58	0.57	0.59	0.58

Financial ratios indicate:

- Net profit return in the first quarter was at 7.7% (reported net profit return: 9.1%), compared to return of 11.3% in the corresponding period last year. The decrease in return on capital is due to the significant increase in credit loss expenses due to the Corona Virus crisis and the lower interest rates in the USA, offset by increase in loans, deposits and commissions due to the Corona Virus crisis.
- Ratio of Tier I capital to risk components decreased to 9.86%, compared to the minimum rate which the Bank is required to achieve: 8.82%. This decrease is due to increase in loans extended to clients, and to decrease in net profit in the first quarterly of 2020, as noted above. This is in line with the supervisory expectation in Proper Conduct of Bank Business Directive 250, dated March 31, 2020, regarding Bank operations during this crisis and relief provided due to this crisis regarding the minimum capital required of banking corporations. For more information see chapter "Significant Events in the Bank Group's Business" below.
- The cost income ratio for current operations (excluding revenues with respect to agreement with insurers to conclude derivative proceedings, as set forth above) in the first quarter of 2020 was 54.7% (reported cost-income ratio: 52.4%). This was due to higher revenues from current operations and to maintaining expenses at the same level.

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

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(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

(2) Calculated on annualized basis.

(3) Net profit to average risk assets.

(4) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218

(5) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.

(6) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

(7) The rate of dividends is calculated based on the actual amount of dividends actually distributed in the reported period.

(8) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019.

Major risks

The Bank's risks mapping process produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operational risk, including information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputational risk and strategic-business risk. The Bank regularly reviews the risk mapping, so as to ensure that it covers all of its business operations, market conditions and regulatory requirements.

For further details see chapter "Major risks" of the 2019 Report of the Board of Directors and Management.

For more information about developments in risks, including the effect of the Corona Virus crisis, see chapter "Risks overview" below and the detailed Risks Management Report on the Bank website.

See below for estimated potential effect of the various risk factors on the Bank Group in chapter "Risks overview".

Business goals and strategy

Further to the Bank Board of Directors directing management to prepare for preparation of a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020, in view of achievement of the target of the current strategic plan on the 2019 financial statements, in view of the Corona Virus crisis and the uncertainty associated there with, the Board of Directors shall discuss the new strategic plan in late 2020.

For more information about the Bank's business goals and strategy for 2017-2021, see chapter "Business goals and strategy" of the 2019 Report of the Board of Directors and Management.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

For more information about share issuance in conjunction with an employee' stock option plan, see statement of changes in shareholders equity in the financial statements.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different lines of business, an assessment is made of the impact of achieving these objectives on total risk assets for the Bank, and accordingly on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of types of debentures as well as shareholder equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity, liquidity, capital adequacy and leverage – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.

Deposits from the public for the Group as of March 31, 2020 amounted to NIS 223.2 billion, compared to NIS 211.0 billion at end of 2019: an increase by 5.8%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first quarter of 2020 by 5.7%; deposits in the CPI-linked segment were essentially unchanged and deposits denominated in or linked to foreign currency increased by 8.5%. For more information see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.

Obligatory notes and debentures issued to the public

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued subordinated notes to the public under published prospectuses.

Tefahot Issuance has a shelf prospectus issued on August 4, 2019 (dated August 5, 2019) for issuance of obligatory notes.

In addition to Tefahot Issuance operations, the Bank itself has a shelf prospectus issued on December 3, 2019 (dated December 4, 2019).

In the first quarter of 2020, there were no further issuances by the Bank nor by Tefahot Issuance.

As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 30.2 billion, compared to NIS 33.5 billion as of December 31, 2019.

Complex capital instruments

Contingent convertible (CoCo) subordinated notes

Contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), as of March 31, 2020, amounted to NIS 3.6 billion, similar to December 31, 2019.

Other complex capital instruments

Capital note which does not qualify as supervisory capital pursuant to Basel III directives and is gradually written down, as of March 31, 2020 amounted to NIS 2.0 billion, similar to December 31, 2019.

Other notes

Subordinated notes, which are not considered complex capital instruments (included in Tier II capital for the purpose of maintaining minimum capital ratio and gradually reduced subject to transition provisions), as of March 31, 2020, amounted to NIS 0.7 billion, compared to NIS 1.2 billion as of December 31, 2019.

Significant developments in management of business operations

Corona Virus pandemic

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, both real and financial, which affect the banking system. For more information about Bank operations, see chapter "Trends, phenomenons and material changes" below.

Addendum to the agreement with Bank Union shareholders

In conformity with the resolution by the Bank’s Board of Directors dated November 27, 2017, the Bank signed an agreement with controlling shareholders of Bank Union Le-Israel Ltd. (hereinafter: "Union"), who jointly hold 47.63% of Union's issued and paid-up share capital, to acquire the shares of Bank Union and to merge it with the Bank by way of exchange of shares (hereinafter: "the agreement"). Moreover, prior to signing this agreement, notice was received from another Union shareholder who holds (through Trustees) 27.12% of Union's issued and paid-in share capital (hereinafter: "the other shareholder"). According to this agreement, as noted in the 2017 Report of the Board of Directors and Management, subject to fulfillment of suspensive conditions highlighted in the agreement, the Bank would issue a full exchange tender offer (hereinafter: "tender offer") to purchase Bank Union shares and, conversely, the controlling shareholders and the other shareholder committed to accept the tender offer, to be completed subject to suspensive conditions stated in the agreement.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the merger (hereinafter: "the Supervisor" and "the decision", respectively). On August 5, 2018, the Bank and the Shareholders signed an addendum to the Agreement (hereinafter: "Addendum no. 1"), whereby the parties and Union would appeal the Decision. Such appeal was filed on September 6, 2018. It was further agreed that the extended effective date would be 12 months after the signing date of the Addendum (hereinafter: "the Extended Effective Date") and if, by the Extended Effective Date, a verdict would be issued denying the appeal, or should no verdict be given with regard to the appeal, then the Agreement would be null and void. On July 8, 2019, the parties to the agreement signed Addendum no. 2 to the agreement (hereinafter: "Addendum no. 2").

On November 25, 2019, this date was extended to December 31, 2019 (hereinafter: "the Postponed Effective Date"). The parties further agreed that the Bank may terminate the agreement should the Bank Board of Directors resolve, by the Extended Effective Date or by the Postponed Effective Date, that Union conducted or was party to an extraordinary transaction (as this term is defined in Section 1 of the Corporate Law, 1999), as well as for the causes listed in section 5.1 of the immediate report dated August 5, 2018. Furthermore, pursuant to Addendum no. 2, should the Bank of Israel not consent to extend the Trust Period with regard to holdings of the other shareholder through the Postponed Effective Date, either party may terminate the agreement such that neither of the parties, employees, officers, managers, shareholders or affiliated companies thereof shall bear any obligation due to the agreement and/or claims made against the other parties to the agreement, employees, advisors, officers, managers, shareholders of affiliated companies thereof.

On November 28, 2019, the verdict in this appeal was received; the appeals were accepted, such that the decision by the Acting Supervisor to object to the merger was canceled, and the matter was referred back to the Supervisor for a complete decision on setting potential conditions to eliminate concern of impacting competition with regard to credit to the diamond sector and with regard to expected Bank operations, should total assets on the Bank balance sheet be close to 20% of total assets on the balance sheet for the entire banking system, by December 31, 2019; this deadline was extended, with Court approval, to January 8, 2020.

On December 30, 2019, the parties to the original agreement signed Addendum no. 3 to the original agreement, which stipulated that deadline for fulfillment of conditions for publication of the purchase offer for Union shares by the Bank is January 26, 2020. Furthermore, the Bank received notice from the Trustee holding Union shares on behalf of the other shareholder, whereby the joining notice would expire on one of the dates listed in the notice (hereinafter: "Addendum no. 3").
On January 8, 2020, the Bank received to the Supervisor's decision with regard to setting potential conditions to eliminate concern of impacting competition, whereby the Bank and Union would not take any action constituting a merger prior to final and irrevocable sale of operations of Union or of the Bank providing credit to the diamond sector ("the sold operations"). This decision includes provisions and conditions with regard to the buyer of the sold operations, and stipulates that the buyer's identity and the scope of the sold operations are subject to prior written approval by the Supervisor. The decision also includes provisions with regard to the period through the transfer of the sold operations to the buyer. As for the condition regarding the percentage of the Bank's on-balance sheet assets out of those of the entire banking system, according to the Supervisor's decision, the Bank and Union would not take any action constituting a merger, unless the requirement of additional capital for large banks set forth in this directive would only apply to banking corporations whose total on-balance sheet assets account for 24% or more of total on-balance sheet assets for the entire banking system. Moreover, the Supervisor's decision lists certain actions that would not count as starting a merger, with regard to the aforementioned merger provisions.
On January 27, 2020 the parties to the original agreement signed Addendum no. 4 to the original agreement, whereby *inter alia* they would appeal the Supervisor's decision of January 8, 2020 with regard to conditions for approval of the merger. It further stipulates that the deadline for fulfilling the conditions for publication of the tender offer is delayed to May 31, 2020, and the "appeal acceptance date" (as defined in report dated August 5, 2018, (reference no. 2018-01-072859)), would be the date to be agreed by the parties, based on which the "deadline for issuing the Tender Offer" and the "date of the Effective Financial Statements" would be determined (hereinafter: "Addendum no. 4"). In May 2020, such appeals were filed by the Bank, by Bank union of Israel Ltd. And by the controlling shareholders thereof. On May 31, 2020, the parties signed Addendum 5 to the original agreement (hereinafter: “Addendum 5”), which stipulates, inter alia, that the deadline for compliance with the conditions for issuing a purchase offer was postponed to August 31, 2020. Addendum 5 also stipulates other provisions, similar to those stipulated in Addendum 4, as set forth above. For more information about the agreement with Bank Union shareholders, see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017, Immediate Report dated May 30, 2018, reference 2018-01-053347, Immediate Report dated June 25, 2018 reference 2018-01-060643, Immediate Report dated August 5, 2018, reference 2018-01-072859, Immediate Report dated July 8, 2019, reference 2019-01-070000, Immediate Report dated November 25, 2019 reference 2019-01-101892, Immediate Report dated November 28, 2019 reference 2019-01-103980, Immediate Report dated December 30, 2019 reference 2019-01-115755, report dated January 1, 2020, reference no. 2020-01-000351, report dated January 8, 2020, reference no. 2020-01-003750, and report dated January 27, 2020, reference 2020-01-010362).

This information constitutes forward-looking information, as defined in the Securities Act, 1968 and based on assumptions, facts and data underlying the strategic plan and listed therein, which may fail to materialize due to factors not solely under Bank control.

Significant developments in human resources and administration

Developments in labor relations

Labor and payroll agreements at the Technology Division

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

Significant developments in IT

Given current developments in the financial market, the age of current Bank systems and transition of Bank Yahav to a new platform, the Bank launched, in the first quarter of 2019, a project to replace the Bank's capital market core system based on a new platform. The project is making progress and is in the detailed design stage.

Another significant project has been recently launched, to replace the CRM system in order to empower personalized service for each client. The project was launched in the fourth quarter of 2019.

For more information about the effect of the Corona Virus pandemic on IT, see chapter "Significant events in the Bank Group's business".

Developments in international geographic deployment

In view of the Corona Virus crisis, overseas affiliates operate in restricted scope of work, so as to continue to provide the services required by clients. Branches closely monitor the clients at risk.

The affiliates are in contact with local regulators and operate in conformity with guidelines issued by the latter.

Other matters

Conclusion of term in office of the Bank President & CEO

On February 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, informed the Board of Directors of his intention to conclude his term in office in the coming months. On February 24, 2020, the Bank Board of Directors appointed a Board committee tasked with identifying candidates for the position of Bank President & CEO; the committee is headed by the Chairman of the Board of Directors, Mr. Moshe Vidman. The committee's recommendations would be brought before the Board of Directors so as to make a decision on appointment of the Bank's next President & CEO. The end date of Mr. Eldad Fresher's term in office has yet to be determined.

For more information see Immediate Reports dated February 19, 2020, reference no. 2020-01-017268, and report dated February 24, 2020, reference: 2020-01-018846).

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 10.B.(2-4) to the financial statements.

Explanation and analysis of results and business standing

This chapter includes a description of trends, phenomena, developments and material changes with regard to results and business standing, including analysis of revenues, expenses and profit. It also describes the results of the Bank's supervisory operating segments and operating results for holdings in major investees.

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

Addendum to the agreement with Bank Union shareholders

For more information about an addendum to the agreement with Bank Union shareholders, see chapter "Significant developments in management of business operations" above.

Effect of the Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity, significant increase in the unemployment rate and sharp volatility in financial markets. March saw sharp declines on the Stock Exchange, with sharp volatility. The sharp declines in financial markets resulted in households selling securities and in heavy redemptions, primarily in the mutual fund market.

The Bank, as part of addressing the Corona Virus crisis, raised the alert level, convened an expanded situation room to determine work guidelines and established a Corona Virus forum to manage current operations under these conditions, including the relevant parties for such operations. The Bank's Board of Directors, Board committees and Bank management conduct more frequent discussions in order to respond to matters related to this crisis and to constantly review the implications thereof.

In conformity with the emergency directives, the Bank transitioned to work of a limited scope, while maintaining business continuity at the Bank. During the crisis period, Bank units operated in split groups, so as to maintain functional continuity of critical services, while some employees transitioned to working remotely, using the Bank's technology infrastructure. Some employees were placed on paid leave for a limited period; the Bank did not place any employees on furlough.

Throughout the period, the Bank acted to ensure continuity in providing service to clients, by bankers at branches, by the banking centers and by diverse other direct channels operated by the Bank. In order to enable continued operation of branches, action was taken and equipment was distributed to improve protection, both personal equipment (masks, disinfectant) and barriers and separation means to reduce exposure among employees and to clients. The Bank has specified designated branches that were open to the public, while other branches were available by appointment only. Persons with disabilities, the elderly and pensioners received in-person service, even at branches not open to the public.

Business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk. During this quarter, the Bank of Israel issued a range of relief measures and directives in Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)". The Bank applies these relief measures and directives and acts to provide appropriate business response for Bank clients in various areas at this time, with constant review of the implications of such activities for risk management.

Concurrently with actions taken by the Bank to continue providing service to its clients, special emphasis was placed on potential implications of this crisis on risk management at the Bank. Credit risk is closely monitored by forums headed by the Bank President & CEO and by the Credit Risk Officer, with bi-weekly assessments conducted by the divisions, individual monitoring of economic sectors with significant exposure to the crisis and constant monitoring of key benchmarks and specific clients with special sensitivity to implications of this crisis. For all other risks, regular management continues, with emphasis placed on potential other implications of this crisis, if any. Throughout the crisis period, normal operations of units and systems related to financial reporting continued, as did controls over disclosure and internal control over financial reporting. For more information about measures and processes applied by the Bank to monitor and manage the various risks, in view of the effect of this crisis, see chapter "Risk Management" below.

Bank preparations for the Corona Virus crisis and providing on-going response to operational requirements, were involved with costs for technology procurement, upgrade to the remote access system, splitting of units and logistics cost for procurement of protective equipment and disinfectant, which had no significant impact on Bank expenses.

In early May 2020, as restrictions were eased and the economy gradually returned to normal operations, Bank branches and units resumed full operation in compliance with directives of the Ministry of Health and of the Bank of Israel, including service to the public and provision of banking services at all branches.

Capital adequacy and dividend distribution

On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect. On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of housing loans would not apply to housing loans to be provided during this crisis period. Consequently, the Bank's ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of March 31, 2020, would be at least 8.82% and the total capital ratio would be at least 12.32% (with additional safety margins as appropriate); it was further noted that banks were requested to review their dividend distribution policy and share buy-back program, in view of the Corona Virus crisis and the uncertainty associated with evolution of this crisis (including, in view of macro-economic forecasts that were sharply revised downwards and the sharp declines on financial markets), and that it would be appropriate to avoid dividend distributions (and share buy-back) for as long as this interim directive is in effect.

Further to the foregoing, on April 13, 2020, the Board of Directors resolved that the Bank would avoid any dividend distributions (including buy-back of Bank shares), for as long as this interim directive is in effect; that is due, *inter alia*, to the position of the Supervisor of Banks as noted above and with due attention to the foregoing, including the uncertainty associated with implications of the Corona Virus crisis for the Bank, as set forth above.

Provision for credit losses

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the increase in group-based provision.

In conformity with directives of the Supervisor of Banks, the Bank applies a methodology for measuring the group provision, which takes into account both past loss rates, since 2011, and adjustments with respect to relevant environmental factors. These factors include the following: Trends in credit volume for each sector as well as sector conditions, macro-economic data, general assessment of credit quality for each economic sector, changes in volume and in trend of balances in arrears, changes to Bank policy on extending credit and so forth.

On April 21, 2020, the Supervisor of Banks issued a circular listing highlights for financial statements for the first quarter of 2020. This circular emphasizes, *inter alia*, that banking corporations should ensure that their financial statements for the first quarter of 2020 reflect the major effects of the Corona Virus crisis, and that provisions for credit losses were made in conservative and cautious fashion. According to the circular, the Supervisor of Banks is aware that under the current circumstances, there is a high degree of uncertainty, which requires banking corporations to exercise significant judgment, and stipulates that qualitative adjustments in calculating the provision should be revised, and amounts of the provision for credit losses should be increased. Over time, as the Bank has more available information, the estimated effects would be revised accordingly.

Therefore, in the calculation whose results are included on these financial statements, the Bank accounted for various indicators, which affected the model based on the indicator growth rate. Indicators include, *inter alia*, the rate of decrease in borrower ratings in various sectors, the rate of increase in total loans under special terms and conditions for the Corona Virus crisis (delayed payments, loans guaranteed by the State) and the increase in unemployment rate and decrease in growth, in conformity with the Bank of Israel forecast. Moreover, economic sectors were rated based on the severity of impact due to the Corona Virus crisis, and for each sector, an increment was included for the specific sector risk. The provision rate, based on the model, would continue to be revised regularly, in conformity with the various indicators. In case of further deterioration, this rate should grow; and in case of improvement, the provision rate should decline accordingly.

In the housing sector, the provision is calculated by "extent of arrears", as determined by the Supervisor of Banks, and also includes a group-based provision for credit losses which, in conformity with the directives, would be at least 0.35% of the outstanding balance of such loans, as of the report date. For the sake of being conservative, and in view of the extent of loans for which delay of current payments has been approved, these financial statements contain an additional qualitative component, calculated based on the PD and LGD calculation for the balance of loans for which delay of current payments has been approved, which are in the low rating groups of the Bank's housing loan portfolio. We should note that this component would be adjusted in future in conformity with developments.

Expenses with respect to credit losses in the first quarter of 2020, amounted to NIS 345 million compared with NIS 76 million in the corresponding period last year – an increase by NIS 269 million. The increase is primarily due to increase in group-based provision for credit losses with respect to debt identified as problematic debt, and to application of a methodology for increasing the group-based provision with respect to balances of commercial and housing loans based, *inter alia*, on the state of the economy as of the date of the financial statements, including unemployment and growth rates. For more information about the provision for credit losses included on these financial statements, see below under "Analysis of evolution of revenues and expenses" and in Notes 6 and 13 to the financial statements.

The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Below is current data about Bank activities to assist clients, in view of the Corona Virus crisis (NIS in millions):

	As of May 22, 2020 (unaudited)				
	Households		**Small and micro busin-esses**	**Medium and large busi-nesses**	**Total**
	Housing loans	**Other**			
Number of applications for delay in payments granted	58,115	15,660	12,226	326	86,327
Balance of credit for which payments were delayed	39,575	918	3,466	1,535	45,494
Credit balances provided in State funds	–	–	1,325	270	1,595
	As of March 31, 2020 (unaudited)				
Number of applications for delay in payments granted	42,812	6,654	4,629	139	54,234
Balance of credit for which payments were delayed	29,338	437	1,725	481	31,981
Credit balances provided in State funds	–	–	31	–	31

(1) As of May 22, 2020, the Bank approved loans in the State-guaranteed funds for small and medium businesses, amounting to over NIS 2.4 billion, 80% of total loans which the Bank was allowed to provide in this fund.

Adoption of recommendations of the independent claim committee to review Bank Group business with US clients with regard to taxation

On March 27, 2019, the Bank Board of Directors resolved to establish an independent committee (hereinafter: "the Committee") to review certain aspects arising from the DPA (hereinafter: "the Agreement") signed by the Bank and the US Department of Justice with regard to Bank Group business with is US clients in 2002-2012.

On March 31, 2020, the Bank Board of Directors adopted the Committee's recommendations with regard to not bringing legal proceedings against officers and others at the Bank, and with regard to not drawing personal conclusions with regard to events subject of the Agreement, and to sign a settlement agreement, amounting to USD 23 million, with insurers that have issued a Board member and officer liability insurance policy, subject to approval by the Tel Aviv-Yafo District Court. This amount was recognized as revenues in the first quarter of 2020.

On May 18, 2020, the Board of Directors discussed an additional report provided by the Committee to the Board of Directors, concerning review of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement, and resolved that the Audit Committee should consider the Committee's recommendations and form its own recommendations on this matter.

The General Environment and Effect of External Factors on the Bank Group

Major developments in the banking industry in Israel and overseas

For more information about trends in recent years in the banking sector in Israel and overseas, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management for 2019.

Developments in the Israeli and global economy in the first quarter of 2020

Israeli economy

Real Developments

The global Corona Virus outbreak started in early 2020, with governments around the world and in Israel applying lock-down and social distancing measures in an effort to stop the spread of the virus. This resulted in a global economic crisis, reflected in shut down of large swaths of the global and local economy, with the number of employees placed on furlough sky rocketing. On capital markets, prices of shares and corporate debentures declined sharply, although some recovery is evident as of the end of March.

This crisis has impacted the supply side, due to impact to the manufacturing chain of many goods and services and impact to trade, but also resulted in decrease on the demand side, due to restrictions imposed on economic activity. In an attempt to mitigate the intensity of this crisis, governments world-wide applied fiscal measures in compensating businesses and employees impacted by this crisis and in extending credit at favorable terms to the business sector. Most central banks have sharply reduced monetary interest rates, have applied monetary expansion measures and provided liquidity to the markets.

In the first quarter of 2020, annual GDP growth was a negative 7.1%, compared to positive growth at 4.6% in the previous quarter and 3.5% for all of 2019. In the first quarter, GDP was affected by the following items: sharp decrease in private consumption (other than housing and food), decrease in investment in fixed assets and decrease in export of services due to the decline in export of tourism services. Conversely, exports of goods increased. Imports decreased sharply, which mitigated the negative GDP growth.

The slow-down in economic activity in Israel started in February, where the Bank of Israel Composite Index increased by 0.1%, whereas in March it contracted by 0.1%. In the first quarter of this year, the Composite Index only increased at an annualized 1.0%, compared to increase by 3.4% in 2019 and by 3.6% in 2018. Unemployment in Israel rose sharply in April of this year, to a record 1.15 million, or 28% of the work force.

According to a forecast from the Bank of Israel Research Division dated May of this year, GDP in Israel is expected to decrease by 4.5% in 2020, with growth expected to recover in 2021 to 6.8%.

Inflation and exchange rates

In the first quarter of 2020, the Consumer Price Index declined by 0.1%, compared to a 0.5% rise in the corresponding period last year. The CPI was mostly affected by lower prices of clothing and footwear, transportation and communications, which moderated the overall CPI by 0.3%. Conversely, higher prices of housing, fruits and vegetables contributed 0.2% to the overall CPI figure.

Below is information about official exchange rates and changes there to:

	March 31, 2020	December 31, 2019	Change in %
Exchange rate of:			
USD (in NIS)	3.565	3.456	3.2
EUR (in NIS)	3.900	3.878	0.6

On May 22, 2020, the USD/NIS exchange rate was 3.529 – a 1.0% revaluation compared to March 31, 2020. The EUR/NIS exchange rate on this date was 3.846 – a revaluation by 1.4% since March 31, 2020.

Monetary policy

In order to support market liquidity and to ease lending in the economy, the Bank of Israel reduced the monetary interest rate in April, from 0.25% to 0.1%. The Bank of Israel also applied multiple monetary tools, including the following: A plan to purchase Government debentures valued at NIS 50 billion, providing liquidity to the capital market through USD/NIS swap auctions and taking steps to increase credit supply through, *inter alia*, reduced capital requirements for banks.

Fiscal policy

In the first quarter of 2020, the government budget recorded a NIS 13.3 billion cumulative deficit, compared to a NIS 9.3 billion cumulative budget deficit in the previous year. The deficit rate for the 12 months ended in March, as percentage of GDP, was at 4.0% in 2019, compared to 3.7% in 2019 and 2.9% in 2018. In the first quarter of 2020, expenditure by Government ministries decreased by 3.7% compared to the corresponding period last year. In the first quarter of 2020, tax collection decreased by a nominal 2.1% compared to the corresponding period last year due, *inter alia*, to delay in VAT payment from March and rapid release of income tax refunds, designed to help businesses during the Corona Virus crisis. The Ministry of Finance announced an economic plan to support the economy, valued at NIS 80 billion, of which NIS 35 billion as expenses on the national budget. This plan was intended to ensure that appropriate healthcare and civilian assistance is provided, support for economic development, maintaining business continuity and providing social security for households.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first quarter of 2020 demand for new apartments (apartments sold and apartments constructed not for sale) was 11.7 thousand apartments, a decrease by 4.0% over the corresponding period last year and an increase by 25.5% over the corresponding period in 2018. In the first quarter of 2020, housing loans given to the public amounted to NIS 21.1 billion, compared to NIS 15.6 billion in the corresponding period last year and NIS 14.3 billion in the corresponding period in 2018 – an increase by 35% and 48%, respectively.
According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended March 2020, increased by 4.2%, further to an increase by 3.4% in 2019 and an increase by 0.9% in the corresponding period last year.

Capital market

Trading on global equity markets in the first quarter of 2020 was highly negative, led by stock exchanges in the USA, in Europe and by major equity benchmarks in the Israeli market, due to the Corona Virus crisis.

The following are changes in key equity indexes in Israel (in %):

	2020	2019			
CPI	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Tel-Aviv 35	(21.0)	4.2	1.1	3.6	5.4
Tel-Aviv 125	(21.0)	5.5	3.2	4.7	6.4
Tel-Aviv 90	(21.6)	8.9	9.2	7.1	10.2

Average daily trading volume in equities and convertible securities in the first quarter of this year was NIS 2.2 billion, compared to NIS 1.5 billion in the corresponding period last year, and average daily trading volume of NIS 1.3 billion in 2019.

The following are changes in key debenture indexes in Israel (in %):

	2020	2019			
CPI	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
General debentures	(4.5)	1.0	2.6	1.7	3.2
CPI-indexed Government debentures	(3.0)	0.9	3.5	2.1	3.5
Non-linked Government debentures	(1.1)	0.9	3.5	1.4	2.3
Tel Bond 20	(7.1)	(0.1)	2.0	1.9	4.3
Tel Bond 40	(6.5)	2.1	1.1	2.1	3.2

Global economy

According to preliminary estimates, the US economy decreased in the first quarter of 2020 at an annualized 4.8%, compared to 2.1% growth in the previous quarter and compared to 2.3% growth for all of 2019. This is due to the Corona Virus pandemic and restrictions imposed on economic activity. Purchasing manager indexes declined to historical lows for both services and industrial sectors. The US economy shed many jobs, with unemployment in April of this year rising sharply, to 14.7%. The Federal Reserve lowered interest rates in March, by two emergency steps, from 1.5%-1.75% to 0.0%-0.25%, in order to support the US economy. The Fed also announced that it would use all available tools and would continue to purchase debentures "at any price necessary" to safeguard market function.

GDP in the Euro Zone in the first quarter of 2020 declined by 3.2% based on the second estimate, compared to 1.0% annualized growth in the previous quarter and compared to 1.2% growth for all of 2019. Purchasing manager indexes declined to historical lows for both services and industrial sectors, against the backdrop of the Corona Virus spreading across the continent. The ECB maintained interest rates un-changed, but launched an emergency plan to purchase debentures valued at EUR 750 billion, expanded the loan program for banks and reduced capital requirements for banks. In January 2020, the UK left the EU after 47 years. This resulted in the UK starting an interim period, during which it would remain a member of the Trade Union, while negotiating new trade agreements.

China's economy declined in the first quarter of 2020 at an annualized 6.8%, compared to 6.0% growth in the previous quarter and compared to 6.1% growth for all of 2019. The Industrial Output Index decreased in the first quarter of this year, but resumed growth in April, as restrictions on activity were eased. The Retail Trade Index also declined in the first quarter and struggles to recover. Purchasing Manager Indexes declined sharply in February of this year, as lock-down was imposed in Hubei Province, but recovered significantly in March-April, although they still remain lower than their pre-crisis levels.

The following are changes in key equity indexes world-wide (in %):

	2020	2019			
CPI	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Dow Jones	(23.2)	6.0	1.2	2.6	11.2
S&P 500	(20.0)	8.5	1.2	3.8	13.1
NASDAQ 100	(10.5)	12.7	1.0	4.0	16.6
DAX	(25.0)	9.6	0.2	7.6	9.2
FTSE 100	(24.8)	6.7	(0.2)	2.0	8.2
CAC	(26.5)	0.5	2.5	3.5	13.1
Nikkei	(20.0)	5.0	2.3	0.3	6.0

Key and emerging risks

In its operations, the Bank is exposed to a succession of risks which may potentially impact its financial results and its image. As part of the risks mapping process, the Bank reviews the top risks, existing (or new) risks which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability, such as: credit, interest and liquidity risks. The Bank also identifies emerging risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the Bank. Of these risks, one may note the following: information security and cyber risk, IT risk and reputation risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, including effect of the Corona Virus crisis, see chapter "Risks Overview" as well as the Risks Report for the first quarter of 2020 and for 2019, available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 10.B.3. with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Changes to critical accounting policies and to critical accounting estimates

As stated in Note 1.B to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 10 years ended on the report date, and accounts for the effect of deterioration in macro-economic conditions and market activity due to the Corona Virus crisis, on borrowers at the Bank.

For more information see chapter "Significant Events in the Bank Group's Business" above.

Material developments in revenues, expenses and other comprehensive income

Group net profit in the first quarter of 2020 amounted to NIS 357 million, compared to NIS 404 million in the corresponding period last year – a decrease by 11.6%. This reflects 9.1% annualized return on equity, compared to 11.3% in the corresponding period last year and 11.9% for all of 2019.

Net profit in the first quarter of this year includes revenues amounting to NIS 82 million (USD 23 million) with respect to agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" above.

Group net profit from current operations (excluding the aforementioned revenues from the agreement with insurers) in the first quarter of 2020 amounted to NIS 303 million, compared to NIS 404 million in the corresponding period last year – a decrease by 25.0%. This reflects 7.7% annualized return on equity, compared to 11.3% in the corresponding period last year and 11.9% for all of 2019.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues[(1)] in the first quarter of 2020 amounted to NIS 1,411 million, as described on these financial statements, compared to NIS 1,288 million in the corresponding period last year, an increase by 9.5%.

Net interest revenues and non-interest financing revenues[(1)] from current operations in the first quarter of 2020 amounted to NIS 1,416 million, as described below, compared to NIS 1,349 million in the corresponding period last year, an increase by 5.0%.

Below is an analysis of development in financing revenues from current operations (NIS in millions):

	2020	**2019**				**Change in %**
	First Quarter	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**	**First quarter of 2020 to first quarter of 2019**
Interest revenues, net	1,347	1,352	1,214	1,543	1,231	
Non-interest financing revenues[(1)]	64	64	147	89	57	
Total financing revenues	**1,411**	**1,416**	**1,361**	**1,632**	**1,288**	**9.5**
Less:						
Effect of CPI	(83)	(36)	(81)	235	(42)	
Revenues from collection of interest on problematic debts	7	17	6	9	12	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	28	3	30	1	12	
Effect of accounting treatment of derivatives at fair value and others[(2)]	43	44	34	30	(43)	
Total effects from other than current operations	**(5)**	**28**	**(11)**	**275**	**(61)**	
Total financing revenues from current operations	**1,416**	**1,388**	**1,372**	**1,357**	**1,349**	**5.0**

Financing revenues from current operations increased in the first quarter of this year by 5.0% compared to the corresponding period last year, due to the negative effect of the lower Fed interest rates. The increase is primarily due to increase in lending and deposit operations, in line with the Bank's strategic plan, focused on the small and medium business segments.

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, early repayment commissions, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value. Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

Below are total financing revenues by supervisory operating segment (NIS in millions):

	First Quarter			
Operating segment	**2020**	**2019**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	459	403	56	13.9
Households – other	337	335	2	0.6
Private banking	22	22	–	–
Total – individuals	**818**	**760**	**58**	**7.6**
Business operations:				
Small and micro businesses	298	280	18	6.4
Medium businesses	76	68	8	11.8
Large businesses	134	132	2	1.5
Institutional investors	29	32	(3)	(9.4)
Total – business operations	**537**	**512**	**25**	**4.9**
Financial management	11	(41)	52	–
Total activity in Israel	**1,366**	**1,231**	**135**	**11.0**
Overseas operations	45	57	(12)	(21.1)
Total	**1,411**	**1,288**	**123**	**9.5**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

Below are average balances of interest-bearing assets on the balance sheet attributable to operations in Israel in the various linkage segments (NIS in millions):

	First Quarter		
Linkage segment	**2020**	**2019**	**Change in %**
Israeli currency – non-linked	182,727	165,775	10.2
Israeli currency – linked to the CPI	59,426	55,740	6.6
Foreign currency (including Israeli currency linked to foreign currency)	11,670	14,531	(19.7)
Total	**253,823**	**236,046**	**7.5**

Change in average balances of interest-bearing assets in the NIS-denominated segment is primarily due to growth in loans to the public.
The average balances in foreign currency decreased due, *inter alia*, to reduction of the Bank securities portfolio denominated in foreign currency and revaluation of major currencies compared to the corresponding period last year.

Below are interest rate spreads (difference between interest income on assets and interest expenses on liabilities)(1) based on average balances(2), attributable to operations in Israel in the various linkage segments, in percent:

	First Quarter	
Linkage segments	**2020**	**2019**
Israeli currency – non-linked	2.20	2.15
Israeli currency – linked to the CPI	1.51	1.10
Foreign currency	0.96	0.79
Total	**1.86**	**1.72**

(1) Revenue and expense rates were calculated relative to interest-bearing assets and liabilities.
(2) Average balances before deduction of provision with respect to credit losses.

Changes to interest rate spreads:
In the non-linked NIS-denominated segment and in the CPI-linked NIS-denominated segment, financing spreads increased compared to the corresponding period last year.
In the foreign currency segment, the interest rate gap increased, primarily due to change to the mix of the foreign currency debenture portfolio, with the transition from debentures of the US Government and of financial institutions to investment in debentures of the Government of Israel.

For composition of interest rate spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the quarterly financial statements.

Expenses with respect to credit losses for the Group amounted to NIS 345 million in the first quarter of 2020, or an annualized rate of 0.66% of total loans to the public, net, compared with NIS 76 million in the corresponding period last year – an annualized rate of 0.15% of total loans to the public, net.

The increase is primarily due to provision for credit losses on group basis, both with respect to debt in which a risk was found of potential impact to the client's repayment capacity, and with respect to an additional provision component ("Qualitative Component"), calculated by a methodology based on qualitative parameters (macro-economic benchmarks, such as unemployment and growth rates in conformity with the Bank of Israel forecast, and internal benchmarks, such as client ratings), and applies to all credit exposures at the Bank. The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. For more information about the provision for credit losses included on these financial statements, see Notes 6 and 13 to the financial statements.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	First Quarter	
	2020	**2019**
Provision for credit losses on individual basis (including accounting write-offs):		
Increased expenses	143	104
Reduced expenses	(38)	(55)
Total individual provision	**105**	**49**
Provision for credit losses on Group basis:		
By extent of arrears	8	3
Other	232	24
Total expenses with respect to credit losses	**345**	**76**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.66%**	**0.15%**
Of which: With respect to commercial loans other than housing loans	**1.55%**	**0.40%**
Of which: With respect to housing loans	**0.19%**	**0.03%**

Below are details of expenses with respect to credit losses by supervisory operating segments of the Group (NIS in millions):

	First Quarter			
	Expenses with respect to credit losses		**Rate of expenses with respect to credit losses(1)**	
Operating segment	**2020**	**2019**	**2020**	**2019**
Individuals:				
Households – housing loans	65	8	0.19	0.03
Households – other	40	27	0.75	0.51
Private banking	(1)	–	–	–
Total – individuals	**104**	**35**	**0.26**	**0.09**
Business operations:				
Small and micro businesses	72	37	1.37	0.76
Medium businesses	72	1	4.05	0.06
Large businesses	87	5	2.01	0.13
Institutional investors	2	(1)	0.45	(0.31)
Total – business operations	**233**	**42**	**1.97**	**0.39**
Financial management	2	(2)	–	–
Total activity in Israel	**339**	**75**	**0.66**	**0.16**
Overseas operations	6	1	0.65	0.10
Total	**345**	**76**	**0.66**	**0.15**

(1) Rate of expenses with respect to credit losses, as percentage of total loans to the public, net (annualized).

Expenses with respect to credit losses include an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the group-based provision. For more information see chapter "Significant Events in the Bank Group's Business" above.

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

For more information about analysis of development of loans to the public, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about analysis of credit risk, see chapter "Credit risk" below and the detailed Risks Management Report on the Bank website.

Non-interest revenues amounted to NIS 593 million in the first quarter of 2020, compared with NIS 466 million in the corresponding period last the third – an increase by NIS 127 million. See explanation below.

Non-interest financing revenues in the first quarter of 2020 amounted to NIS 64 million, compared to NIS 57 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and securities, as well as linkage differentials on CPI derivatives and the effect of interest accrual (time value) inherent in derivative assets, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

Revenues from commissions in the first quarter of 2020 amounted to NIS 424 million, compared to NIS 383 million in the corresponding period last year, an increase by 10.7% due, *inter alia*, to increase in revenues from commissions on securities and from foreign currency conversions, due to significant increase in trading volumes, primarily in March, when the Corona Virus crisis started.

Other revenues in the first quarter of 2020 amounted to NIS 105 million, compared to NIS 26 million in the corresponding period last year.
Other revenues in the first quarter of 2020 included revenues amounting to NIS 82 million with respect to agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" above.

For the first half of 2020, this includes capital gains amounting to NIS 13 million, compared to NIS 16 million in the corresponding period last year, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses amounted to NIS 1,017 million in the first quarter of 2020, compared with NIS 986 million in the corresponding period last year – an increase by 3.1%.

See details by operating expense component below.

Payroll and associated expenses amounted to NIS 644 million in the first quarter of 2020, compared with NIS 636 million in the corresponding period last year – an increase by 1.3%, which reflects the effect of changes to interest rate curves on actuarial balances, as well as adjustment with respect to variable remuneration components, in line with Bank return and profit.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 205 million in the first quarter of 2020, compared with NIS 191 million in the corresponding period last year – an increase by 7.3%. The increase is primarily due to increase in rent expenses, further to application of the new standard on leases, and to increase in depreciation expenses with respect to technology investments in the fourth quarter of 2019. For more information about application of the standard concerning leases, see Note 1 to the financial statements.

Other expenses in the first quarter of 2020 amounted to NIS 168 million, compared to NIS 159 million in the corresponding period last year – an increase by 5.7% due, inter alia, to increase in stock exchange commission payable by the Bank for client activity on the capital market.

Cost-Income ratio information is as follows(1) (in percent):

	2020	2019				2019
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual
Cost-income ratio	(2)52.4	54.5	56.7	49.9	58.1	54.6

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(2) The cost-income ratio net of revenues from agreement with insurers – 54.7%.

Pre-tax profit for the Group in the first quarter of 2020 amounted to NIS 578 million, compared to NIS 635 million in the corresponding period last year – a decrease by NIS 57 million. See detailed explanation above.

The provision rate for taxes on profit in the first quarter of 2020 was 34.6% – compared to 33.5% in the corresponding period last year.

The rate of provision for taxes on profit in the first quarter of 2019 was affected by revenues subject to reduced tax rates.

Bank share of after-tax profit of associated companies – in the first quarter of 2020 there was no profit with respect to associated companies, similar to the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first quarter of 2020 amounted to NIS 21 million, compared to NIS 18 million in the corresponding period last year.

The increase in Bank Yahav earnings is primarily due to increase in business volume.

Net profit attributable to shareholders of the Bank in the first quarter of 2020 amounted to NIS 357 million, compared to NIS 404 million in the corresponding period last year.

Bank shareholder equity also includes an increase ("Other comprehensive income attributable to shareholders of the Bank") of NIS 106 million in the first quarter of this year, from adjustments with respect to employee benefits and from adjustments with respect to presentation of debentures available for sale at fair value, compared to increase by NIS 36 million in the corresponding period last year. For more information see Note 4 to the financial statements.

Below is the development of Group return[(1)] on equity[(2)] and ratio of Tier I capital to risk components liquidity coverage ratio[(3)] and leverage ratio[(4)] at the end of the quarter (in %):

	2020	2019				2019
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual
Net return on equity	[(5)]9.1	11.5	11.1	15.8	11.3	11.9
Ratio of Tier I capital to risk components at end of quarter	9.89	10.14	10.13	10.23	10.12	10.14
liquidity coverage ratio (Quarterly)	117	121	122	118	120	121
Leverage ratio at end of quarter	5.40	5.55	5.62	5.67	5.54	5.55

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interests and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.

(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.

(4) Leverage Ratio – ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218

(5) Net profit return on equity, excluding revenues from agreement with insurers: 7.7%.

Earnings and dividends[(1)] per share (ordinary NIS 0.1 par value share) are as follows (in NIS):

	2020	2019				2019
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Annual
Basic earnings per share	1.52	1.88	1.80	2.46	1.73	7.86
Diluted earnings per share	1.51	1.87	1.79	2.45	1.72	7.83
Dividends per share	75	72	[(2)]167	–	–	178

(1) For more information about the resolution by the Bank Board of Directors to avoid dividend distributions, see chapter "Dividends" below.

(2) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019.

For more information about the resolution by the Bank Board of Directors to avoid dividend distributions, for as long as the interim directive to reduce the minimum capital ratios the Bank is required to maintain is in effect, see chapter "Dividends" below.

Analysis of developments in assets, liabilities, equity and capital adequacy

Assets and liabilities

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2020	2019	2019	2019	2019
Balance sheet total	284,731	260,011	273,244	9.5	4.2
Cash and deposits with banks	56,385	48,396	51,672	16.5	9.1
Loans to the public, net	210,230	196,271	204,708	7.1	2.7
Securities	8,709	9,130	10,113	(4.6)	(13.9)
Buildings and equipment	1,437	1,387	1,457	3.6	(1.4)
Deposits from the public	223,189	204,777	210,984	9.0	5.8
Deposits from banks	924	619	714	49.3	29.4
Debentures and subordinated notes	30,237	27,721	33,460	9.1	(9.6)
Shareholders' equity	16,371	15,121	16,033	8.3	2.1

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first quarter of 2020 by NIS 4.7 billion. The increase in the cash balance is part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of March 31, 2020 accounted for 74% of total assets, compared to 75% at the end of 2019. Loans to the public, net for the Group increased in the first quarter of 2020 by NIS 5.5 billion, an increase by 2.7%.

For more information about on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to housing loans, see chapter "Risks" below and the Detailed Risks Report on the Bank website.

Loans to the public, net by linkage basis (NIS in millions) are as follows:

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2020	2019	2019	2019	2019
Israeli currency					
Non-linked	141,386	130,572	137,223	8.3	3.0
CPI-linked	57,981	54,081	57,272	7.2	1.2
Foreign currency and foreign currency linked	10,863	11,618	10,213	(6.5)	6.4
Total	**210,230**	**196,271**	**204,708**	**7.1**	**2.7**

Loans to the public, net by supervisory operating segments (NIS in millions) are as follows:

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2020	2019	2019	2019	2019
Individuals:					
Households – housing loans	137,227	127,368	134,637	7.7	1.9
Households – other	21,480	21,130	21,632	1.7	(0.7)
Private banking	162	92	224	–	(27.7)
Total – individuals	**158,869**	**148,590**	**156,493**	**6.9**	**1.5**
Business operations:					
Small and micro businesses	21,175	19,632	20,857	7.9	1.5
Medium businesses	7,225	6,789	7,063	6.4	2.3
Large businesses	17,450	15,818	15,152	10.3	15.2
Institutional investors	1,786	1,285	1,563	39.0	14.3
Total – business operations	**47,636**	**43,524**	**44,635**	**9.4**	**6.7**
Overseas operations	3,725	4,157	3,580	(10.4)	4.1
Total	**210,230**	**196,271**	**204,708**	**7.1**	**2.7**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses:

Reported amounts (NIS in millions)	As of March 31, 2020 Credit risk[1]				As of March 31, 2019 Credit risk[1]				As of December 31, 2019 Credit risk[1]			
	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total
1. Credit risk at performing credit rating[2]												
Balance sheet credit risk	52,840	135,620	19,521	207,981	47,906	126,114	19,534	193,554	48,582	133,145	19,993	201,720
Off balance sheet credit risk[3]	39,518	10,538	11,743	61,799	35,850	9,983	10,966	56,799	38,035	13,348	11,301	62,684
Total credit risk at performing credit rating	**92,358**	**146,158**	**31,264**	**269,780**	**83,756**	**136,097**	**30,500**	**250,353**	**86,617**	**146,493**	**31,294**	**264,404**
2. Credit risk other than at performing credit rating												
A. Non-problematic	2,720	960	440	4,120	1,936	780	333	3,049	1,520	899	403	2,822
B. Total problematic	2,362	1,616	242	4,220	1,439	1,404	235	3,078	2,113	1,532	234	3,879
Special supervision[4]	826	1,546	111	2,483	347	1,347	122	1,816	716	1,476	117	2,309
Inferior	267	–	44	311	105	–	29	134	212	–	30	242
Impaired	1,269	70	87	1,426	987	57	84	1,128	1,185	56	87	1,328
Total credit risk other than at performing credit rating	**5,082**	**2,576**	**682**	**8,340**	**3,375**	**2,184**	**568**	**6,127**	**3,633**	**2,431**	**637**	**6,701**
Of which: Balance sheet credit risk	3,750	2,576	643	6,969	2,740	2,184	564	5,488	2,845	2,431	633	5,909
Of which: Off balance sheet credit risk[3]	1,332	–	39	1,371	635	–	4	639	788	–	4	792
Of which: Non-impaired debts in arrears 90 days or longer[4]	36	1,546	27	1,609	39	1,347	23	1,409	36	1,476	24	1,537
Total credit risk, including risk to the public[5]	**97,440**	**148,734**	**31,946**	**278,120**	**87,131**	**138,281**	**31,068**	**256,480**	**90,250**	**148,924**	**31,931**	**271,105**
Non-performing assets[6]	**1,219**	**70**	**55**	**1,344**	**909**	**57**	**59**	**1,025**	**1,119**	**56**	**55**	**1,230**

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.

(4) including with respect to housing loans for which a provision was made by extent of arrears, and with respect to housing loans for which no provision was made by extent of arrears and which are in arrears 90 days or longer.

(5) On- and off-balance sheet credit risk, including with respect to derivatives. Includes: Debts, debentures, securities loaned or purchased in resale agreements.

(6) Assets not accruing interest.

For more information about credit risk with respect to individuals (excluding housing loans), credit risk in the construction and real estate economic sector in Israel and housing loan risk, see chapter "Credit risk".

See Notes 6 and 13 to the financial statements for further information.

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivatives purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and un-utilized credit facilities. Total credit risk to the public for the Bank Group as of March 31, 2020 amounted to NIS 278 billion, compared to NIS 271 billion as of December 31, 2019 – an increase by 2.5%.

Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % over	
	March 31,		December 31,	March 31,	December 31,
	2020	2019	2019	2019	2019
Off balance sheet financial instruments other than derivatives[(1)]:					
Un-utilized debitory account and other credit facilities in accounts available on demand	17,214	17,578	14,734	(2.1)	16.8
Guarantees to home buyers	11,173	10,538	10,672	6.0	4.7
Irrevocable commitments for loans approved but not yet granted	19,679	16,431	22,466	19.8	(12.4)
Un-utilized revolving credit card facilities	8,758	7,726	8,160	13.4	7.3
Commitments to issue guarantees	9,295	8,106	9,993	14.7	(7.0)
Guarantees and other commitments	8,168	7,881	8,613	3.6	(5.2)
Loan guarantees	2,843	2,428	2,898	17.1	(1.9)
Documentary credit	234	300	206	(22.0)	13.6
Financial derivatives[(2)]:					
Total par value of derivative financial instruments	262,216	231,608	265,277	13.2	(1.2)
(On-balance sheet) assets with respect to derivatives	4,369	2,341	2,578	86.6	69.5
(On-balance sheet) liabilities with respect to derivatives	4,181	2,527	2,686	65.5	55.7

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 13 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

For more information about on-balance sheet and off-balance sheet credit risk, see chapter "Risks" below and the Detailed Risks Report on the Bank website.

Securities – the balance of investment in securities decreased in the first quarter of 2020 by NIS 1.4 billion, and decreased by NIS 0.4 billion compared to the corresponding period last year. The decrease in total investment in securities is within asset and liability management of the Bank.

Composition of Group securities by portfolio (NIS in millions) is as follows:

	Carrying amount	Amortized cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[(1)]
					March 31, 2020
Debentures held to maturity	3,623	3,623	36	(5)	3,654
Debentures available for sale	4,160	4,195	(2)24	(2)(59)	4,160
Investment in shares not held for trading	137	105	(3)32	–	137
Debentures held for trading	789	794	–	(3)(5)	789
Total securities	**8,709**	**8,717**	**92**	**(69)**	**8,740**
					March 31, 2019
Debentures held to maturity	3,206	3,206	37	–	3,243
Debentures available for sale	5,304	5,302	(2)35	(2)(33)	5,304
Investment in shares not held for trading	109	109	–	–	109
Debentures held for trading	511	508	(3)3	–	511
Total securities	**9,130**	**9,125**	**75**	**(33)**	**9,167**
					December 31, 2019
Debentures held to maturity	4,032	4,032	61	–	4,093
Debentures available for sale	5,164	5,109	(2)59	(2)(4)	5,164
Investment in shares not held for trading	149	104	(3)45	–	149
Debentures held for trading	768	770	–	(3)(2)	768
Total securities	**10,113**	**10,015**	**165**	**(6)**	**10,174**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(3) Charged to statement of profit and loss but not yet realized.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

	March 31, 2020	March 31, 2019	December 31, 2019	Change in % over March 31, 2019	Change in % over December 31, 2019
Israeli currency					
Non-linked	4,568	3,566	5,038	28.1	(9.3)
CPI-linked	1,060	500	607	112.0	74.6
Foreign currency and foreign currency linked	2,944	4,955	4,319	(40.6)	(31.8)
Non-monetary items	137	109	149	25.7	(8.1)
Total	**8,709**	**9,130**	**10,113**	**(4.6)**	**(13.9)**

Distribution of Group security portfolio by issuer type (NIS in millions) is as follows:

	Carrying amount as of March 31, 2020	Carrying amount as of March 31, 2019	Carrying amount as of December 31, 2019
Government debentures:			
Government of Israel	7,618	6,713	7,821
Government of USA	678	1,838	1,781
Total government debentures	**8,296**	**8,551**	**9,602**
Debentures of financial institutions in Israel	**138**	**–**	**–**
Debentures of banks in developed nations:			
USA(1)	–	72	70
Germany	–	181	44
South Korea	112	–	108
Other(1)	–	217	140
Total debentures of banks in developed nations	**112**	**470**	**362**
Corporate debentures (composition by economic sector):			
Public and community services	1	–	–
Power	25	–	–
Total corporate debentures	**26**	**–**	**–**
Investment in shares not held for trading	**137**	**109**	**149**
Of which: Shares for which no fair value is available(2)	50	90	49
Total securities	**8,709**	**9,130**	**10,113**

(1) Includes exposure to Multi-party Development Banks (MDB).

(2) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

For more information about investments in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its rate out of the amortized cost, see Note 5 to the financial statements.

Buildings and equipment – The balance of buildings and equipment increased in the first quarter of 2020 by NIS 20 million. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Deposits from the public – these account for 78% of total consolidated balance sheet as of March 31, 2020, compared to 77% as of December 31, 2019. In the first quarter of 2020, deposits from the public with the Bank Group increased by NIS 12.2 billion, or 5.8% (increase by 9.0% over the end of the corresponding period last year).

Composition of deposits from the public by linkage segments (NIS in millions) is as follows:

	March 31,		December 31,	Change in % over March 31,	Change in % over December 31,
	2020	2019	2019	2019	2019
Israeli currency					
Non-linked	168,001	148,047	158,980	13.5	5.7
CPI-linked	14,343	16,112	14,345	(11.0)	–
Foreign currency and foreign currency linked	40,845	40,618	37,659	0.6	8.5
Total	**223,189**	**204,777**	**210,984**	**9.0**	**5.8**

Composition of deposits from the public by supervisory operating segments (NIS in millions) is as follows:

	March 31,		December 31,	Change in % over March 31,	Change in % over December 31,
	2020	2019	2019	2019	2019
Individuals:					
Households – other	94,443	83,563	86,076	13.0	9.7
Private banking	16,015	13,992	14,839	14.5	7.9
Total – individuals	**110,458**	**97,555**	**100,915**	**13.2**	**9.5**
Business operations:					
Small and micro businesses	29,644	24,410	26,725	21.4	10.9
Medium businesses	9,705	8,456	8,935	14.8	8.6
Large businesses	27,982	26,994	25,155	3.7	11.2
Institutional investors	41,216	41,217	45,330	(0.0)	(9.1)
Total – business operations	**108,547**	**101,077**	**106,145**	**7.4**	**2.3**
Overseas operations	4,184	6,145	3,924	(31.9)	6.6
Total	**223,189**	**204,777**	**210,984**	**9.0**	**5.8**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows:

	March 31,		December 31,
	2020	2019	2019
Maximum deposit			
Up to 1	76,545	71,887	72,152
Over 1 to 10	57,166	48,031	50,875
Over 10 to 100	31,803	27,424	29,582
Over 100 to 500	23,662	20,163	22,193
Above 500	34,013	37,272	36,182
Total	**223,189**	**204,777**	**210,984**

For more information about composition of deposits from the public, see Note 7 to the financial statements.

Deposits from banks – The balance of deposits from banks as of March 31, 2020 amounted to NIS 0.9 billion, compared to NIS 0.7 billion as of December 31, 2019.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of March 31, 2020 amounted to NIS 30.2 billion, a decrease by NIS 3.2 billion compared to the balance as of December 31, 2019. See also chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank – Shareholder equity attributable to equity holders of the Bank as of March 31, 2020 amounted to NIS 16.4 billion, compared to NIS 16.0 billion and NIS 15.1 billion as of December 31, 2019 and as of March 31, 2019, an increase by 2.1% and 8.3%, respectively.

Below is the composition of shareholders' equity (NIS in millions):

	March 31,		December 31,
	2020	**2019**	**2019**
Share capital and premium[(1)]	2,235	2,206	2,232
Capital reserve from benefit from share-based payment transactions	67	39	70
Total cumulative other loss[(2)(3)]	(226)	(310)	(332)
Retained earnings [(4)]	14,295	13,186	14,063
Total	**16,371**	**15,121**	**16,033**

(1) For more information about share issuance, see condensed statement of changes to shareholders' equity.

(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.

(3) Includes actuarial liability with respect to employees' retirement program, see Notes 22 and 25 to the 2019 financial statements.

(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

The ratio of shareholder equity to balance sheet total for the Group as of March 31, 2020 was 5.75% compared to 5.87% as of December 31, 2019 and 5.82% as of March 31, 2019.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in accordance with Basel rules, as prescribed by Proper Conduct of Banking Business Directives 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operational risk and market risk.

Capital is composed of two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

Tier I capital primarily consists of equity attributable to shareholders of the Bank (accounting equity on the books) and non-controlling interests, which is the primary component for loss absorption.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of March 31, 2020, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event).

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions through 2021.

Capital planning at the Bank

Capital planning in the normal course of business – The Bank prepares a detailed, multi-annual capital planning forecast, taking the following into consideration: Expected growth rates of risk assets and profitability, the strategic plan, dividends distribution policy, capital targets and leverage, appropriate safety margins and other factors.

The Bank regularly monitors the actual results vs. the forecast, revises the forecast as required and reviews any necessary actions in order to achieve the specified capital targets.

The sensitivity of the Bank's capital adequacy ratio to changes in Tier I capital and risk assets is:

Change in Tier I capital by NIS 100 million would result in a change in Tier I capital adequacy ratio of 0.06%. Change in risk assets by NIS 1 billion would result in a change in Tier I capital adequacy ratio of 0.06%.

Internal capital adequacy assessment process – The Bank uses this process to verify the existence of a sufficient capital absorption buffer to address various risks associated with Bank operations, including stress scenarios.

The planning horizon is three years, in which the Bank challenges the strategic plan by a range of stress scenarios involving significant impact to Bank profitability and erosion of Bank capital. The outcome of the Bank's most recent capital planning indicates that the capital absorption buffer is sufficient.

For more information see the Detailed Risks Report on the Bank website.

Below is information about supervisory capital and risk assets on the consolidated report (NIS in millions):

		As of March 31,	As of December 31,
	2020	**2019**	**2019**
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	16,718	15,618	16,520
Tier I capital	16,718	15,618	16,520
Tier II capital	5,803	5,042	6,090
Total capital	**22,521**	**20,660**	**22,610**
Weighted risk asset balances			
Credit risk	156,641	142,816	150,878
Market risks	1,843	1,790	1,791
Operational risk	10,517	9,709	10,189
Total weighted risk asset balances	**169,001**	**154,315**	**162,858**

Ratio of capital to risk components

The Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Conduct of Banking Business Directives 201-211. As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions specifies the manner of calculation of total capital and total risk components

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date.

On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect. Consequently, the Bank's ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of March 31, 2020, would be at least 8.82% (with additional safety margins as appropriate), and the total capital ratio would be at least 12.32%.

On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of housing loans would not apply to housing loans to be provided during this crisis period.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 24 to the 2019 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below.

Development of Group ratio of capital to risk components is as follows (in %):

	March 31, 2020	March 31, 2019	December 31, 2019
Ratio of Tier I capital to risk components	9.89	10.12	10.14
Ratio of total capital to risk components	13.33	13.39	13.88
Minimum Tier I capital ratio required by Supervisor of Banks	8.82	9.83	9.83
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.32	13.33	13.33

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

	As of March 31, 2020		As of March 31, 2019		As of December 31, 2019	
Exposure group	**Weighted risk asset balances**	**Capital requi-rement(1)**	**Weighted risk asset balances**	**Capital requi-rement(2)**	**Weighted risk asset balances**	**Capital requi-rement(3)**
Sovereign debts	97	12	256	34	90	12
Public sector entity debts	247	30	198	26	208	28
Banking corporation debts	809	100	654	87	517	69
Corporate debts	47,241	5,820	42,453	5,659	44,210	5,893
Debts secured by commercial real estate	4,205	518	3,113	415	4,101	547
Retail exposure to individuals	15,096	1,860	14,734	1,964	15,372	2,049
Loans to small businesses	8,525	1,050	8,208	1,095	8,309	1,108
Residential mortgages	74,032	9,121	67,739	9,030	72,671	9,687
Other assets	5,716	704	5,018	669	5,016	669
Total	**155,968**	**19,215**	**142,373**	**18,979**	**150,494**	**20,062**

Risk assets and capital requirements with respect to market risk, CVA risk and operational risk are as follows (NIS in millions):

	As of March 31, 2020		As of March 31, 2019		As of December 31, 2019	
	Weighted risk asset balances	**Capital requi-rement(1)**	**Weighted risk asset balances**	**Capital requi-rement(2)**	**Weighted risk asset balances**	**Capital requi-rement(3)**
Market risk	1,843	227	1,790	238	1,791	239
CVA risk with respect to derivatives(4)	673	83	443	59	384	51
Operational Risk(5)	10,517	1,296	9,709	1,294	10,189	1,358
Total	**13,033**	**1,606**	**11,942**	**1,591**	**12,364**	**1,648**
Total risk assets	**169,001**	**20,821**	**154,315**	**20,570**	**162,858**	**21,710**

(1) The capital requirement was calculated at 12.32% of risk asset balances. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see chapter "Significant Events in the Bank Group's Business".

(2) The capital requirement was calculated at 13.33% of risk asset balances.

(3) The capital requirement was calculated at 13.33% of risk asset balances.

(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

(5) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

The Bank applies Proper Banking Conduct Regulation 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.

Below is the Bank's leverage ratio (in %):

	As of March 31,		As of December 31,
	2020	2019	2019
1. Consolidated data			
Tier I capital	16,718	15,618	16,520
Total exposure	309,863	281,693	297,779
			In %
Leverage ratio	5.40	5.54	5.55
Minimum leverage ratio required by the Supervisor of Banks	5.00	5.00	5.00
1. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.16	5.41	5.56
Minimum leverage ratio required by the Supervisor of Banks	4.70	4.70	4.70

Dividends

Dividend distribution policies

For more information about the Bank's revised dividend policy for 2018-2021, see chapter "Dividends" in the Report of the Board of Directors and Management for 2019.

For more information about the interim directive issued by the Supervisor of Banks with regard to relief for minimum capital ratios which banks are required to maintain, and with regard to expectation that banks would use the excess capital, due to reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, including dividend distribution or share buy-back, see chapter "Significant Events in the Bank Group's Business" above.

Further to the foregoing, on April 13, 2020, the Board of Directors resolved that the Bank would avoid any dividend distributions (including buy-back of Bank shares), for as long as this interim directive is in effect; that is due, *inter alia*, to the position of the Supervisor of Banks as noted above and with due attention to the foregoing, including the uncertainty associated with implications of the Corona Virus crisis for the Bank, as set forth above.

Dividends distribution

Below are details of dividends distributed by the Bank since 2018 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 7, 2018	June 5, 2018	58.91	0.40	137.2
Total dividends distributed in 2018(1)				**246.7**
August 12, 2019	August 27, 2019	167.21	0.40(3)	392.0
November 18, 2019	December 3, 2019	71.89	0.40	168.8
Total dividends distributed in 2019(2)				**392.0**
February 24, 2020	March 11, 2020	74.89	0.40	176.0

(1) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.

(2) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.

(3) Dividend rate as percentage of net profit in the first half of 2019.

Other Off Balance Sheet Activity

Below is the development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

				Change in % over	
		March 31,	December 31,	March 31,	December 31,
	2020	2019	2019	2019	2019
Securities[1]	395,060	410,469	452,549	(3.8)	(12.7)
Assets of provident funds for which the Group provides operating services	87,864	87,894	93,336	(0.0)	(5.9)
Assets held in trust by the Bank Group	55,297	69,170	68,308	(20.1)	(19.0)
Assets of mutual funds for which the Bank provides operating services	10,838	12,375	13,546	(12.4)	(20.0)
Other assets under management[2]	15,326	14,831	15,519	3.3	(1.2)

(1) Value of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(2) Including:

Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin or commissions Revenues.

Other loans managed by the Bank, including housing loans managed and operated by the Bank on behalf of others.

Financial Information by Operating Segments

According to the Public Reporting Regulation with regard to supervisory operating segments, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans" and "other", in conformity with definitions of credit risk classification by economic sector.

The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period.

However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as set forth in Note 12 to the financial statements.

There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.

However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division.

Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and the "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

- Supervisory definition of the segment
- Explanation of differences between the "supervisory" definition and how business is actually managed (using the "management approach")
- Financial results of the segment (using the "supervisory approach")

For more information about principles for attribution of balances, revenues and expenses to clients, see Note 12 to the financial statements.

For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2019 financial statements.

Financial Information by Supervisory Operating Segments:

Below is a summary of financial results by supervisory operating segment (NIS in millions):

	Net profit		Share of total net profit (in %)	
	In the first quarter		In the first quarter	
	2020	2019	2020	2019
Individuals:				
Households – housing loans	174	181	46.3	40.0
Households – other	8	13	2.1	2.9
Private banking	(1)56	1	14.9	0.2
Total – individuals	**238**	**195**	**63.3**	**43.1**
Business operations:				
Small and micro businesses	93	103	24.7	22.7
Medium businesses	(3)	39	–	8.6
Large businesses	21	79	5.6	17.4
Institutional investors	8	9	2.1	2.0
Total – business operations	**119**	**230**	**32.4**	**50.7**
Financial management	(16)	(49)	–	–
Total activity in Israel	**341**	**376**	**95.7**	**93.8**
Overseas operations	16	28	4.3	6.2
Total	**357**	**404**	**100.0**	**100.0**

(1) Includes revenues of NIS 82 million (NIS 54 million after tax) with respect to indemnification from insurers. For more information see chapter "Overview, targets and strategy".

For more information about operating results in conformity with the management approach, see Note 12 to the financial statements.

Household segment

The supervisory definition

In conformity with the supervisory definition, the household segment includes individuals, other than those clients included in the private banking segment. Thus, this segment excludes individuals with financial assets in excess of NIS 3 million. Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans" and "other", in conformity with definitions of credit risk classification by economic sector.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- As a rule, individual clients are attributed to the household segment. According to the supervisory approach, individual clients with high indebtedness or with business attributes are classified to the business operating segments, rather than to the household segment.

Operating results in the household segment

	For the three months ended March 31,					
	2020			2019		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	337	459	796	335	403	738
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	147	38	185	127	38	165
Total revenues	**484**	**497**	**981**	**462**	**441**	**903**
Expenses with respect to credit losses	40	65	105	27	8	35
Operating and other expenses	414	166	580	401	160	561
Profit before provision for taxes	30	266	296	34	273	307
Provision for taxes	10	92	102	11	92	103
After-tax profit	20	174	194	23	181	204
Net profit:						
Attributable to non-controlling interests	(12)	–	(12)	(10)	–	(10)
Attributable to shareholders of the banking corporation	**8**	**174**	**182**	**13**	**181**	**194**
Balance sheet – key items:						
Loans to the public (end balance)	21,758	137,958	159,716	21,384	128,019	149,403
Loans to the public, net (end balance)	21,480	137,227	158,707	21,130	127,368	148,498
Deposits from the public (end balance)	94,443	–	94,443	83,563	–	83,563
Average balance of loans to the public	21,135	136,450	157,585	20,339	127,616	147,955
Average balance of deposits from the public	87,998	–	87,998	82,821	–	82,821
Average balance of risk assets	19,784	78,893	98,677	18,759	72,333	91,092
Credit margins and deposit margins:						
Margin from credit granting operations	214	434	648	206	386	592
Margin from activities of receiving deposits	123	–	123	129	–	129
Other	–	25	25	–	17	17
Total interest revenues, net	**337**	**459**	**796**	**335**	**403**	**738**

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in the first quarter of 2020 amounted to NIS 182 million, compared to NIS 194 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Contribution of housing loans (including general-purpose loans secured by a lien on a residential apartment) in the first quarter of 2020 amounted to NIS 174 million, compared to NIS 181 million in the corresponding period last year. Total interest revenues, net amounted to NIS 459 million, compared to NIS 403 million in the corresponding period last year, an increase by 13.9% – primarily due to an increase of NIS 8.8 billion in the average loan balance and to increase in lending margins.

In the first quarter of 2020, the Bank recognized expenses with respect to credit losses amounting to NIS 65 million, compared to NIS 8 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 166 million, compared with NIS 160 million in the corresponding period last year – an increase by 3.75%, which also reflects the adjustment with respect to variable components in line with Bank return and profit. For more information see chapter "Explanation and analysis of results and business standing" above.

Contribution of other household operations (other than housing loans) in the first quarter of 2020 amounted to a profit of NIS 8 million, compared to NIS 13 million in the corresponding period last year. Total interest revenues, net amounted to NIS 337 million, similar to the corresponding period last year. Commissions and other revenues amounted to NIS 147 million, compared to NIS 127 million in the corresponding period last year – an increase by 15.7%, primarily due to increase in revenues from commissions on securities and from conversion of foreign currency.
Expenses with respect to credit losses amounted to NIS 40 million, compared to NIS 27 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 414 million, compared to NIS 401 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Private Banking Segment

The supervisory definition

According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- The private banking segment according to the management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Operating results of private banking segment

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	22	22
Non-interest financing revenues	–	–
Commissions and other revenues	86	2
Total revenues	**108**	**24**
Expenses (reduction of expenses) with respect to credit losses	(1)	–
Operating and other expenses	24	23
Profit before provision for taxes	85	1
Provision for taxes	29	–
Net profit	**56**	**1**
Balance sheet – key items:		
Loans to the public (end balance)	164	93
Loans to the public, net (end balance)	162	92
Deposits from the public (end balance)	16,015	13,992
Average balance of loans to the public	213	73
Average balance of deposits from the public	14,999	13,524
Average balance of risk assets	26	28
Credit margins and deposit margins:		
Margin from credit granting operations	–	–
Margin from activities of receiving deposits	22	22
Other	–	–
Total interest revenues, net	**22**	**22**

Operating results of the private banking segment (in conformity with supervisory definitions) in the first quarter of 2020 amounted to a profit of NIS 56 million, compared to NIS 1 million in the corresponding period last year.

Total interest revenues, net amounted to NIS 22 million, similar to the corresponding period last year.

Other revenues included revenues amounting to NIS 82 million (NIS 54 million after tax) with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Overview, targets and strategy".

Commissions and other revenues, excluding revenues with respect to the agreement with insurers, amounted to NIS 4 million, compared to NIS 2 million in the corresponding period last year.

Operating expenses amounted to NIS 24 million, compared to NIS 23 million in the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Micro and Small Business Segment

The supervisory definition

The micro and small business segment includes businesses with annual turnover below NIS 50 million.

Differences between the management approach and the supervisory definition

- Business clients with liquid assets in excess of NIS 8 million are attributed to the private banking segment according to the management approach. According to the supervisory segment approach, these clients are classified to the micro and small business segment, based on their annual turnover.
- Business clients currently attributed to commercial banking using the management approach and whose annual turnover is lower than NIS 50 million, are classified to the micro and small business segment using the supervisory approach.

Operating results of micro and small business segment

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	298	280
Non-interest financing revenues	–	–
Commissions and other revenues	104	95
Total revenues	**402**	**375**
Expenses with respect to credit losses	72	37
Operating and other expenses	187	183
Profit before provision for taxes	143	155
Provision for taxes	49	52
After-tax profit	**94**	**103**
Net profit (loss) attributed to non-controlling interests	(1)	–
Net profit attributable to shareholders of the banking corporation	**93**	**103**
Balance sheet – key items:		
Loans to the public (end balance)	21,608	19,986
Loans to the public, net (end balance)	21,175	19,632
Deposits from the public (end balance)	29,644	24,410
Average balance of loans to the public	21,441	19,652
Average balance of deposits from the public	27,929	23,631
Average balance of risk assets	20,659	19,082
Credit margins and deposit margins:		
Margin from credit granting operations	256	236
Margin from activities of receiving deposits	35	36
Other	7	8
Total interest revenues, net	**298**	**280**

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2020 amounted to NIS 93 million, compared to NIS 103 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net amounted to NIS 298 million, compared to NIS 280 million in the corresponding period last year – an increase by 6.4%, primarily due to increase in lending operations.
Commissions and other revenues amounted to NIS 104 million, compared to NIS 95 million in the corresponding period last year.
Expenses with respect to credit losses amounted to NIS 72 million, compared to NIS 37 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 187 million, compared to NIS 183 million in the corresponding period last year – an increase by NIS 4 million.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Medium business segment

The supervisory definition

The medium business segment includes businesses with annual turnover higher than NIS 50 million and lower than NIS 250 million.

Differences between the management approach and the supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 million and NIS 120 million. This means that some commercial banking clients (under management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business clients attributed to the business banking segment using the management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, resulting in better alignment of the management approach with the supervisory approach, as noted above.

Operating results of medium business segment

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	76	68
Non-interest financing revenues	–	–
Commissions and other revenues	22	23
Total revenues	**98**	**91**
Expenses with respect to credit losses	72	1
Operating and other expenses	31	31
Profit (loss) before provision for taxes	(5)	59
Provision (reduced provision) for taxes	(2)	20
Net profit (loss)	**(3)**	**39**
Balance sheet – key items:		
Loans to the public (end balance)	7,431	6,881
Loans to the public, net (end balance)	7,225	6,789
Deposits from the public (end balance)	9,705	8,456
Average balance of loans to the public	7,411	6,736
Average balance of deposits from the public	8,958	8,274
Average balance of risk assets	8,462	7,734
Credit margins and deposit margins:		
Margin from credit granting operations	63	54
Margin from activities of receiving deposits	10	12
Other	3	2
Total interest revenues, net	**76**	**68**

Operating results of the medium business segment (in conformity with supervisory definitions) in the first quarter of 2020 amounted to a loss of NIS 3 million, compared to a profit of NIS 39 million in the corresponding period last year.
Interest revenues, net increased by 11.8%, primarily due to increase in lending and deposit operations.
Commissions and other revenues decreased by NIS 1 million compared to the corresponding period last year.
Expenses with respect to credit losses amounted to expenses of NIS 72 million, compared to NIS 1 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 31 million, similar to the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Large business segment

The supervisory definition

The large business segment includes businesses with annual turnover higher than NIS 250 million.

Differences between the management approach and the supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover in excess of NIS 120 million. This means that some business banking clients (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, except for institutional investors, as noted above, resulting in better alignment of the management approach with the supervisory approach, as noted above.

Operating results of large business segment

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	134	132
Non-interest financing revenues	–	–
Commissions and other revenues	34	40
Total revenues	**168**	**172**
Expenses with respect to credit losses	87	5
Operating and other expenses	49	48
Profit before provision for taxes	32	119
Provision for taxes	11	40
Net profit	**21**	**79**
Balance sheet – key items:		
Loans to the public (end balance)	17,692	16,009
Loans to the public, net (end balance)	17,450	15,818
Deposits from the public (end balance)	27,982	26,994
Average balance of loans to the public	16,596	17,080
Average balance of deposits from the public	25,058	28,086
Average balance of risk assets	24,359	21,927
Credit margins and deposit margins:		
Margin from credit granting operations	110	108
Margin from activities of receiving deposits	18	19
Other	6	5
Total interest revenues, net	**134**	**132**

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2020 amounted to NIS 21 million, compared to NIS 79 million in the corresponding period last year.
Total interest revenues, net amounted to NIS 134 million, compared to NIS 132 million in the corresponding period last year.
Commissions and other revenues amounted to NIS 34 million, compared to NIS 40 million in the corresponding period last year, a decrease primarily due to commission in a specific transaction recognized in the corresponding period last year.
Expenses with respect to credit losses amounted to expenses of NIS 87 million, compared to expenses of NIS 5 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 49 million, compared to NIS 48 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Institutional investor segment

The supervisory definition

This segment includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the business banking and by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Operating results of institutional investor segment

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	29	32
Non-interest financing revenues	–	–
Commissions and other revenues	16	9
Total revenues	**45**	**41**
Expenses (reduction of expenses) with respect to credit losses	2	(1)
Operating and other expenses	31	29
Profit before provision for taxes	12	13
Provision for taxes	4	4
Net profit	**8**	**9**
Balance sheet – key items:		
Loans to the public (end balance)	1,792	1,293
Loans to the public, net (end balance)	1,786	1,285
Deposits from the public (end balance)	41,216	41,217
Average balance of loans to the public	1,222	1,089
Average balance of deposits from the public	45,409	38,461
Average balance of risk assets	2,455	2,595
Credit margins and deposit margins:		
Margin from credit granting operations	6	4
Margin from activities of receiving deposits	22	27
Other	1	1
Total interest revenues, net	**29**	**32**

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2020 amounted to NIS 8 million, compared to NIS 9 million in the corresponding period last year.

Interest revenues, net, amounted to NIS 29 million, compared to NIS 32 million in the corresponding period last year.

Commissions and other revenues increased by NIS 7 million compared to the corresponding period last year, primarily due to increase in revenues from commissions on securities and from foreign currency conversions.

Expenses with respect to credit losses amounted to an expense of NIS 2 million, compared to a decrease in expenses of NIS 1 million in the corresponding period last year.

Operating expenses amounted to NIS 31 million, compared to NIS 29 million in the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Financial Management Segment

The supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.
Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.
Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, currency hedging of investments overseas.
Real investments – Investment in shares available for sale and in associated companies of businesses.
Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Operating results of the financial management segment

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest expenses, net	(53)	(96)
Non-interest financing revenues	64	55
Commissions and other revenues	77	69
Total revenues	**88**	**28**
Expenses (reduction of expenses) with respect to credit losses	2	(2)
Operating and other expenses	95	91
Loss before provision for taxes	(9)	(61)
Reduction of provision for taxes	(1)	(20)
After-tax loss	(8)	(41)
Share of banking corporation in earnings of associated companies	–	–
Loss before attribution to non-controlling interests	(8)	(41)
Net profit attributed to non-controlling interests	(8)	(8)
Loss attributable to shareholders of the banking corporation	**(16)**	**(49)**
Balance sheet – key items:		
Average balance of risk assets	6,904	6,221
Credit margins and deposit margins:		
Margin from credit granting operations	–	–
Margin from activities of receiving deposits	–	–
Other	(53)	(96)
Total interest revenues, net	**(53)**	**(96)**

Operating results of the financial management segment (in conformity with supervisory definitions) in the first quarter of 2020 amounted to a loss of NIS 16 million, compared to a loss of NIS 49 million in the corresponding period last year.

Below are key factors affecting the change in segment results:
Interest expenses, net amounted to expenses of NIS 53 million, compared to expenses of NIS 96 million in the corresponding period last year – a decrease by NIS 43 million, primarily due to increase in early repayment commissions.
Non-interest financing revenues increased by NIS 9 million compared to the corresponding period last year, primarily due to effect of the accounting treatment of derivatives at fair value and other effects. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".
Commissions and other revenues amounted to NIS 77 million, compared to NIS 69 million in the corresponding period last year, an increase by NIS 8 million, primarily due to increase in revenues from foreign currency conversions.
Operating and other expenses amounted to NIS 95 million, compared to NIS 91 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Overseas operations

The supervisory definition

The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.

Differences between the management approach and the supervisory definition

Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under the management approach are managed by the various operating segments – mostly private and business banking.

Operating results of overseas operations

	For the three months ended March 31,	
	2020	**2019**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	45	55
Non-interest financing revenues	–	2
Commissions and other revenues	5	6
Total revenues	**50**	**63**
Expenses with respect to credit losses	6	1
Operating and other expenses	20	20
Profit before provision for taxes	24	42
Provision for taxes	8	14
Net profit	**16**	**28**
Balance sheet – key items:		
Loans to the public (end balance)	3,760	4,192
Loans to the public, net (end balance)	3,725	4,157
Deposits from the public (end balance)	4,184	6,145
Average balance of loans to the public	3,133	3,424
Average balance of deposits from the public	4,545	5,514
Average balance of risk assets	4,388	4,292
Credit margins and deposit margins:		
Margin from credit granting operations	25	29
Margin from activities of receiving deposits	3	3
Other	17	23
Total interest revenues, net	**45**	**55**

Contribution of overseas operations to Group profit in the first quarter of 2020 amounted to NIS 16 million, compared to NIS 28 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:

Interest revenues, net, amounted to NIS 45 million, compared to NIS 55 million in the corresponding period last year. The decrease in interest revenues for overseas operations is primarily due to the lower Fed interest rates in this quarter compared to the corresponding period last year.
In the current period, expenses with respect to credit losses amounted to NIS 6 million, compared to NIS 1 million in the corresponding period last year. The increase is primarily due to overseas affiliates applying the policy with regard to provision for credit losses, which includes an estimate of the effect of the Corona Virus crisis, which is reflected in the group-based provision. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 20 million, similar to the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Major Investee companies

The contribution of investees to net operating profit in the first quarter of 2020 amounted to NIS 51 million, compared with NIS 36 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investee companies, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investee companies amounted to NIS 44 million, compared to NIS 48 million in the corresponding period last year, with most of this increase due to increased earnings at Bank Yahav – see explanation under "Investee companies" below.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav").

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.

The Group's share of Bank Yahav's net profit in the first quarter of 2020 amounted to NIS 21 million, compared to NIS 18 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2020 was 11.1% on annualized basis, compared to return of 10.6% in the corresponding period last year. The increase in Bank Yahav earnings is due to increase in business volume.

Bank Yahav's balance sheet total as of March 31, 2020 amounted to NIS 30,555 million, compared to NIS 27,299 million as of December 31, 2019 – an increase by NIS 3,256 million, or 12%. Net loans to the public as of March 31, 2020 amounted to NIS 10,734 million, compared to NIS 10,880 million as of December 31, 2019 – a decrease by NIS 146 million, or 1%. Net deposits from the public as of March 31, 2020 amounted to NIS 26,672 million, compared to NIS 23,345 million as of December 31, 2019 – an increase by NIS 3,327 million, or 14%.

Tefahot Insurance Agency (1989) Ltd. "Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Tefahot Insurance's contribution net profit in the first quarter of 2020 (excluding net financing revenues from excess cash) amounted to NIS 18 million, compared to NIS 16 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2020 was 6.6%, compared to return of 8.0% in the corresponding period last year.

Other investee companies operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first quarter of 2020 NIS 4 million, net – compared to NIS 5 million in the corresponding period last year. Of this, NIS 2 million (compared to NIS 3 million in the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, United Mizrahi Overseas Holding Co. B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first quarter of 2020 amounted to CHF 0.1 million, compared to CHF 0.3 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of March 31, 2020 amounted to CHF 127 million, compared to CHF 121 million as of December 31, 2019.

Interest revenues and net interest revenues in the first quarter of 2020 amounted to CHF 0.4 million, compared to CHF 0.5 million in the corresponding period last year. Pre-tax revenues in the first quarter of 2020 amounted to NIS CHF 0.2 million, compared to CHF 0.3 million in the corresponding period last year. Pre-tax income net of exchange rate effects in the first quarter of 2020 amounted to NIS 0.6 million, compared to NIS 1.0 million in the corresponding period last year.

The balance of loans to the public as of March 31, 2020 amounted to CHF 48 million, compared to CHF 52 million as of December 31, 2019. Deposits with banks as of March 31, 2020 amounted to CHF 74 million, compared to CHF 65 million as of December 31, 2019. Deposits from the public as of March 31, 2020 amounted to CHF 86 million, compared to CHF 80 million as of December 31, 2019.

These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

Investments in shares

The Bank manages nostro investments in shares. As from January 1, 2019, shares in which the Bank invested are presented as shares not held for trading in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Most of the investments (which are not negotiable and have no fair value available) are generally presented at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. Other investments (negotiable and with fair value available) are presented at market value thereof, and unrealized changes to fair value are recognized on the statement of profit and loss.

Bank investments in shares as of March 31, 2020 amounted to NIS 167 million, compared to NIS 141 million and NIS 181 million as of March 31, 2019 and as of December 31, 2019, respectively. Bank net loss from investment in shares in the first quarter of 2020 amounted to NIS 12 million, compared to gain of NIS 15 million in the corresponding period last year. The loss in the quarter was due to impairment of negotiable securities due to declines in the capital market.

For details of investments in shares not held for trade in the Bank's portfolio, see Note 5 to the financial statements.

Risks overview

This chapter includes a concise overview and analysis of developments of major risks to which the Bank is exposed. If needed, this chapter should be read in conjunction with the chapter "Risks overview" in the 2019 audited annual financial statements. A detailed Risks Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Developments in risks and risks management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to various financial risks, such as: market risk, interest risk in the banking portfolio, liquidity risk, credit risk and non-financial risk, such as. operational risk (including information and cyber security risk and technology risk) as well as compliance and regulatory risk. The risks management and control policies, in various aspects, are designated to support achievement of the Group's business goals while limiting exposure to such risks.

In the first quarter of 2020, the overall risk profile for the Bank is slightly higher compared to the end of 2019, due to higher credit risk due to implications of the global Corona Virus pandemic, which started in Israel in late February 2020, and its effect on the Israeli and global economy. The benchmarks are at a safe distance from the risk appetite specified by the Board of Directors and in conformity with business operations, based on the strategic plan outline and on current work plans. The Bank regularly reviews the risk benchmarks and adapts them to current business operations as necessary, subject to and in line with the Bank's overall risk appetite for various risks.

Risks description

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system.

Credit risk is the primary risk faced by banking corporations in the course of their business. At the Bank, credit risk is primarily due to retail credit operations, mainly housing loans, which are typically associated with relatively low risk. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of internal models for assessment of client credit ratings. For more details see chapter "Credit risk" below.

In the business sector, the Bank operates while regularly assessing risk at client level, at sector level and for the economy as a whole (sector concentration). Operations in this area have been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms.

In conformity with the Supervisor of Banks' directives, the minimum regulatory required liquidity coverage ratio is 100%. The Bank maintains high liquidity ratios with appropriate safety margins and a stable source structure.

The Bank has low exposure to overseas operations, as are its operations in nostro investments, primarily designed for investment of excess liquidity in high-quality assets with minimal credit risk.

Developments in technology and ever increasing sophistication of those involved in cyber attacks result in higher risk, as well as more intense management and monitoring of operational risks, IT risks and information and cyber security risks.

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with directives of the Supervisor of Banks with regard to risk management and control, as set forth in Proper Conduct of Banking Business Directives and in particular, in Directive 310 "Risk management" by the Bank of Israel, and in conformity with the framework set forth in Basel Pillar II, including the required changes as Basel III became effective.

The Bank’s Board of Directors and the Board’s Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting risk strategy and setting the risk appetite in conformity with the Bank's overall strategy, as well as supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank’s Board of Directors for addressing such risks.

The Bank has a structured process in place for mapping and identification of risks associated with Bank operations, based on a materiality threshold, expressed in terms of percentage of Bank capital. Guidelines for handling of material risks, as identified and mapped, including risk appetite, measurement, management and mitigation of each risk, are included in special policies documents.

Description of risk appetite and risks management

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I shareholder equity at the Bank. Risk appetite is defined for most risks in the normal course of business and under stress scenarios, based on the outcome of various stress scenarios applied by the Bank, and in line with the Bank's risk strategy and on basic principles of the Bank's business and strategic plan and on the required liquidity and capital for achieving the strategic objectives. Each year, the risk appetite is challenged by the Chief Risks Officer, management and the Board of Directors, in view of the business targets specified in work plans, in conformity with the strategic plan, the risk profile and outcome of the qualitative risk management assessment process conducted by Bank managers. This process is designed to review the level of various risks and their expected development over the coming year. Consequently, the Bank's business strategy is supported by an appropriate risk appetite framework with constant monitoring of the risk profile and with alerts issued if the risk profile reaches the specified limits for risk appetite.

Stress scenarios

Stress scenarios are risk management techniques used to assess Bank exposure to risks, both currently and from a forward-looking viewpoint. Stress scenarios allow the Bank to understand the impact of various stress events on Bank stability. Moreover, stress scenarios provide another important tool, in addition to these approaches, benchmarks and models, as part of risk management and control at the Bank. The outcome of stress scenarios are used by the Bank to challenge the risk appetite and capital planning, to identify significant risk concentrations and weaknesses in the portfolio, provide a tool to support business decision making and provide an additional tool for risks measurement in quantitative models for identification of risks not identified by the model due to inherent limitations in such models. The Bank has a diverse range of methodologies for conducting stress scenarios, calculated to assess the potential impact of various risks to the Bank's business and financial targets.

The primary uses of stress scenarios and guidelines for setting them are specified in the policy document "General framework policy for risk management and control". The Bank extensively uses the results of stress scenarios to estimate the potential impact of various risks to the Bank's business and financial targets, as part of the capital planning process and the ICAAP document. The ICAAP process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress scenarios at various severity levels. These stress scenarios impact Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk and interest risk in the bank portfolio, operational risk including information and cyber security risk, technology risk as well as other risks. The stress scenarios strongly emphasize the Bank's mortgage portfolio and business lending operations. Results of the Bank's most recent capital planning, submitted to the Bank of Israel in December 2019, based on data for the second half of 2019, based on the Bank's work plans and strategic plan and for a three-year planning horizon, indicates that the Bank has a sufficient capital absorption cushion to face the range of risks associated with Bank operations, even in case of stress events.

In December 2019, the Bank also submitted to the Bank of Israel the outcome of the system-wide scenario, a uniform stress scenario applied by the Supervisor of Banks to the banking system. The scenario is based on materialization of a cyber-related stress scenario designed to test bank resilience, conduct and addressing the technology component in an event combining both operational and business aspects. The outcome of the scenario shows that the damage of this scenario to the Bank is low in relation to Bank profit, capital and liquidity.

The Bank has executed scenarios to assess the impact of the Corona Virus crisis and changes to macro-economic parameters on its business results and capital ratios for a 3-year period. Under the major scenario, the economy reaches the peak of the crisis in the second quarter of 2020 and resumes routine operations in the third quarter of 2020; under the stress scenario, the recovery process and return to routine operations starting in the first quarter of 2021. These results demonstrate the Bank's capacity to withstand potential losses under both these scenarios, and to maintain capital ratios that exceed the minimum capital ratios required by the Supervisor of Banks, which were temporarily reduced in conformity with the crisis period (for more information about relief measures with regard to capital requirements, see chapter "Capital adequacy and dividend distribution" above).

Risk factor assessment

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risks	Medium	Manager, Business Division
Risk from quality of borrowers and collateral	Medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
AML and terror financing risk	Low-medium	Manager, Risks Control Division
Cross-border risk	Low-medium	Manager, Risks Control Division
Reputation risk(1)	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk(2)	Low-medium	President & CEO

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.

(2) The definition of business-strategic risk includes the capital planning and management process.

The impact of the various risks factors in the table above have been determined based on management assessment, as provided from time to time. These assessments are based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the expected direction of their development and are based on qualitative assessment of risks management and the effectiveness of control circles, in line with the Bank's ICAAP process and its results , led by the Bank's Chief Risk Officer and with attendance of all of the Bank's Risk Owners.

In the first quarter of 2020, the risk profile for the Bank is slightly higher compared to the end of 2019, due to higher credit risk due to implications of the global Corona Virus pandemic, which started in Israel in late February 2020, and its effect on the Israeli and global economy. However, the impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet.

The overall impact of credit risk and of risk with respect to borrower and collateral quality increased from Low-Medium to Medium. The higher risk level primarily resulted from the business segment, especially small and medium businesses, due to reduced economic activity as a result of the prolonged lock-down imposed in Israel. Material risk factors are the sharp increase in unemployment rate, specific economic sectors (such as: Aviation, fashion, hotels, accommodation and dining services) which were impacted, and declines in financial markets resulting in erosion of collateral value. These factors may result in more clients facing difficulties over time.

The Bank strictly manages and monitors its credit risk and has taken active steps in conformity with the situation. In order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank. As part of these steps, a delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. For quantitative data with regard to Bank activity designed to help clients in view of the Corona Virus crisis, see chapter "Significant events in the Bank Group's business" above.

The assessment of credit concentration risk and of risk in the mortgage portfolio remained unchanged at Low. The risk associated with the mortgage portfolio is assessed to be Low, even given the implications of the crisis. In order to provide relief to mortgage clients in facing the Corona Virus crisis, the Bank allowed mortgage payments to be delayed for up to 4 months, with delayed payments re-attributed over the remaining mortgage term. Analysis of those applying for delay shows that the risk profile for these loans is similar to that of the overall housing loan portfolio at the Bank. The Bank closely monitors the risk in the mortgage portfolio and development of mortgage payments upon expiration of the delay granted to clients. The Bank also applies the mortgage underwriting process, in conformity with relief granted by the Bank of Israel with regard to review of repayment capacity, considering the pre-crisis income level and expectation of return to employment later on.

Assessment of all risk factors other than the aforementioned credit risk remained unchanged from end of 2019.

Risks with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles.

During the Corona Virus crisis, the Bank has operated in conformity with emergency procedures and transitioned from routine operations to a state of alert, and later on to an emergency routine, which included the following: regular meetings of the situation room to determine operating principles in conformity with changing directives from regulators, operation of a Corona Virus specific forum to manage current operations, and holding regular specific discussions by the Board of Directors and by management. The Bank maintained business continuity throughout this period, as required.

During the Corona Virus crisis, the Bank reinforced is monitoring and defense systems for IT and cyber risk, which risk has increased across the entire system in this period and there were no material events at the Bank. Moreover, the Bank's Technology Division operated in emergency outline, for current operation of the production floor and for maintaining continuous operations, including expansion of infrastructure capabilities and systems for supporting increased use of online banking and remote working.

The liquidity risk level remained Medium. In February 2020, the Bank raised its alert level to Elevated Alert, due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets. In early March, the Bank raised its state of alert, due to further sharp declines in stock markets, both globally and in particular in Israel The alert level includes operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods. Throughout this period, the Bank maintained high excess liquidity. As from mid-May, as the Bank resumed routine operations, the state of alert was lowered to Elevated.

Reputation risk remained low; the Bank continues to regularly monitor the situation and no material effect is evident with regard to reputation risk of the Bank.

The Bank regularly reviews the implications of this crisis on business-strategic risk. At this stage and due to the current uncertainty, the full impact of the crisis on Bank operations may not be assessed. The Bank operates pursuant to a five-year strategic plan approved in November 2016, for the years 2017-2021; the targets of this plan were achieved in 2019, hence the Bank Board of Directors has instructed the Bank to prepare for a new strategic plan for 2021-2025. In view of the Corona Virus crisis and the current uncertainty, discussion by the Bank Board of Directors with regard to a new strategic plan would take place in late 2020. This date may be revised in future.

The Bank conducts processes for risk identification and measurement, based on a range of methodologies to assess risk levels and exposure to various risks, in the normal course of business and under stress scenarios.

For more information see the Risks Report for the first quarter of 2020 and the 2019 Risks Report, available on the Bank's website.

Credit risk

Risk description and development

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. This risk is affected by multiple factors: Business risk due to client activities, concentration risks due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. This risk is also correlated with other risks, such as: Market and interest risk, liquidity risk, compliance risk and other risks.

The overall effect of credit risk and risk associated with quality of borrowers and collateral increased in the first quarter of 2020 from Low-Medium to Medium; the risk level in the housing loan portfolio and with respect to concentration risk remained unchanged at Low. All other risk factors remained unchanged from the risk assessment conducted at end of 2019. The higher risk level was primarily due to the business segment, especially small and medium businesses, due to reduced economic activity.

Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has implications which directly concern credit risk at the Bank. See also chapter "Significant Events in the Bank Group's Business" above.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy.

In order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank, the Bank has taken multiple steps. A delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan as described below. For more information about debt whose terms and conditions were changed in conjunction with addressing the Corona Virus crisis, and total loans extended from the State-guaranteed fund, see chapter "Significant Events in the Bank Group's Business" above.

The Bank of Israel issued a range of relief measures in directives and adjustments to Proper Conduct of Banking Business Directive in order to address the Corona Virus crisis, assist the economy in getting through this crisis and increasing lending in the economy. These directives include relief measures for measurement and capital adequacy, sector indebtedness, management of credit facilities in checking accounts, restrictions on extending housing loans and so forth.

Furthermore, the Government has issued guidelines for an economic plan to help the economy, and has launched a fund to provide loans to small and large businesses impacted by the Corona Virus crisis.

Moreover, further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions.

The Bank closely manages and monitors credit risk through, inter alia, on-going activity of forums headed by the Bank President & CEO and by the Business Division Manager, and attended by the Risk Control Division and representatives of the business divisions. In addition, regular assessments are conducted by divisions. At these meetings, economic sectors with high exposure to the crisis are individually monitored, as are key benchmarks determined and specific clients who are significantly impacted by the crisis. The business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk.

As for housing loans, the Supervisor of Banks issued an interim directive that allows banks to extend general-purpose loans with an LTV ratio of up to 70% (compared to 50%), subject to certification by the borrower that the loan is not intended for purchase of an apartment for investment purposes. The Bank applies this directive while maintaining internal criteria specified in the underwriting process.

Note that due to the Corona Virus crisis and subsequent directives by the Supervisor of Banks, the Bank reviewed and revised its credit policy and risk appetite. The overall credit risk level increased from Low-Medium to Medium. However, the impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet.

Analysis of developments in credit quality and problematic credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Directive 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).

As of March 31, 2020, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the 2019 Report of the Board of Directors and Management.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of March 31, 2020 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Other financial services	1,036	200	1,236
2.	Institutional investors	18	994	1,012
3.	Construction	351	636	987
4.	Construction	317	500	817
5.	Construction	129	546	675
6.	Other industrial	3	670	673

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

1. Credit for an equity transaction would be classified according to one of the following rules:

- Credit for an equity transaction (as defined below), provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
- For credit financing acquisition of equity interests in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
- Additional credit extended to the borrower after the financing for the equity transaction, with repayment primarily based on the cash flows derived from the equity interest whose purchase was financed by the banking corporation.

"Equity transaction": A transaction with one of the following goals:

- Buyout – purchase or buyback, by the borrower, of the borrower's issued capital (including an employees' stock purchase plan).
- Acquisition of another corporation – the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
- Capital distribution – the payment of dividends or another transaction whose goal is to increase shareholder value.
- An equity transaction, with regard to leveraged financing, is one where the loan balance exceeds 0.5% of Bank capital and where the LTV ratio exceeds 50%.

2. Financing for leveraged companies, which is material credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria for defining credit included in this category, based on the business client's credit risk rating, as reflected by the Bank's rating model; it also specified benchmarks for leveraging (i.e. for significantly high deviation from typical norms for the sector), determined based on generally accepted financial ratios among Bank clients with material credit in major sectors in which the Bank operates. Leverage benchmarks and economic sectors are reviewed based on changes to the business environment and are modified as necessary. Borrowers flagged for one or more of the criteria specified are individually reviewed by a forum which includes representatives from the Business Division, the Risks Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for equity transactions (NIS in millions):

	March 31, 2020				March 31, 2019				December 31, 2019			
Economic sector of acquired company	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Information and communications	–	–	–	–	53	27	80	–	–	–	–	–
Commerce	154	–	154	–	–	–	–	–	153	–	153	–
Total	**154**		**154**		**53**	**27**	**80**					

Credit to leveraged companies (NIS in millions):

	March 31, 2020				March 31, 2019				December 31, 2019			
Economic sector of borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Mining and excavation	127	44	171	10	–	–	–	–	–	–	–	–
Industry and production	–	–	–	–	70	–	70	1	–	–	–	–
Construction and real estate	359	–	359	–	416	–	416	–	355	–	355	–
Water	–	–	–	–	–	–	–	–	36	40	76	16
Commerce	287	95	382	–	277	50	327	–	412	88	500	22
Transport and storage	49	20	69	–								
Information and communications	–	–	–	–	36	90	126	–	45	86	131	–
Financial services	123	–	123	3	156	–	156	4	124	–	124	3
Business services and other services	–	–	–	–	–	–	–	–	–	–	–	–
Public and community services	138	8	146	–	78	5	83	–	134	8	142	–
Total	**1,083**	**167**	**1,250**	**13**	**1,033**	**145**	**1,178**	**5**	**1,106**	**222**	**1,328**	**41**

Developments in problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses (NIS in millions):

	Total credit risk		
	March 31, 2020	**March 31, 2019**	**December 31, 2019**
Problematic credit risk:			
Impaired credit risk	1,426	1,128	1,328
Inferior credit risk	311	134	242
Credit risk under special supervision – housing	1,546	1,348	1,476
Credit risk under special supervision – other	937	468	833
Total problematic credit risk	**4,220**	**3,078**	**3,879**

Major risk benchmarks related to credit quality (in percent):

	March 31, 2020	March 31, 2019	December 31, 2019
Ratio of impaired loans to the public to total loans to the public	0.7	0.5	0.6
Ratio of impaired loans to the public to total non-housing loans	1.8	1.5	1.7
Ratio of problematic loans to the public to total non-housing loans	3.4	2.3	3.0
Ratio of housing loans in arrears 90 days or longer to total loans to the public[(1) (2)]	0.8	0.7	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.5	1.2	1.4

(1) This non-housing rate is negligible.
(2) Balance of credit in arrears before provision by extent of arrears.

For more information see chapter "Explanation and analysis of results and business standing" above.

Analysis of provision for credit losses

Analysis of movement in balance of provision for credit losses (NIS in millions):

	For the three months ended March 31, 2020					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	239	65	39	343	2	345
Net accounting write-offs	(63)	(8)	(19)	(90)	–	(90)
Balance of provision for credit losses at end of period	**1,041**	**731**	**293**	**2,065**	**3**	**2,068**
	For the three months ended March 31, 2019					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	43	8	27	78	(2)	76
Net accounting write-offs	(43)	(1)	(25)	(69)	–	(69)
Balance of provision for credit losses at end of period	**766**	**651**	**265**	**1,682**	**2**	**1,684**

For more information about provision for credit losses see Notes 6 and 13 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	March 31, 2020	March 31, 2019	December 31, 2019
Ratio of provision for credit losses to total loans to the public	1.0	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7
	Three months[(1)]		
	2020	2019	2019
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.7	0.2	0.2
Ratio of net write-offs to average balance of loans to the public, gross	0.2	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.7	0.2	0.2
Of which: With respect to commercial loans other than housing loans[(2)]	1.6	0.4	0.5
Ratio of net write-offs to average balance of loans to the public, net	0.2	0.1	0.1

(1) Calculated on annualized basis.
(2) The rate with respect to housing loans is negligible.

Credit risk to individuals (excluding housing loans)[(1)]

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2017-2021.
The individual client segment is highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties.
Credit policies and work procedures with regard to extending credit, including to individual clients, include directives and guidelines with regard to credit underwriting and adapting credit to client needs and repayment capacity: Review of credit objective, requested LTV, loan term, analysis of client's repayment capacity and repayment sources, for all of their indebtedness. This includes review of various economic parameters of the client based, *inter alia*, on the client's regular income[(2)], pledged or unencumbered savings, knowledge of the client and past experience working with the client.
The Bank regularly monitors the risk level in the loan portfolio to individuals, including by using an internal model for credit rating of individual clients, monitoring and analysis of expenses with respect to credit losses and by conducting various stress tests, including stress tests in conformity with Bank of Israel directives, which include scenarios such as: economic recession, significant increase in unemployment and higher interest rates. For more information about credit risk management following the Corona Virus crisis, see chapter "Credit risks" and chapter "Explanation and analysis of results and business standing".

Below is information about credit risk to individuals – balances and various risk attributes (NIS in millions):

	As of March 31,		As of December 31,
	2020	**2019**	**2019**
Debts			
Checking balances	2,023	2,100	2,133
Utilized credit card balances	3,553	3,783	3,973
Auto loans – adjustable interest	610	955	671
Auto loans – fixed interest	1,077	920	926
Other loans and credit – variable interest	12,492	11,773	12,515
Other loans and credit – fixed interest	248	217	258
Total debt (on-balance sheet credit)	**20,003**	**19,748**	**20,476**
Un-utilized facilities, guarantees and other commitments			
Checking accounts – un-utilized facilities	4,347	4,067	4,172
Credit cards – un-utilized facilities	7,092	6,368	6,627
Guarantees	167	230	187
Other liabilities	56	25	33
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**11,662**	**10,690**	**11,019**
Total credit risk to individuals	**31,665**	**30,438**	**31,495**
Of which:			
Bullet / balloon loans[(3)]	452	489	469
Financial asset portfolio and other collateral against credit risk[(4)]			
Financial assets portfolio:			
Deposits	3,567	3,432	3,723
Securities	162	217	219
Other monetary assets	316	370	328
Other collateral[(5)]	1,044	947	925
Total financial assets portfolio and other collateral against credit risk	**5,089**	**4,966**	**5,195**

(1) As defined in Proper Conduct of Banking Business Directive 451.
(2) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including *inter alia* salaries and regular pensions.
(3) Loans with a grace period for principal longer than one year.
(4) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.
(5) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit. The decrease is primarily due to downward revision of safety factors for vehicles and the maximum vehicle age accounted for in calculating the collateral value.

Below is composition by size of borrower indebtedness[(1)]:

Loan ceiling and credit risk (NIS in thousands)		As of March 31, 2020		As of March 31, 2019		As of December 31, 2019	
		Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk
	Up to 10	292,085	640	288,892	619	288,830	632
Above 10	Up to 20	89,684	1,289	87,842	1,269	89,176	1,280
Above 20	Up to 40	119,724	3,438	117,438	3,394	118,756	3,409
Above 40	Up to 80	126,531	7,188	121,463	6,945	124,993	7,100
Above 80	Up to 150	83,336	8,935	79,816	8,604	82,664	8,860
Above 150	Up to 300	41,259	8,358	39,170	7,901	41,128	8,324
Above 300		4,044	1,817	3,696	1,706	3,999	1,890
Total		**756,663**	**31,665**	**738,317**	**30,438**	**749,546**	**31,495**

(1) Number of borrowers is for total on- and off-balance sheet credit risk.

Composition of on-balance sheet credit by fixed income[(1)] in account:

Income	As of March 31, 2020		As of March 31, 2019		As of December 31, 2019	
	NIS in millions	In %	NIS in millions	In %	NIS in millions	In %
Accounts with no fixed income for the account	1,719	8.6	1,425	7.2	1,601	7.8
Less than NIS 10 thousand.	5,052	25.3	5,605	28.4	5,402	26.4
Between NIS 10 thousand and NIS 20 thousand	7,654	38.3	7,414	37.5	7,768	37.9
Over NIS 20 thousand	5,578	27.8	5,304	26.9	5,705	27.9
Total	**20,003**	**100**	**19,748**	**100**	**20,476**	**100**

(1) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including *inter alia* salaries and regular pensions.

Below is composition of on-balance sheet credit by remaining term to maturity[(1)]:

Term to maturity	As of March 31, 2020		As of March 31, 2019		As of December 31, 2019	
	NIS in millions	In %	NIS in millions	In %	NIS in millions	In %
Up to 1 year	3,594	24.9	3,591	25.9	3,669	25.5
Over 1 year to 3 years	4,836	33.5	4,772	34.4	4,805	33.4
Over 3 years to 5 years	2,699	18.7	2,523	18.2	2,640	18.4
Over 5 years to 7 years	1,515	10.5	1,414	10.2	1,513	10.5
Over 7 years[(2)]	1,783	12.4	1,565	11.3	1,743	12.2
Total	**14,427**	**100**	**13,865**	**100**	**14,370**	**100**

(1) Excluding checking account and credit cards.

(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.

Below is information about problematic credit risk before provision for credit losses (NIS in millions):

	As of March 31, 2020			As of March 31, 2019			As of December 31, 2019		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Balance of problematic credit risk	240	2	242	232	3	235	231	3	234
Problematic credit risk rate(2)	1.20%	0.02%	0.76%	1.17%	0.03%	0.77%	1.13%	0.03%	0.74%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized)

	For the three months ended March 31,		2019
	2020	2019	
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.78%	0.55%	0.49%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 1% compared to March 31, 2019 and decreased by 2% compared to December 31, 2019, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in the first quarter of 2020.

As of March 31, 2020:

Checking accounts –	10.1%
Credit cards	17.7%
Auto loans –	8.4%
Other loans and credit	63.7%

- Of all debts (on-balance sheet credit) as of March 31, 2020, 25% is secured by financial assets and other collateral in the client's account (similar to rates as of March 31, 2019 and as of December 31, 2019).

Given the risk attributes of this segment, the rate of group-based qualitative provision for individuals is higher than in other segments, in conformity with guidelines from the Supervisor of Banks.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Business Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel at mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, Construction, purchase groups, urban renewal, National Zoning Plan 38 etc.

Note that during the Corona Virus crisis as well, there is significant activity in this sector, which is classified as critical for the economy, although not in the same scope as during ordinary times.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions)

	March 31, 2020						
	Credit risk to the public[(1)]						
	Credit risk			Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[(2)]	Off balance sheet[(3)]	Total	Impaired	Other proble-matic[(4)]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	10,214	15,859	26,073	11	13	80	36
Commercial and industrial	6,268	1,429	7,697	60	370	56	3
Total secured by real estate in Israel	**16,482**	**17,288**	**33,770**	**71**	**383**	**136**	**39**
Not secured by real estate in Israel	2,298	2,965	5,263	116	68	41	18
Total for construction and real estate economic sector in Israel	**18,780**	**20,253**	**39,033**	**187**	**451**	**177**	**57**
Of which: Designated for project assistance	9,057	14,091	23,148	5	7	84	42
	March 31, 2019						
Secured by real estate in Israel:							
Housing	9,532	12,653	22,185	29	29	69	22
Commercial and industrial	5,177	1,149	6,326	44	10	71	2
Total secured by real estate in Israel	**14,709**	**13,802**	**28,511**	**73**	**39**	**139**	**24**
Not secured by real estate in Israel	2,382	2,943	5,325	149	53	42	12
Total for construction and real estate economic sector in Israel	**17,091**	**16,745**	**33,836**	**222**	**92**	**181**	**37**
Of which: Designated for project assistance	9,126	11,480	20,607	1	26	67	26
	December 31, 2019						
Secured by real estate in Israel:							
Housing	9,518	16,332	25,850	30	51	74	34
Commercial and industrial	6,083	1,171	7,254	80	362	47	2
Total secured by real estate in Israel	**15,601**	**17,503**	**33,104**	**110**	**413**	**121**	**36**
Not secured by real estate in Israel	2,104	2,998	5,102	117	55	38	18
Total for construction and real estate economic sector in Israel	**17,705**	**20,501**	**38,206**	**227**	**468**	**159**	**54**
Of which: Designated for project assistance	8,606	14,224	22,830	13	61	73	35

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.

(2) Loans to the public, investment in debentures by the public, other debt by the public and other assets with respect to derivatives against the public.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.

(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.

Below is information about credit risk in the construction and real estate economic sector in Israel, by asset status (NIS in millions):

	March 31, 2020			March 31, 2019			December 31, 2019		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	3,976	727	4,703	5,108	575	5,683	3,858	539	4,397
Real estate under construction	7,416	15,265	22,681	5,651	12,254	17,905	6,966	15,557	22,523
Real estate completely constructed	5,090	1,296	6,386	3,950	973	4,923	4,777	1,407	6,184
Total credit secured by real estate in Israel	**16,482**	**17,288**	**33,770**	**14,709**	**13,802**	**28,511**	**15,601**	**17,503**	**33,104**
Not secured by real estate in Israel	2,298	2,965	5,263	2,382	2,943	5,325	2,104	2,998	5,102
Total credit risk for construction and real estate	**18,780**	**20,253**	**39,033**	**17,091**	**16,745**	**33,836**	**17,705**	**20,501**	**38,206**

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to borrower indebtedness.

Credit risk data for the construction and real estate clients sector as of March 31, 2020 show that 48.2% of the on-balance sheet credit risk and 69.5% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel, Haifa, Be'er Sheva and Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment. Note that for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of March 31, 2020, as presented below (Credit Risk by Economic Sector) is 14.3%. Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 11.1% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit risk by economic sector – Consolidated

As of March 31, 2020

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic[6]	Total	Debts[2]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	912	884	15	13	912	680	13	7	1	1	8
Mining and excavation	778	613	38	127	722	337	127	97	12	1	15
Industry and production	10,094	9,356	266	472	9,929	5,851	472	297	33	5	183
Of which: Diamonds	1,726	1,523	93	110	1,726	1,146	110	95	2	–	23
Construction and real estate – construction[7]	34,036	32,647	1,171	218	34,025	14,394	218	135	17	2	198
Construction and real estate – real estate operations	4,997	4,445	132	420	4,981	4,369	420	52	6	–	36
Electricity and water delivery	2,812	2,746	51	15	2,527	1,723	15	1	2	1	9
Commerce	11,620	10,874	309	437	11,468	8,925	437	343	53	31	226
Hotels, dining and food services	1,428	1,240	117	71	1,428	1,076	71	27	12	2	39
Transport and storage	1,693	1,558	49	86	1,638	1,206	86	20	17	3	32
Information and communications	1,439	1,366	54	19	1,413	798	19	14	10	8	12
Financial services	13,707	13,555	9	143	10,360	4,717	143	133	15	–	97
Other business services	5,110	4,778	161	171	5,100	3,477	171	68	31	9	92
Public and community services	2,847	2,602	217	28	2,814	2,315	28	20	1	–	16
Total commercial	**91,473**	**86,664**	**2,589**	**2,220**	**87,317**	**49,868**	**2,220**	**1,214**	**210**	**63**	**963**
Private individuals – housing loans	148,441	145,865	960	1,616	148,441	137,903	1,616	70	65	8	730
Private individuals – other	31,825	31,143	440	242	31,665	20,003	242	87	39	19	293
Total public – activity in Israel	**271,739**	**263,672**	**3,989**	**4,078**	**267,423**	**207,774**	**4,078**	**1,371**	**314**	**90**	**1,986**
Banks in Israel	1,345	1,345	–	–	189	134	–	–	–	–	–
Government of Israel	7,827	7,827	–	–	173	173	–	–	–	–	–
Total activity in Israel	**280,911**	**272,844**	**3,989**	**4,078**	**267,785**	**208,081**	**4,078**	**1,371**	**314**	**90**	**1,986**
Borrower activity overseas											
Total public – activity overseas	6,381	6,108	131	142	6,232	4,389	142	55	29	–	79
Overseas banks	13,147	13,147	–	–	11,987	11,980	–	–	2	–	3
Overseas governments	1,336	1,336	–	–	658	658	–	–	–	–	–
Total activity overseas	**20,864**	**20,591**	**131**	**142**	**18,877**	**17,027**	**142**	**55**	**31**		**82**
Total	**301,775**	**293,435**	**4,120**	**4,220**	**286,662**	**225,108**	**4,220**	**1,426**	**345**	**90**	**2,068**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 225,108; debentures – 8,572; securities borrowed or acquired in conjunction with resale agreements – 36; Assets with respect to derivative instruments – 4,369; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 63,690.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 2,062 million and off-balance sheet credit risk amounting to NIS 2,393 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,553 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of March 31, 2019

Reported amounts (NIS in millions)

	Total credit risk(1)				Off balance sheet debts(2) and credit risk (other than derivatives)(3)						
		Of which:							Credit losses(3)		
	Total	Credit performance rating(4)	Credit in good standing other than at performing credit rating(5)	Problematic(6)	Total	Debts(2)	Problematic(6)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	821	794	13	14	821	625	14	6	1	–	9
Mining and excavation	548	430	117	1	517	331	1	–	(1)	–	3
Industry and production	9,926	9,241	309	376	9,773	5,684	376	261	4	7	119
Of which: Diamonds	1,794	1,606	109	79	1,790	1,216	79	74	–	3	23
Construction and real estate – construction(7)	29,939	29,426	234	279	29,920	13,583	279	199	(21)	(6)	150
Construction and real estate – real estate operations	3,897	3,381	481	35	3,879	3,497	35	23	12	(1)	68
Electricity and water delivery	2,571	2,488	56	27	2,148	1,269	27	3	4	–	13
Commerce	11,091	10,480	302	309	11,002	8,549	309	217	22	27	175
Hotels, dining and food services	1,332	1,244	43	45	1,332	1,030	45	18	2	3	27
Transport and storage	1,742	1,709	9	24	1,731	1,196	24	9	4	2	12
Information and communications	1,091	924	156	11	1,080	540	11	5	–	2	7
Financial services	11,783	11,602	3	178	10,194	3,738	178	170	(2)	1	66
Other business services	4,442	4,300	53	89	4,431	3,105	89	49	12	7	56
Public and community services	2,530	2,391	109	30	2,507	2,068	30	22	1	1	15
Total commercial	**81,713**	**78,410**	**1,885**	**1,418**	**79,335**	**45,215**	**1,418**	**982**	**38**	**43**	**720**
Private individuals – housing loans	137,930	135,746	780	1,404	137,930	127,947	1,404	57	8	1	650
Private individuals – other	30,766	30,199	332	235	30,438	19,748	235	84	27	25	265
Total public – activity in Israel	**250,409**	**244,355**	**2,997**	**3,057**	**247,703**	**192,910**	**3,057**	**1,123**	**73**	**69**	**1,635**
Banks in Israel	926	926	–	–	306	252	–	–	–	–	–
Government of Israel	6,755	6,755	–	–	–	–	–	–	–	–	–
Total activity in Israel	**258,090**	**252,036**	**2,997**	**3,057**	**248,009**	**193,162**	**3,057**	**1,123**	**73**	**69**	**1,635**
Borrower activity overseas											
Total public – activity overseas	6,070	5,998	51	21	5,896	4,947	21	5	5	–	47
Overseas banks	8,286	8,286	–	–	6,783	6,688	–	–	(2)	–	2
Overseas governments	2,478	2,478	–	–	640	640	–	–	–	–	–
Total activity overseas	**16,834**	**16,762**	**51**	**21**	**13,319**	**12,275**	**21**	**5**	**3**		**49**
Total	**274,924**	**268,798**	**3,048**	**3,078**	**261,328**	**205,437**	**3,078**	**1,128**	**76**	**69**	**1,684**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts(2) – 205,437; debentures – 9,021; securities borrowed or acquired in conjunction with resale agreements – 42; Assets with respect to derivative instruments – 2,341; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 58,083.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,879 million and off-balance sheet credit risk amounting to NIS 1,757 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 4,997 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2019

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic[6]	Total	Debts[2]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	895	868	12	15	895	673	15	7	1	1	8
Mining and excavation	539	539	–	–	519	351	–	–	–	–	4
Industry and production	9,931	9,294	239	398	9,825	5,678	398	280	58	25	155
Of which: Diamonds	1,693	1,528	60	105	1,693	1,129	105	95	(6)	(3)	21
Construction and real estate – construction[7]	33,320	32,567	483	270	33,318	13,417	270	165	9	(9)	183
Construction and real estate – real estate operations	4,886	4,378	83	425	4,881	4,284	425	62	(24)	1	30
Electricity and water delivery	2,690	2,625	49	16	2,244	1,469	16	3	–	1	8
Commerce	10,715	9,994	264	457	10,575	8,180	457	331	87	63	204
Hotels, dining and food services	1,385	1,282	55	48	1,384	1,052	48	28	11	10	29
Transport and storage	1,888	1,821	26	41	1,881	1,233	41	22	15	7	18
Information and communications	1,282	1,161	94	27	1,272	643	27	22	(2)	(3)	10
Financial services	9,845	9,661	–	144	7,791	4,033	144	135	15	2	82
Other business services	4,991	4,829	53	109	4,981	3,444	109	68	40	21	70
Public and community services	2,632	2,439	157	36	2,620	2,117	36	25	4	4	15
Total commercial	**84,999**	**81,458**	**1,515**	**1,986**	**82,186**	**46,574**	**1,986**	**1,148**	**214**	**123**	**816**
Private individuals – housing loans	148,604	146,173	899	1,532	148,604	135,256	1,532	56	44	14	673
Private individuals – other	31,802	31,165	403	234	31,495	20,476	234	87	101	91	273
Total public – activity in Israel	**265,405**	**258,796**	**2,817**	**3,752**	**262,285**	**202,306**	**3,752**	**1,291**	**359**	**228**	**1,762**
Banks in Israel	657	657	–	–	151	110	–	–	–	–	–
Government of Israel	7,941	7,941	–	–	–	–	–	–	–	–	–
Total activity in Israel	**274,003**	**267,394**	**2,817**	**3,752**	**262,436**	**202,416**	**3,752**	**1,291**	**359**	**228**	**1,762**
Borrower activity overseas											
Total public – activity overseas	5,700	5,608	5	127	5,644	4,095	127	37	8	–	50
Overseas banks	8,881	8,881	–	–	7,155	7,150	–	–	(3)	–	1
Overseas governments	2,437	2,437	–	–	656	656	–	–	–	–	–
Total activity overseas	**17,018**	**16,926**	**5**	**127**	**13,455**	**11,901**	**127**	**37**	**5**		**51**
Total	**291,021**	**284,320**	**2,822**	**3,879**	**275,891**	**214,317**	**3,879**	**1,328**	**364**	**228**	**1,813**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 214,317; debentures – 9,964; securities borrowed or acquired in conjunction with resale agreements – 120; Assets with respect to derivative instruments – 2,578; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 64,042.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,759 million and off-balance sheet credit risk amounting to NIS 2,501 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,571 million for which insurance has been acquired to cover the portfolio of Sale Law guarantees and performance guarantees pursuant to the Sale Law from international re-insurers.

Exposure to foreign countries – Consolidated[1]

Reported amounts (NIS in millions)

Country	March 31, 2020			March 31, 2019			December 31, 2019		
									Exposure
	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	On balance sheet[2]	Off-balance sheet[2][3][4]	Total
USA	12,972	622	13,594	9,298	523	9,821	10,030	556	10,586
France	1,417	2,234	3,651	1,347	2,152	3,499	1,418	2,226	3,644
Germany	90	2,809	2,899	304	2,698	3,002	132	2,922	3,054
UK	1,834	1,021	2,855	2,357	1,068	3,425	2,041	1,115	3,156
Other	2,661	1,125	3,786	2,467	1,107	3,574	2,415	1,000	3,415
Total exposure to foreign countries	**18,974**	**7,811**	**26,785**	**15,773**	**7,548**	**23,321**	**16,036**	**7,819**	**23,855**
Of which: Total exposure to Greece, Portugal, Spain, Italy	46	33	79	36	47	83	42	33	75
Of which: Total exposure to LDC countries	456	75	531	459	98	557	409	83	492
Of which: Total exposure to foreign countries facing liquidity issues[5]	–	–	–	–	–	–	–	–	–

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.

(4) The balance of off-balance sheet exposure includes NIS 5,552 million, primarily with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (as of March 31, 2019: NIS 4,997 million; as of December 31, 2019: NIS 5,571 million).For more information about revision of the Credit Conversion Factor (CCF) applied to guarantees to secure investments by apartment buyers pursuant to the Sale Act. See Note 9 to the financial statements.

(5) As of March 31, 2020, March 31, 2019 and December 31, 2019, the Bank had no exposure to foreign countries facing liquidity issues where the balance sheet exposure with respect to such countries exceeds the reporting threshold specified in Addendum 7, Chapter 651 of Public Reporting Regulations.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions(1)(2) (NIS in millions):

External credit rating	On-balance sheet credit risk(3): Before offset of deposits with respect to master netting agreements(5)	On-balance sheet credit risk(3): After offset of deposits with respect to master netting agreements(6)	Off balance sheet credit risk(4)	Current credit exposure: Before offset of deposits with respect to master netting agreements	Current credit exposure: After offset of deposits with respect to master netting agreements(5)
					March 31, 2020
AAA to AA-	807	780	5,553	6,360	6,334
A+ to A-	38	23	232	270	255
BBB+ to BBB-	11	3	117	128	120
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	–	–	–	–	–
Total credit exposure to foreign financial institutions	**856**	**807**	**5,928**	**6,784**	**6,735**
					March 31, 2019
AAA to AA-	1,138	1,068	5,188	6,326	6,256
A+ to A-	141	46	264	405	310
BBB+ to BBB-	8	8	27	35	35
BB+ to B-	–	–	27	27	27
Lower than B-	–	–	–	–	–
Unrated	1	–	–	1	–
Total credit exposure to foreign financial institutions	**1,288**	**1,122**	**5,506**	**6,794**	**6,628**
					December 31, 2019
AAA to AA-	756	711	5,616	6,372	6,327
A+ to A-	183	112	229	412	341
BBB+ to BBB-	11	9	10	21	19
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	10	–	–	10	–
Total credit exposure to foreign financial institutions	**960**	**832**	**5,881**	**6,841**	**6,713**

Due to potential implications of the economic crisis resulting from the Corona Virus pandemic for the condition of many financial institutions world-wide, credit spread volatility increased during the crisis period. Many financial institutions had their rating outlook lowered, with some ratings lowered as well. During this period, the Bank closely monitored all exposure frameworks of the Bank, analysis and review of relevant risks by various parameters, and in line with the level of business activity with counter-parties, the Bank revised the various exposure frameworks (right-sizing).

As of March 31, 2020, March 31, 2019 and December 31, 2019 there was no problematic credit risk net.

Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivatives.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,662 million as of March 31, 2020 (as of March 31, 2019: NIS 4,997 million; as of December 31, 2019: NIS 5,571 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.
(5) Presented net of fair value of liabilities with respect to derivatives for counter-parties which have signed master netting agreements.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivatives vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. to the financial statements.

Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in debentures and other assets with respect to derivatives. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the risk appetite – i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Housing credit risk and development

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of housing loans. The Bank estimates the risk profile associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, which recently has decreased even further due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.

The Bank acts regularly to control and manage the risk associated with housing loans, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress scenarios to review the impact of macro-economic factors on portfolio risk – primarily the impact of the unemployment rate and interest rates. The Bank has an advanced model for rating housing loans, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.

The risk appetite for mortgages is defined using multiple risk benchmarks, which apply to credit risk and concentration risk aspects at regular performance level. These benchmarks include: differential risk premium (reflecting the risk of the mortgagee), the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by Bank manage, the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligo in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of March 2020) was 52.8% (reflecting the LTV ratio upon loan origination – see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

Corona Virus pandemic

In March, due to the effect of the Corona Virus pandemic on the economy, the higher unemployment rate and many employees being furloughed, criteria for loan approval have been adapted to accommodate, *inter alia*, clients on furlough, the source of income of borrowers, borrower composition, profession and education. The Bank applies the Supervisor of Banks' directive on this matter, while maintaining internal criteria specified in the underwriting process.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)		
	Up to three months		Rate of change
	2020	2019	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	7,266	5,492	32.3
From funds of the Finance Ministry			
Directed loans	107	101	5.9
Standing loans and grants	40	22	81.8
Total new loans	**7,413**	**5,615**	**32.0**
Refinanced loans	1,591	647	145.9
Total loans originated	**9,004**	**6,262**	**43.8**
Number of borrowers (includes refinanced loans)	13,454	10,723	25.5

Below are details of various risk attributes of the housing loan portfolio(1) as of March 31, 2020 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age(2) (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	3,380	9,682	11,480	27,596	19,907	7,311	79,356
	35%-50%	275	708	1,099	3,822	5,162	1,590	12,656
	50%-80%	–	1	–	11	1,136	543	1,691
	Over 80%	–	–	–	–	90	87	177
60%-75%	Up to 35%	2,149	5,598	5,504	13,920	9,316	1,745	38,232
	35%-50%	144	370	428	1,571	1,704	466	4,683
	50%-80%	–	–	–	5	281	147	433
	Over 80%	–	–	–	–	7	21	28
Over 75%	Up to 35%	27	87	102	195	642	987	2,040
	35%-50%	1	7	2	12	141	310	473
	50%-80%	–	–	–	–	12	102	114
	Over 80%	–	–	–	–	–	19	19
Total		**5,976**	**16,453**	**18,615**	**47,132**	**38,398**	**13,328**	**139,902**
Of which:								
Loans granted with original amount over NIS 2 million		422	1,101	1,221	2,730	1,783	358	7,615
Percentage of total housing loans		7.1%	6.7%	6.6%	5.8%	4.6%	2.7%	5.4%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,679	4,938	5,447	13,025	11,687	5,516	42,292
CPI-linked(3)		3	20	36	60	1,641	2,574	4,334
In foreign currency(3)		83	359	648	1,205	1,286	448	4,029
Total		**1,765**	**5,317**	**6,131**	**14,290**	**14,614**	**8,538**	**50,655**
Non-linked loans at prime lending rate, as percentage of total housing loans		28.1%	30.0%	29.3%	27.6%	30.4%	41.4%	30.2%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.1%	0.1%	0.2%	0.1%	4.3%	19.3%	3.1%
Loans with LTV over 75% as percentage of total housing loans		0.5%	0.6%	0.6%	0.4%	2.1%	10.6%	1.9%

(1) Balance of housing loans after provision by extent of arrears.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.

Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.

This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 2020).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of March 31, 2020 was 52.8%, compared to 52.5% on March 31, 2019 and to 52.7% on December 31, 2019. Out of the total loan portfolio of the Bank, amounting to NIS 139.9 billion, some 98.1% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.2 billion, or only 0.2% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of March 31, 2020, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 4.2%. For loans originated one to 5 years ago – by 6.8%; for loans originated over 5 years ago – by 19.8%; for all loans in total – by 11.2%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 0.6% for loans granted 1-2 years ago, 0.6% for loans granted 3-12 months ago and 0.5% for loans granted in the first quarter of 2020.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's housing loan portfolio is 25.8%. Some 85.5% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.1%). Some 12.7% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.3%). Some 1.6% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.4%), and only 0.2% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.2%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

Loans bearing variable interest

The Bank offers clients housing loans which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

The Supervisor of Banks has limited the share of the loan bearing variable interest within 5 years, to 33% of the total loan at most, and further stipulated that a banking corporation may not approve housing loans where the percentage of the loan bearing variable interest exceeds 67% of the total loan, regardless of the frequency of interest rate changes.
The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 12.1 billion, or only 8.6% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 7.6 billion on March 31, 2020, or only 5.4% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of March 31, 2020 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer						
	In arrears 30 to 89 days[1]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days	Balance with respect to refinanced loans in arrears[2]	Total
Amount in arrears	10	27	17	16	196	256	36	302
Of which: Balance of provision for interest[3]	–	–	–	1	107	108	7	115
Recorded debt balance	637	991	268	100	117	1,476	71	2,184
Balance of provision for credit losses [4]	–	–	34	48	86	168	37	205
Debt balance, net	**637**	**991**	**234**	**52**	**31**	**1,308**	**34**	**1,979**

(1) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(3) With respect to interest on amounts in arrears.
(4) Excludes balance of provision for interest.

For more information about housing credit risk, see also the 2019 Risks Report available on the Bank website.

Operational risk

Risk description and development

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.
The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank.
The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.
As part of Bank preparations for the Corona Virus crisis and the impact of changes to operational conduct resulting from the relief measures applied, the likelihood of realization of certain potential operating risk increased, primarily due to the load on branch and call center operations, which may result in increase in the number of operating errors in conducting transactions and in a higher number of fraud attempts. In fact, there were no unusual operational events.

Business continuity

The Bank, as part of addressing the Corona Virus crisis, raised the alert level, convened an expanded situation room to determine work guidelines and established a Corona Virus forum to manage current operations under these conditions, including the relevant parties for such operations. Several measures were applied to address this event, including the following:

In conformity with the emergency directives, the Bank transitioned to work of a limited scope, while maintaining business continuity at the Bank. During the crisis period, Bank units operated in split groups, so as to maintain functional continuity of

critical services, while some employees transitioned to working remotely, using the Bank's technology infrastructure. Some employees were placed on paid leave for a limited period; the Bank did not place any employees on furlough.
As the Bank returned to full operation in early May 2020, the Bank prepared to continue working while maintaining separation and continuing to work in split units and with remote work.
For more information see chapter "Significant Events in the Bank Group's Business" above.

Information security and cyber security

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.
Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank has approved strategy and comprehensive cyber defense policies and has specified the defense lines for their implementation , has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division – responsible, *inter alia*, for setting policies on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan and review of the effectiveness of systems and processes for information security and cyber defense.
Direct banking systems at the Bank include information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to clients and identification of exceptional transactions.
In the first quarter of 2020, risk remained Medium. In this quarter, a small number of fraud attempts against clients were identified (through fishing attacks), which resulted in stealing their account credentials in order to conduct unauthorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in client accounts.
The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud clients and to conduct un-authorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat.
During the Corona Virus crisis, the Bank's information security team operated fully and continuously, improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.
We should note that the Corona Virus pandemic has elevated cyber risk across the world, primarily due to increase in working remotely, which provided more attack vectors for organizations. Bank operations during this period retained the risk level at the Bank unchanged.

Information technology risk

IT risk – risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.
In recent years, the risks associated with IT management have increased, due to development and deployment of new technologies and evolution of new risk and threats. Other than under routine conditions, the IT management framework addresses system failures, such as: system faults and preparation for emergency situations. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risks and business risks which could arise under such conditions.

Given current developments in the financial market and the age of current Bank systems, the Bank launched, in the first quarter of 2019, a project to replace the Bank's capital market core system based on a new platform.
Moreover, in 2019 the Bank launched a project to replace the CRM system, which would take place gradually over 3 years.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.
The risk level during this quarter and throughout the Corona Virus crisis remained unchanged. The Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations during emergency routine operations. There were no material events and/or malfunctions during this period.

Legal risk

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risks arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).
Legal risk includes absence of potential for legal enforcement of an agreement and includes, but is not limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units.
In the first quarter of 2020, legal risk remained Low-Medium, similar to the estimate in the 2019 annual report.
Review of legal risk level in the first quarter of 2020 included, *inter alia*, a review of potential implications of the Corona Virus crisis on legal risk, which found that in general, there was no impact on the level of legal risk and the quality of management of said risk.
For more information about operational risk, see also the 2019 Risks Report available on the Bank website.

Market risk and interest risk

Risk description and development

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest rate risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

The market risk in the negotiable portfolio is minimal, in line with Bank policy. The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources. The Bank regularly reviews the risk estimation methodology, in line with global common practice. Thus, in the first quarter of 2020, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios. Consequently, the risk measured under lower interest scenarios decreased.

Assessment of Bank exposure to interest risks in the first quarter of 2020 remained at Low-Medium, see explanation below.

Due to the Corona Virus crisis in Israel, March saw sharp declines on the Stock Exchange, with sharp volatility. The sharp declines in financial markets resulted in households selling securities and in heavy redemptions, primarily in the mutual fund market. These redemptions resulted in significant increase in the balance of deposits in the retail and business segments, concurrently with a decrease in deposits from financial institutions.

As noted, March saw a sharp increase in zero coupon NIS interest rate curves, across the entire NIS and CPI-linked curve. Increase in interest rate curves, both for Government and highly-rated corporate debt, resulted in higher cost of funds for the Bank.

The Corona Virus crisis resulted in lower inflationary expectations due to the expected decline in demand. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

Below is the VaR for the Bank Group (NIS in millions):

	First Quarter		All of
	2020	**2019**	**2019**
At end of period	1,023	431	484
Maximum value during period	(MAR)1,023	(FEB) 585	(JUN) 626
Minimum value during period	(JAN) 443	(JAN) 431	(MAR) 431

The increase in VaR was mostly due to severe fluctuations in interest rate curves during the Corona Virus crisis.

Market risk is primarily due to interest risk in the bank portfolio, as presented below.

Back-testing of the historical-analytic VaR model shows one case in which the daily loss exceeded the forecast VaR value. This number of cases is within the criteria specified by the Basel Committee for review of the VaR model quality.

Analysis of interest risk in bank portfolio

Below is the effect[1] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
						March 31, 2020
						Change in fair value
2% increase	(59)	(1,513)	411	61	8	(1,092)
Decrease of 2%	(137)	1,509	(430)	(34)	(14)	894
						March 31, 2019
2% increase	240	(1,617)	141	27	12	(1,197)
Decrease of 2%	(1,267)	1,060	(143)	(30)	(13)	(393)
						December 31, 2019
2% increase	55	(1,304)	372	67	12	(798)
Decrease of 2%	(1,211)	799	(401)	(40)	(12)	(865)

(1) Calculated based on current data used for actual interest risk management.

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account.

Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types. Analysis of interest risk in Bank portfolio.

The Bank regularly reviews the risk estimation methodology, in line with global common practice. Thus, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios.
Further to these changes, the exposure to lower interest rates decreased.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value[1] of financial instruments of the Bank and its subsidiaries thereof:

	As of March 31, 2020			As of March 31, 2019		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Net adjusted fair value[1]	12,451	9	12,460	12,678	(30)	12,648
Of which: Banking portfolio	(4,838)	16,518	11,680	(2,463)	14,330	11,867

Impact of change scenarios in interest rates on net adjusted fair value[1] [1] of the Bank and its subsidiaries :

	As of March 31, 2020			As of March 31, 2019		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Concurrent changes						
Concurrent 1% increase	83	231	314	(144)	(41)	(185)
Of which: Banking portfolio	76	241	317	(162)	(18)	(180)
Concurrent 1% decrease	(110)	(232)	(342)	107	44	151
Of which: Banking portfolio	(103)	(248)	(351)	119	22	141
Non-concurrent changes						
Steeper[3]	(253)	(33)	(286)	(313)	(49)	(362)
Shallower[4]	557	90	647	258	42	300
Short-term interest increase	241	186	427	145	28	173
Short-term interest decrease	212	(190)	22	(255)	(28)	(283)

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of on-call deposits to terms.

(2) Includes Israeli currency linked to foreign currency.

(3) Short-term interest decrease and long-term interest increase.

(4) Short-term interest increase and long-term interest decrease.

In the fourth quarter of 2019, the cross-impact of interest rate change scenarios and behavioral scenarios in the mortgage portfolio and in the deposit portfolio were revised, including with regard to sensitivity of net adjusted fair value to changes in interest rates, as of December 31, 2019.
Moreover, the measurement method was revised in the first quarter of 2020, as noted above, to include future receipts with respect to early repayment commissions expected to be received under the different scenarios.
The difference between Bank exposure to changes in interest according to net adjusted fair value and sensitivity of economic value (EVE) presented above, under a 1% concurrent shift of the curve, amounts to NIS 603 million.
Most of this difference is due to use of different capitalization curves. The capitalization curves used to analyze sensitivity of economic value (EVE) are transfer pricing curves, while discount rates used to present net adjusted fair value are possible discount rates for similar transactions on the balance sheet date, reflecting the inherent risk for a similar client.
See Note 15 to the financial statements for additional information.
For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements as of December 31, 2019.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues[1]:

	As of March 31, 2020			As of March 31, 2019		
	Interest revenues	Non-interest financing revenues[3]	Total	Interest revenues	Non-interest financing revenues[3]	Total
Concurrent changes[2]						
Concurrent 1% increase	810	154	964	573	270	843
Of which: Banking portfolio	810	160	970	573	227	800
Concurrent 1% decrease	(663)	(157)	(820)	(454)	(277)	(731)
Of which: Banking portfolio	(663)	(163)	(826)	(454)	(231)	(685)

(1) For a one-year term.
(2) Changes to risk-free interest.
(3) Includes the effect of fair value, gain (loss) from transactions in debentures and the effect of interest accrual for transactions in derivatives.

Below are the key assumptions underlying the above data:

- Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types.
- When calculating sensitivity of interest revenues in the non-linked segment, the risk-free interest rate is capped at 0%. No such cap is applied to other linkage segments.
- No cap is applied when calculating non-interest financing revenues.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 15 to the financial statements.
For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements as of December 31, 2019.

Analysis of CPI and exchange rate exposures

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of March 31, 2020, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	5% increase	5% decrease	Decrease of 10%	Maximum increase	Maximum decrease
CPI[2]	1,853.9	927.0	(968.1)	(1,936.1)	194.0	(173.7)
Dollar	25.2	13.1	(11.0)	(21.8)	9.6	(8.8)
Pound Sterling	0.1	–	0.1	0.3	–	0.1
Yen	(0.7)	(0.1)	0.6	2.1	(0.1)	0.7
EUR	4.5	1.1	(1.7)	(3.6)	0.2	(1.8)
Swiss Franc	(0.5)	(0.3)	0.4	0.8	(0.6)	0.5

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.
(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 556.2 million and NIS (580.8) million, respectively.

The Corona Virus crisis resulted in lower inflationary expectations due to the expected decline in demand. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

For more information about market risk and interest risk, see the Detailed Risks Report on the Bank website.

Share price risk

For more information about share price risk, see the 2019 Risks Report available on the Bank website.

For information about equity investments in the bank portfolio, see Note 5 to these financial statements and Notes 12 and 15.A to the 2019 financial statements.

Liquidity and financing risk

Risk description and development

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

There were no deviations from the Board of Directors' limitations recorded in the first quarter of 2020.

In February 2020, the Bank raised its alert level with regard to liquidity risk to "High Alert". The decision to raise the alert level was due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets. In early March, the Bank declared a Yellow Alert state for liquidity, due to further sharp declines in stock markets, both globally and in particular in Israel, and due to the integrated benchmark for monitoring financial markets (a benchmark developed by the Bank for identifying and monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure) reaching record levels. The alert level includes operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods.

The sharp declines in financial markets resulted in households selling securities and in heavy redemptions, primarily in the mutual fund market. Consequently, the Bank's liquidity ratios improved due to the sharp increase in balance of deposits from the public for households and businesses, offset by a decrease in the balance of deposits from the public for financial institutions.

During the current period, the Bank closely monitors (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames. Liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations.

According to the liquidity planning for the short term and for longer terms, the Bank is expected to further maintain appropriate liquidity ratios, with due consideration to its known operations and to expected operations including assumptions appropriate for crisis situations.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information about liquidity risk, see also the 2019 Risks Report available on the Bank website.

Financing risk is managed, as part of the liquidity risk, using Board and management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In the current quarter, the Bank continued diversifying its financing sources and reducing concentration risk. In the first quarter of 2020, concentration risk for financing sources remained low.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2019 Risks Report available on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group in 2020 would by 5% higher than the minimum required. This ratio is managed and reported for all currencies

in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This is in addition to liquidity risk management using internal models, as stipulated by Directive 342.
The average (consolidated) liquidity coverage ratio for the first quarter of 2020 was 117%. As noted above, in this period there were no recorded deviations from these restrictions.
As of March 31, 2020, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.3 billion.
raising sources and Bank liquidity status – In the first quarter of 2020, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 211.0 billion on December 31, 2019 to NIS 223.2 billion on March 31, 2020, an increase by 5.8%.
In the non-linked segment, total deposits from the public amounted to NIS 168 billion, an increase by 5.7% compared to end of 2019. In the CPI-linked sector, deposits from the public amounted to NIS 14.3 billion, similar to end of 2019, and in the foreign currency sector – to NIS 40.8 billion, an increase by 8.5% compared to end of 2019.
For more information about liquidity coverage ratio, see also the Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk description and development

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes conduct risk, cross-border risk and AML and terror financing risk, presented separately below.

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.

Compliance risk remained unchanged in the first quarter of 2020 and is defined as low-medium.

This risk assessment is due, *inter alia*, to addressing of risks classified as high and to further enhancement of controls and training and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, due to the Corona Virus crisis, management of compliance risk was reviewed and adapted to the state of emergency.

For more information about compliance and regulation risk, see also the 2019 Risks Report available on the Bank website.

Cross-border risk

Risk description and development

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.
Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies at the Bank's overseas affiliates; in transactions with clients who are foreign residents; in business operations conducted by Bank representatives in foreign countries; and with regard to funds of individual Israeli clients invested overseas.
Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.
The Bank has near-zero appetite for cross-border risk.
Cross-border risk remained unchanged in the first quarter of 2020 and is defined as low-medium. The Bank manages this risk, *inter alia*, by revising procedures, automating work processes, delivering training, concentrating activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS.

For more information about cross-border risk, see also the 2019 Risks Report available on the Bank website.

AML and terror financing risk

Risk description and development

AML and terror financing risk is the risk of financial loss (including due to legal proceedings, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.
The Bank has near-zero risk appetite with regard to AML risk.
AML risk remained unchanged in the first quarter of 2020, at Low-Medium, due to continued intensive training and deployment activity, along with risk-focused controls and taking effective action to avoid recurrence of extraordinary events and compliance failures. The new AML system – MEA – in order to identify unusual activity and for reporting to the AML Authority, is operating in branches on regular basis and enables close control over the banking activity.
For more information about AML risk and terrorism financing, see the 2019 Risks Management Report available on the Bank website.

Reputation risk

Risk description and development

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by clients to withdraw deposits.
The Bank monitors and reviews the impact of the Corona Virus pandemic, globally and in Israel, on business activity as a whole and on reputation risk in particular, with regard to negative perception of the Bank specifically, and as part of the overall perception of the banking system.
Bank management believes that at this stage, the reputational risk level has not changed materially. The Bank continues to regularly monitor this matter.
Bank Mizrahi Tefahot, as most banks in Israel, was included in the Black List issued by the UN Human Rights Council on February 12, 2020, listing companies that operate in territories beyond the Green Line. This publication may impact discussion in the media and activities of various organizations, including analysts and shareholders overseas, which would impact all of the business sector, including the banking system.
The Bank is acting on this matter in co-operation with the Banking Association and with the Bank of Israel; at this stage, the Bank is unable to assess the impact on Bank operations.
For more information about reputation risk, see also the 2019 Risks Report available on the Bank website.

Business-strategic risk

Risk description and development

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.
The Bank operates in conformity with a five-year strategic plan, approved by the Bank's Board of Directors in November 2016, whose principles have been made public. Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors. Risk is monitored by the Financial Information and Reporting Division, and is challenged by the Risks Control Division.
Implications of the impact on economic activity due to the Corona Virus crisis for business operations of the Bank, including higher credit risk and provision for credit losses and potentially lower net interest revenues for the Bank, due to the lower interest rates of the Bank of Israel and of the Federal Reserve Bank in the USA. The Bank applies measures to address the crisis and its implications. For more information about implications of the Corona Virus pandemic and steps taken by the Bank, see chapter "Significant events in the Bank Group's business".
The Bank regularly reviews the implications of this crisis on business-strategic risk. At this stage and due to the current uncertainty, the full impact of the crisis on Bank operations may not be assessed.
Further to the Bank Board of Directors directing management to prepare for preparation of a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020, in view of achievement of the target of the current strategic plan on the 2019 financial statements, in view of the Corona Virus crisis and the uncertainty associated there with, the Board of Directors would only discuss the new strategic plan in late 2020. This date may be revised in future.
For more information about strategic – business risk, see also the Detailed Risks Report on the Bank website.
For more information about environmental risk, see chapter "Risks Overview" of the 2019 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.
The significant accounting policies are detailed in Note 1 to the 2019 financial statements.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.
For more information about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2019 Report of the Board of Directors and Management.
For more information about changes to critical accounting policies and critical accounting estimates with regard to the group-based provision for credit losses and with respect to the Corona Virus crisis, see chapter "Changes to critical accounting policies and to critical accounting estimates" above.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures" (hereinafter: "Disclosure Certification").
The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Evaluation of controls and procedures with regard to disclosure
Further to adjustment of controls and procedures with regard to disclosure concerning the change in structure of the financial statements, made in 2019, in the first quarter of 2020 additional adjustments were made with regard to quarterly financial statements. Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of March 31, 2020. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended March 31, 2020, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls
In the first quarter of 2020, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

M. Vidman

Moshe Vidman
Chairman of the
Board of Directors

Eldad Fresher

Eldad Fresher
President & CEO

Approval date:
Ramat Gan
May 31, 2020

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2020 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[(1)] and to the Bank's internal controls over financial reporting[(1)] as well as:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair 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 controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Eldad Fresher
President & CEO

May 31, 2020

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2020 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[(1)] and to the Bank's internal controls over financial reporting[(1)] as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair 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 controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv
Vice-president,
Chief Accountant

May 31, 2020

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Deloitte.

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Limited

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof ("the Bank"), consisting of the condensed consolidated interim balance sheet as of March 31, 2020, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.23% of total consolidated assets as of March 31, 2020, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 9.26% of total consolidated net interest revenues before expenses with respect to credit losses for the three-month period then ended. The condensed financial information for the interim period of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard (Israel) no. 2410 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial information has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to Note 10.B.3 with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, May 31, 2020

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Mizrahi-Tefahot Bank

Condensed Financial Statements as of March 31, 2020

Table of Contents

Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended March 31, 2020	2019	For the year ended December 31, 2019
		(unaudited)	(unaudited)	(audited)
Interest revenues	2	1,686	1,686	7,711
Interest expenses	2	339	455	2,371
Interest revenues, net		1,347	1,231	5,340
Expenses with respect to credit losses	6,13	345	76	364
Interest revenues, net after expenses with respect to credit losses		**1,002**	**1,155**	**4,976**
Non-interest revenues				
Non-interest financing revenues	3	64	57	357
Commissions		424	383	1,535
Other revenues		105	26	74
Total non-interest revenues		**593**	**466**	**1,966**
Operating and other expenses				
Payroll and associated expenses		644	636	2,562
Maintenance and depreciation of buildings and equipment		205	191	770
Other expenses		168	159	656
Total operating and other expenses		**1,017**	**986**	**3,988**
Pre-tax profit		578	635	2,954
Provision for taxes on profit		200	213	1,029
After-tax profit		**378**	**422**	**1,925**
Share of profits of associated companies, after tax effect		–	–	–
Net profit:				
Before attribution to non-controlling interests		378	422	1,925
Attributable to non-controlling interests		(21)	(18)	(83)
Attributable to shareholders of the Bank		**357**	**404**	**1,842**

The accompanying notes are an integral part of the financial statements.

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, May 31, 2020

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019
		(unaudited)	(audited)
Earnings per share[1] (in NIS)			
Basic earnings			
Net profit attributable to shareholders of the Bank	1.52	1.73	7.86
Weighted average number of ordinary shares used to calculate basic earnings (thousand of shares)	234,996	233,566	234,268
Diluted earnings			
Net profit attributable to shareholders of the Bank	1.51	1.72	7.83
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	236,079	234,555	235,124

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended March 31, 2020	2019	For the year ended December 31, 2019
		(unaudited)		(audited)
Net profit:				
Before attribution to non-controlling interests		378	422	1,925
Attributable to non-controlling interests		(21)	(18)	(83)
Net profit attributable to shareholders of the Bank		**357**	**404**	**1,842**
Other comprehensive income (loss) before taxes	4			
Adjustments for presentation of available-for-sale securities at fair value, net		(90)	91	144
Adjustments from translation of financial statements of investments in associated companies[1]		–	–	–
Net gains (losses) with respect to cash flows hedging		32	(1)	6
Adjustments of liabilities with respect to employees' benefits[2]		234	(40)	(152)
Total other comprehensive income (loss), before tax		**176**	**50**	**(2)**
Related tax effect		(60)	(17)	1
Other comprehensive income (loss) after taxes[3]				
Other comprehensive income (loss), before attribution to non-controlling interests		116	33	(1)
Less other comprehensive income (loss) attributed to non-controlling interests		10	(3)	(15)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**106**	**36**	**14**
Comprehensive income:				
Before attribution to non-controlling interests		494	455	1,924
Attributable to non-controlling interests		(31)	(15)	(68)
Comprehensive income attributable to shareholders of the Bank		**463**	**440**	**1,856**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(3) For more information see Note 4 to the financial statements – Cumulative Other Comprehensive Income (Loss).

The accompanying notes are an integral part of the financial statements.

Condensed consolidated balance sheets

Reported amounts (NIS in millions)

		As of March 31,		As of December 31,
		2020	2019	2019
	Note	(unaudited)		(audited)
Assets				
Cash and deposits with banks		56,385	48,396	51,672
Securities(1)(2)	5	8,709	9,130	10,113
Securities loaned or purchased in resale agreements		36	42	120
Loans to the public	6,13	212,163	197,857	206,401
Provision for credit losses	6,13	(1,933)	(1,586)	(1,693)
Loans to the public, net	6,13	210,230	196,271	204,708
Loans to Governments		831	640	656
Investments in associated companies		30	32	32
Buildings and equipment		1,437	1,387	1,457
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	11	4,369	2,341	2,578
Other assets		2,617	1,685	1,821
Total assets		**284,731**	**260,011**	**273,244**
Liabilities and Equity				
Deposits from the public	7	223,189	204,777	210,984
Deposits from banks		924	619	714
Deposits from the Government		69	43	29
Debentures and subordinated notes		30,237	27,721	33,460
Liabilities with respect to derivatives	11	4,181	2,527	2,686
Other liabilities (3)		8,957	8,479	8,566
Total liabilities		**267,557**	**244,166**	**256,439**
Shareholders' equity attributable to shareholders of the Bank		16,371	15,121	16,033
Non-controlling interests		803	724	772
Total equity		**17,174**	**15,845**	**16,805**
Total liabilities and equity		**284,731**	**260,011**	**273,244**

(1) Of which: NIS 5,036 million at fair value on consolidated basis (March 31, 2019 – NIS 5,834 million; December 31, 2019 – NIS 6,032 million).
(2) For more information with regard to securities pledged or provided as collateral to lenders, see Note 5 to the financial statements.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 132 million (on March 31, 2019 – NIS 96 million, on December 31, 2019 – NIS 119 million).

The accompanying notes are an integral part of the financial statements.

Condensed Statements of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[2]	Retained earnings[3]	Total shareholder equity	Non-controlling interest	Total equity
	For the three months ended March 31, 2020 (unaudited)							
Balance as of December 31, 2019	2,232	70	2,302	(332)	14,063	16,033	772	16,805
Cumulative effect of initial application of US GAAP[4]	–	–	–	–	51	51	–	51
Adjusted balance as of January 1, 2020 after initial application	2,232	70	2,302	(332)	14,114	16,084	772	16,856
Net profit for the period	–	–	–	–	357	357	21	378
Dividends paid[5]	–	–	–	–	(176)	(176)	–	(176)
Realization of share-based payment transactions[6]	3	(3)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	106	–	106	10	116
Balance as of March 31, 2020	**2,235**	**67**	**2,302**	**(226)**	**14,295**	**16,371**	**803**	**17,174**
	For the three months ended March 31, 2019 (unaudited)							
Balance as of December 31, 2018	2,197	48	2,245	(346)	12,782	14,681	709	15,390
Net profit for the period	–	–	–	–	404	404	18	422
Realization of share-based payment transactions[6]	9	(9)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	36	–	36	(3)	33
Balance as of March 31, 2019	**2,206**	**39**	**2,245**	**(310)**	**13,186**	**15,121**	**724**	**15,845**
	For the year ended December 31, 2019 (audited)							
Balance as of December 31, 2018	2,197	48	2,245	(346)	12,782	14,681	709	15,390
Net profit for the period	–	–	–	–	1,842	1,842	83	1,925
Dividends paid	–	–	–	–	(561)	(561)	–	(561)
Benefit from share-based payment transactions	–	57	57	–	–	57	–	57
Realization of share-based payment transactions[6]	35	(35)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	14	–	14	(15)	(1)
Balance as of December 31, 2019	**2,232**	**70**	**2,302**	**(332)**	**14,063**	**16,033**	**772**	**16,805**

(1) Share premium generated prior to March 31, 1986.
(2) For details see Note 4 – Cumulative Other Comprehensive Income.
(3) For more information about various limitations on distributions of dividends, see Note 24 to the 2019 financial statements.
(4) Cumulative effect of initial application of generally accepted accounting principles for banks in the USA with regard to leases (ASU-2016-02) and updates there to. See also Note 1.C.1.
(5) On March 11, 2020, the Bank paid dividends amounting to NIS 176 million, in conformity with a decision by the Bank Board of Directors.
(6) In the first quarter of 2020, 98,503 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan. In the first quarter of 2019, 445,337 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan. In 2019, the Bank issued 1,472,307 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 85,880 ordinary shares of NIS 0.1 par value each.

The accompanying notes are an integral part of the financial statements.

Condensed statements of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019
		(unaudited)	(audited)
Cash flows provided by current operations			
Net profit	378	422	1,925
Adjustments			
Depreciation of buildings and equipment (including impairment)	67	62	245
Expenses with respect to credit losses	345	76	364
Gain from sale of securities available for sale	(38)	(9)	(35)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(20)	(3)	(11)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	14	(1)	(47)
Gain from sale of buildings and equipment	(13)	(16)	(26)
Impairment of shares not held for trading	–	1	6
Expenses arising from share-based payment transactions	–	–	57
Deferred taxes, net	(55)	56	79
Change in employees' provisions and liabilities	6	2	57
Adjustments with respect to exchange rate differentials	(108)	96	232
Accrual differences included with investment and financing operations	(58)	218	566
Net change in current assets			
Assets with respect to derivatives	(1,759)	898	668
Securities held for trading	(1)	(220)	(469)
Other assets, net	(779)	105	(67)
Net change in current liabilities			
Liabilities with respect to derivatives	1,495	(1,134)	(975)
Other liabilities	649	380	274
Net cash provided by current operations	**123**	**933**	**2,843**

The accompanying notes are an integral part of the financial statements.

Condensed statements of cash flows – Continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019
		(unaudited)	(audited)
Cash flows provided by investment activities			
Net change in deposits with banks	884	535	(1,643)
Net change in loans to the public	(5,566)	(2,246)	(10,480)
Net change in loans to Governments	(175)	(10)	12
Net change in securities loaned or acquired in resale agreements	84	(16)	(94)
Acquisition of debentures held to maturity	(517)	–	(1,662)
Proceeds from redemption of securities held to maturity	829	623	1,452
Acquisition of securities available for sale	(800)	(447)	(5,517)
Proceeds from sale of securities available for sale	1,873	662	3,517
Proceeds from redemption of securities available for sale	–	1,135	3,265
Proceeds from sale of loan portfolios	–	535	577
Purchase of loan portfolios – public	(301)	(291)	(782)
Purchase of loan portfolios – Government	–	–	(38)
Acquisition of buildings and equipment	(59)	(35)	(300)
Proceeds from sale of buildings and equipment	22	21	57
Proceeds from realized investment in associated companies	2	–	–
Net cash provided by investment activities	**(3,724)**	**466**	**(11,636)**
Cash flows provided by financing activities			
Net change in deposits from the public	12,205	5,285	11,492
Net change in deposits from banks	210	(6)	89
Net change in deposits from Government	40	1	(13)
Issuance of debentures and subordinated notes	–	–	6,634
Redemption of debentures and subordinated notes	(3,189)	(2,814)	(3,744)
Dividends paid to shareholders	(176)	–	(561)
Dividends paid to external shareholders in subsidiaries	–	–	(5)
Net cash provided by financing activities	**9,090**	**2,466**	**13,892**
Increase in cash	5,489	3,865	5,099
Cash balance at beginning of the period	49,448	44,581	44,581
Effect of changes in exchange rate on cash balances	108	(96)	(232)
Cash balance at end of the period	**55,045**	**48,350**	**49,448**
Interest and taxes paid / received			
Interest received	2,214	2,245	6,872
Interest paid	521	498	2,369
Dividends received	2	16	17
Income taxes received	49	151	178
Income taxes paid	279	234	1,135
Appendix A – Non-cash Transactions			
Acquisition of buildings and equipment	1	36	–
Sales of buildings and equipment	(1)	5	5

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On May 31, 2020, the Bank Board of Directors authorized publication of these condensed financial statements as of March 31, 2020.

The condensed financial statements are prepared in accordance with Israeli GAAP for financial reporting for interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2019.

As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices of US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices of US banks.
In accordance with directives of the Supervisor of Banks, the condensed financial statements are issued on a consolidated basis only.
The Group accounting policies in these condensed consolidated quarterly financial statements are consistent with the policies applied in the annual financial statements, except as noted below.

B. Use of estimates

As stated in Note 1.D.6)D. In the 2019 financial statements, the group-based provision for credit losses for 2019 was based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 9 years ended on December 31, 2019, in conformity with directives of the Supervisor of Banks. In conformity with instructions of the Supervisor of Banks, the range of years continues to grow, pending new instructions. Consequently, the range of years was increased to 10 years in 2020.

C. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2020 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases;
2. Updated standard 2017-04 in the codification with regard to impairment of goodwill;
3. Supervisory highlights regarding the accounting treatment of debt and public reporting in view of the Corona Virus crisis.

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

1. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases

On July 1, 2018, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with US GAAP regarding leases. This circular adopts generally accepted accounting principles for banks in the USA with regard to leases, including the presentation, measurement and disclosure rules specified in topic 842 of the codification regarding leases.

Highlights of the changes to accounting treatment on the financial statements due to application of the circular include the following: Lease of assets for terms longer than 12 months would be recognized on the balance sheet, even if the lease is classified as an operational lease; for operational lease transactions, an asset would be recognized on the balance sheet, reflecting the corporation's right to use the leased asset ("right-to-use asset") against recognition of a liability to make lease payments, whose amount equals the present value of future lease payments; transactions where a banking corporation sells and leases back an asset may, in certain cases, be deemed sale transactions for accounting purposes, subject to fulfillment of certain conditions listed in topic 842 of the codification; with regard to capital adequacy, risk assets with respect to leases recognized on the balance sheet would be weighted at 100% with regard to the minimum capital adequacy ratio.

Note 1 – Reporting Principles and Accounting Policies – continued

The new provisions are applied as from January 1, 2020 by way of adjusted retroactive application, with the cumulative effect charged to retained earnings upon the initial application date with no re-statement of comparative figures.
As allowed by transitional provisions of the standard, the Bank has elected to apply the following transitional relief measures:
- Preserve estimates with regard to identification of the existence of a lease and its classification as an operational or financial lease, with respect to all agreements in place as of the initial application date, and to preserve the assessment of qualification for capitalization of initial direct costs, which have been determined prior to the initial application date, in conformity with the provisions of the current standard.
- Use of hindsight to determine the lease term for leases that include optional extension or termination and to assess impairment of right-to-use assets.

Application of the new provisions resulted in an increase by NIS 591 million in Other Assets and in an identical increase in Other Liabilities with respect to leases as of January 1, 2020, and in an increase by NIS 51 million in Retained Earnings as of January 1, 2020, due to the cumulative effect of recognition of deferred gain from sale and lease-back transactions. Application of these provisions has no material impact on the Bank's statement of profit and loss.
Application of the new provisions had no material effect on capital adequacy ratios and on the leverage ratio of the Bank.

2. Updated standard 2017-04 in the codification with regard to impairment of goodwill

In January 2017, FASB issued an update regarding simplified accounting treatment of impairment of goodwill, which amends provisions of Topic 350 of the codification regarding "Intangible assets – goodwill and others" (hereinafter: "the Amendment").
In conformity with the Amendment, *inter alia*, the requirement to apply the two-stage test for review of impairment of goodwill was eliminated. Thus, calculation of the implied fair value of goodwill is no longer required, but rather a one-stage test should be applied for each reporting unit, whereby impairment of goodwill is to be recognized as the amount of the difference between the fair value of the reported unit and its carrying amount, taking into account the effect of taxes on income. However, the impairment loss may not exceed the goodwill allocated to the reporting unit.
The new provisions were applied as from January 1, 2020 by way of prospective application.
Application of these directives had no material impact on the financial statements.

3. Supervisory highlights regarding the accounting treatment of debt and public reporting in view of the Corona Virus crisis

On April 21, 2020, the Bank of Israel issued a letter regarding "Corona Virus crisis – supervisory highlights regarding the accounting treatment of debts and public reporting".
In view of the Corona Virus crisis, the Supervisor of Banks adopted directives and relief measures provided by US supervisory authorities. Several directives were included with regard to treatment, including the following:
In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should review all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provision for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.

a. In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should review all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provision for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.
b. As for treatment of debts with changes made to terms and conditions, it was decided that debt should not be classified under restructuring of problematic debt when short-term changes are made to payments due to the Corona Virus crisis, to borrowers who were not previously in arrears.
c. As for determination of the state of arrears, debt which previously were not in arrears of up to 30 days and for which such delay was granted, would not be deemed loans in arrears during the period of such delay. Moreover, in case of such delay in payments for debt that was in arrears prior to such delay, the state of arrears should be frozen during the delay in payment (unless such debt was classified as impaired, or was subject to accounting write-off).
d. During the period of such short-term arrangements, these loans would generally not be reported as non-accruing impaired loans. Should new information be gathered pointing to a decrease in likelihood of repayment of any specific loan, or non-payment of any specific loan, the Bank should act in conformity with Public Reporting Directives on this matter.

Note 1 – Reporting Principles and Accounting Policies – continued

e. As for housing loans where a minimum provision should be calculated by extent of arrears, such short-term delay of principal or interest payments for a loan that did not constitute problematic debt prior to such delay, generally should not be classified as debt under restructuring.
f. Housing loans extended during the crisis would not be subject to additional capital requirement of 1% of the outstanding balance of housing loans.

The Bank applies the relief measures provided in the circular, and their effect is included in the financial statements as of March 31, 2020.

D. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Adoption of updates to US GAAP with regard to provision for credit losses ASU 2016-13	March 2018	January 1, 2022	Supervisor of Banks	Provision for credit losses is to be calculated in conformity with the expected loss over the credit term. This is *in lieu* of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including housing loans), debentures held to maturity and certain off-balance sheet credit exposures. Moreover, in April 2019, the US Financial Accounting Standards Board ("FASB") published a comment with regard to accounting treatment of recoveries and extension options for measuring expected credit losses ASU 2019-04.	The Bank is reviewing the effect of the revisions on its financial statements.
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Elimination of the required presentation of estimated amounts under Other Comprehensive Income expected to be deducted from cumulative Other Comprehensive Income to the Statement of Profit and Loss as an expense in the following year; Elimination of the required presentation of future annual benefit amounts covered by insurance contracts and significant transactions between the entity or related parties and the plan; details to be provided of reasons for material gain or loss associated with change in liability with respect to defined benefit in the period; Clarification of disclosure requirements for entities with two or more plans.	No effect on the financial statements, other than change to presentation in the Note on employees' rights.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	January 2019	January 1, 2022	Supervisor of Banks	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale debentures as part of fair value adjustment of such debentures, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2021.	No material effect is expected.

Note 1 – Reporting Principles and Accounting Policies – continued

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Simplified accounting treatment of taxes on income ASU 2019-12	December 2019	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Highlights of revised topics: Allocation of income tax expenses or benefits to continued operations, discontinued operations, other comprehensive income and items recognized directly in equity; recognition of deferred tax liabilities with respect to temporary differences in tax liabilities with respect to investment in foreign associate; calculation of tax revenues with respect to accrued losses on interim financial statements; recognition of the effect of changes in tax legislation or in tax rates on interim financial statements; assessment of increase in tax base for goodwill to determine whether it would be accounted for as part of a business combination or as a separate transaction.	No material effect is expected.
Discontinued use of LIBOR	July 2017	Gradually through December 31, 2021	FCA (the Financial Conduct Authority in the UK) and the SEC (U.S. Securities and Exchange Commission)	A decision has been made to gradually discontinue use of LIBOR. Further to this decision, diverse teams have been set up around the world, in order to determine alternative interest rate benchmarks.	Wide-ranging implications are expected for the Bank, including economic, operating and accounting implications, that would require review of terms and effectiveness of accounting hedges, review of the treatment of revised debt agreements and review of the impact on discount rates and on setting the fair value ranking. The Bank has started preparing for this change. However, at this stage and due to absence of directives with regard to implementation of the transition, it is impossible to assess the impact on the Bank due to the discontinued use of LIBOR.
Updated standard regarding relief measures with respect to relief due to the impact of interest rate benchmark reform on financial reporting ASU 2020-04	March 2020	May be applied as from the financial statements for the first quarter of 2020, subject to specific scope provisions stated in the standard	US Financial Accounting Standards Board ("FASB")	In conformity with the interest rate benchmark reform, inter-bank interest rates (IBOR rates) would be discontinued and replaced by alternative interest rate benchmarks that may be observed or that are based on actual transactions, thus less sensitive to manipulation. The update stipulates, *inter alia*, the treatment of - Contract modifications - Hedge accounting - Debentures held to maturity	The Bank is reviewing the effect of the revisions on its financial statements.

Note 2 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2020	**2019**	**2019**
	(unaudited)		**(audited)**
A. Interest revenues[(1)]			
From loans to the public	1,601	1,575	7,293
From loans to Governments	7	9	33
From deposits with the Bank of Israel and from cash	44	58	203
From deposits with banks	1	6	16
From securities loaned or acquired in resale agreements[(2)]	–	–	–
From debentures	33	38	166
Total interest revenues	**1,686**	**1,686**	**7,711**
B. Interest expenses			
On deposits from the public	312	381	1,787
On deposits from governments	–	–	1
On deposits from banks	2	2	8
On debentures and subordinated notes	25	71	573
On other liabilities	–	1	2
Total interest expenses	**339**	**455**	**2,371**
Total interest revenues, net	**1,347**	**1,231**	**5,340**
C. Details of net effect of hedging financial derivatives on interest revenues[(3)]	21	(5)	22
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	6	9	35
Available for sale	25	28	130
Held for trading	2	1	1
Total included under interest revenues	**33**	**38**	**166**

(1) Includes the effective element in the hedging ratios.
(2) Balance lower than NIS 0.5 million.
(3) Details of effect of hedging derivatives on interest revenues, net

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2020	**2019**	**2019**
		(unaudited)	**(audited)**
A. Non-interest financing revenues (expenses) with respect to non-trading purposes			
1. From activity in derivatives			
Net revenues (expenses) with respect to ALM derivatives[1]	782	(432)	(1,151)
Total from activity in derivatives	**782**	**(432)**	**(1,151)**
2. From investment in debentures			
Gains from sale of debentures available for sale[2]	38	9	35
Total from investment in debentures	**38**	**9**	**35**
3. Exchange rate differences, net	**(798)**	**397**	**1,267**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	–	1	2
Provision for impairment of shares not held for trading	–	(1)	(6)
Dividends from shares not held for trading	2	16	17
Unrealized gains (losses)[4]	(14)	–	45
Total from investment in shares	**(12)**	**16**	**58**
5. Net gains with respect to loans sold	**–**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**10**	**(10)**	**209**
B. Non-interest financing revenues (expenses) with respect to trading operations[3]			
Net revenues (expenses) with respect to other derivatives	34	64	137
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	–	2	13
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	20	1	(2)
Total from trading operations[5]	**54**	**67**	**148**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	117	19	59
Foreign currency exposure	(63)	45	92
Exposure to shares	–	3	(3)
Exposure to commodities and others	–	–	–
Total	**54**	**67**	**148**

(1) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(2) Reclassified from Cumulative Other Comprehensive Income.
(3) Includes exchange rate differentials resulting from trading operations.
(4) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.
(5) For interest revenues from investments in debentures held for trading, see Note 2.D.

Note 4 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

a. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale securities at fair value	Translation adjustments[1]	Net gains (losses) from cash flow hedges	Adjustments with respect to employee benefits[2]	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income (loss) attributable to shareholders of the Bank
	For the three months ended March 31, 2020						
	(unaudited)						
Balance as of December 31, 2019	36	(1)	8	(408)	(365)	(33)	(332)
Net change in the period	(59)	–	21	154	116	10	106
Balance as of March 31, 2020	**(23)**	**(1)**	**29**	**(254)**	**(249)**	**(23)**	**(226)**
	For the three months ended March 31, 2019						
	(unaudited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	60	–	(1)	(26)	33	(3)	36
Balance as of March 31, 2019	**2**	**(1)**	**3**	**(335)**	**(331)**	**(21)**	**(310)**
	For the year ended December 31, 2019						
	(audited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	94	–	4	(99)	(1)	(15)	14
Balance as of December 31, 2019	**36**	**(1)**	**8**	**(408)**	**(365)**	**(33)**	**(332)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

b. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the three months ended March 31,						For the year ended December 31,		
	2020			2019			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(unaudited)						(audited)		
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale securities at fair value									
Net unrealized gains (losses) from adjustments to fair value	(52)	18	(34)	100	(34)	66	179	(62)	117
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(1)]	(38)	13	(25)	(9)	3	(6)	(35)	12	(23)
Net change in the period	**(90)**	**31**	**(59)**	**91**	**(31)**	**60**	**144**	**(50)**	**94**
Translation adjustments									
Adjustments from translation of financial statements[(2)]	–	–	–	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges									
Net losses from cash flow hedges	32	(11)	21	(1)	–	(1)	6	(2)	4
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[(3)]	–	–	–	–	–	–	–	–	–
Net change in the period	**32**	**(11)**	**21**	**(1)**	**–**	**(1)**	**6**	**(2)**	**4**
Employees' benefits									
Net actuarial gain (loss) for the period[(4)]	224	(77)	147	(50)	17	(33)	(188)	65	(123)
Net losses reclassified to the statement of profit and loss	10	(3)	7	10	(3)	7	36	(12)	24
Net change in the period	**234**	**(80)**	**154**	**(40)**	**14**	**(26)**	**(152)**	**53**	**(99)**
Total net change in the period	**176**	**(60)**	**116**	**50**	**(17)**	**33**	**(2)**	**1**	**(1)**
Total net change in the period attributable to non-controlling interests	**15**	**(5)**	**10**	**(4)**	**1**	**(3)**	**(24)**	**9**	**(15)**
Total net change in the period attributable to shareholders of the Bank	**161**	**(55)**	**106**	**54**	**(18)**	**36**	**22**	**(8)**	**14**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(3) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 3.A.1.
(4) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 5 – Securities

March 31, 2020 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,459	3,459	34	(5)	3,488
Of financial institutions in Israel	138	138	2	–	140
Of others in Israel	26	26	–	–	26
Total debentures held to maturity	**3,623**	**3,623**	**36**	**(5)**	**3,654**

	Carrying amount	Amortized cost	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Debentures available for sale					
Of the Government of Israel[2]	3,370	3,398	23	(51)	3,370
Of foreign governments [2][3]	678	684	–	(6)	678
Of foreign financial institutions	112	114	–	(2)	112
Total debentures available for sale	**4,160**	**4,196**	**[4]23**	**[4](59)**	**4,160**

	Carrying amount	Cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Investment in shares not held for trading	**137**	**105**	**[5]32**	**–**	**137**
Of which: Shares for which no fair value is available[6]	50	50	–	–	50
Total securities not held for trading	**7,920**	**7,923**	**92**	**(64)**	**7,951**

	Carrying amount	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(4) Debentures held for trading					
of Government of Israel	789	794	–	(5)	789
Total debentures held for trading	**789**	**794**	**–**	**[5](5)**	**789**
Total securities	**8,709**	**8,717**	**92**	**(69)**	**8,740**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 673 million and securities provided as collateral to lenders, amounting to NIS 40 million.
(3) US government debentures.
(4) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:
– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

March 31, 2019 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
(1) Debentures held to maturity					
of Government of Israel	3,206	3,206	37	–	3,243
Total debentures held to maturity	**3,206**	**3,206**	**37**	**–**	**3,243**
	Carrying amount	**Amortized cost**	**Cumulative other comprehensive income – Gains**	**Cumulative other comprehensive income – Losses**	**Fair value(1)**
(2) Debentures available for sale					
Of the Government of Israel(2)	2,996	2,970	29	(3)	2,996
Of foreign governments (2)(3)	1,838	1,862	5	(29)	1,838
Of foreign financial institutions(4)	470	470	1	(1)	470
Total debentures available for sale	**5,304**	**5,302**	**(5)35**	**(5)(33)**	**5,304**
	Carrying amount	**Cost**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value(1)**
(3) Investment in shares not held for trading	**109**	**109**	**–**	**–**	**109**
Of which: Shares for which no fair value is available(7)	90	90	–	–	90
Total securities not held for trading	**8,619**	**8,617**	**72**	**(33)**	**8,656**
	Carrying amount	**Amortized cost**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value(1)**
(4) Debentures held for trading					
of Government of Israel	511	508	3	–	511
Total debentures held for trading	**511**	**508**	**(6)3**	**–**	**511**
Total securities	**9,130**	**9,125**	**75**	**(33)**	**9,167**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 522 million and securities provided as collateral to lenders, amounting to NIS 236 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(6) Charged to statement of profit and loss but not yet realized.
(7) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

As of December 31, 2019 (audited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	4,032	4,032	61	–	4,093
Total debentures held to maturity	**4,032**	**4,032**	**61**	**–**	**4,093**

	Carrying amount	Amortized cost	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Debentures available for sale					
Of the Government of Israel[2]	3,362	3,308	55	(1)	3,362
Of foreign governments [2][3]	1,440	1,442	1	(3)	1,440
Of foreign financial institutions[4]	362	359	3	–	362
Total debentures available for sale	**5,164**	**5,109**	**[5]59**	**[5](4)**	**5,164**

	Carrying amount	Cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Investment in shares not held for trading	**149**	**104**	**[6]45**	**–**	**149**
Of which: Shares for which no fair value is available[7]	49	49	–	–	49
Total securities not held for trading	**9,345**	**9,245**	**165**	**(4)**	**9,406**

	Carrying amount	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(4) Debentures held for trading					
of Government of Israel	427	427	–	–	427
Of foreign governments [3][8]	341	343	–	(2)	341
Total debentures held for trading	**768**	**770**	**–**	**[6](2)**	**768**
Total securities	**10,113**	**10,015**	**165**	**(6)**	**10,174**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 502 million and securities provided as collateral to lenders, amounting to NIS 35 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(6) Charged to statement of profit and loss but not yet realized.
(7) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.
(8) Securities classified as held for trading, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Directives, even though they had not been acquired for trade.

Remarks:
– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.
– The distinction between Israeli and foreign debentures was made in conformity with the country of entity which issued the securities.

Note 5 – Securities – Continued

Reported amounts (NIS in millions):

(5) Fair value and unrealized losses, by time period and impairment rate, of debentures available for sale and held to maturity, which include unrealized loss:

	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 20%-0%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 20%-0%	Unrealized losses 20%-40%	Total
	As of March 31, 2020 (unaudited)							
Debentures held to maturity								
of Government of Israel	[5]769	5	–	5	–	–	–	–
Total – debentures held to maturity	**769**	**5**	**–**	**5**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	1,889	49	–	49	10	2	–	2
Of foreign governments[2]	–	–	–	–	360	6	–	6
Of foreign financial institutions	112	2	–	2	–	–	–	–
Total debentures available for sale	**2,001**	**51**	**–**	**51**	**370**	**8**	**–**	**8**
	As of March 31, 2019 (unaudited)							
Debentures available for sale								
of Government of Israel	358	2	–	2	322	1	–	1
Of foreign governments[2]	–	–	–	–	1,324	29	–	29
Of foreign financial institutions[3]	–	–	–	–	181	1	–	1
Total debentures available for sale	**358**	**2**	**–**	**2**	**1,827**	**31**	**–**	**31**
	As of December 31, 2019 (audited)							
Debentures available for sale								
of Government of Israel	124	[4]–	–	–	10	1	–	1
Of foreign governments[2]	14	[4]–	–	–	979	3	–	3
Total debentures available for sale	**138**	**–**	**–**	**–**	**989**	**4**	**–**	**4**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) US government debentures.
(3) Includes exposure to Multi-party Development Banks (MDB).
(4) Balance lower than NIS 1 million,
(5) Amortized cost.

(6) Asset-backed and mortgage-backed securities

As of March 31, 2020, March 31, 2019 and December 31, 2019, there was no balance of asset-backed or mortgage-backed securities.

Note 6 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

a. Debts[1], loans to the public and balance of provision for credit losses

	March 31, 2020 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	44,834	70	652	45,556	12,945	58,501
reviewed on group basis	9,022	138,126	19,459	166,607	–	166,607
Of which: By extent of arrears	1,913	138,126	–	140,039	–	140,039
Total debts	**53,856**	**[2]138,196**	**20,111**	**212,163**	**12,945**	**225,108**
Of which:						
Impaired debts under restructuring	312	–	65	377	–	377
Other impaired debts	917	70	22	1,009	–	1,009
Total impaired debts	**1,229**	**70**	**87**	**1,386**	**–**	**1,386**
Debts in arrears 90 days or longer	36	1,546	27	1,609	–	1,609
Other problematic debts	987	–	126	1,113	–	1,113
Total problematic debts	**2,252**	**1,616**	**240**	**4,108**	**–**	**4,108**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	804	2	26	832	3	835
reviewed on group basis	118	729	254	1,101	–	1,101
Of which: Provision by extent of arrears[3]	7	729	–	736	–	736
Total provision for credit losses	**922**	**731**	**280**	**1,933**	**3**	**1,936**
Of which: With respect to impaired debts	**261**	**2**	**21**	**284**	**–**	**284**

	March 31, 2019 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	40,701	57	685	41,443	7,580	49,023
reviewed on group basis	8,826	128,241	19,347	156,414	–	156,414
Of which: By extent of arrears	1,725	128,241	–	129,966	–	129,966
Total debts	**49,527**	**[2]128,298**	**20,032**	**197,857**	**7,580**	**205,437**
Of which:						
Impaired debts under restructuring	302	–	63	365	–	365
Other impaired debts	627	57	21	705	–	705
Total impaired debts	**929**	**57**	**84**	**1,070**	**–**	**1,070**
Debts in arrears 90 days or longer	39	1,348	22	1,409	–	1,409
Other problematic debts	384	–	126	510	–	510
Total problematic debts	**1,352**	**1,405**	**232**	**2,989**	**–**	**2,989**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	565	2	29	596	2	598
reviewed on group basis	115	649	226	990	–	990
Of which: Provision by extent of arrears[3]	6	649	–	655	–	655
Total provision for credit losses	**680**	**651**	**255**	**1,586**	**2**	**1,588**
Of which: With respect to impaired debts	**137**	**2**	**21**	**160**	**–**	**160**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 7,937 million (as of March 31, 2019 – NIS 7,219 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 9 million (as of March 31, 2019 – NIS 18 million), and assessed on group basis, amounting to NIS 531 million (as of March 31, 2019 – NIS 450 million).

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

a. Debts(1), loans to the public and balance of provision for credit losses – Continued

	As of December 31, 2019 (audited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	41,317	56	729	42,102	7,916	50,018
reviewed on group basis	8,915	135,520	19,864	164,299	–	164,299
Of which: By extent of arrears	1,638	135,520	–	137,158	–	137,158
Total debts	**50,232**	**[2]135,576**	**20,593**	**206,401**	**7,916**	**214,317**
Of which:						
Impaired debts under restructuring	266	–	65	331	–	331
Other impaired debts	866	56	21	943	–	943
Total impaired debts	**1,132**	**56**	**86**	**1,274**	**–**	**1,274**
Debts in arrears 90 days or longer	37	1,476	24	1,537	–	1,537
Other problematic debts	744	–	121	865	–	865
Total problematic debts	**1,913**	**1,532**	**231**	**3,676**	**–**	**3,676**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	640	2	31	673	1	674
reviewed on group basis	115	672	233	1,020	–	1,020
Of which: Provision by extent of arrears[3]	6	672	–	678	–	678
Total provision for credit losses	**755**	**674**	**264**	**1,693**	**1**	**1,694**
Of which: With respect to impaired debts	**230**	**2**	**22**	**254**	**–**	**254**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 7,696 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 18 million, and calculated on group basis amounting to NIS 475 million. For more information see Note 6.D.1.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

b. Change in balance of provision for credit losses

	For the three months ended March 31, 2020 (unaudited)					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	239	65	39	343	2	345
Accounting write-offs[1]	(83)	(8)	(35)	(126)	–	(126)
Collection of debts written off for accounting purposes in previous years[1]	20	–	16	36	–	36
Net accounting write-offs	(63)	(8)	(19)	(90)	–	(90)
Balance of provision for credit losses at end of period	**1,041**	**731**	**293**	**2,065**	**3**	**2,068**
Of which: With respect to off balance sheet credit instruments	**119**	**–**	**13**	**132**	**–**	**132**

	For the three months ended March 31, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	43	8	27	78	(2)	76
Accounting write-offs[1]	(66)	(2)	(42)	(110)	–	(110)
Collection of debts written off for accounting purposes in previous years[1]	23	1	17	41	–	41
Net accounting write-offs	(43)	(1)	(25)	(69)	–	(69)
Balance of provision for credit losses at end of period	**766**	**651**	**265**	**1,682**	**2**	**1,684**
Of which: With respect to off balance sheet credit instruments	**86**	**–**	**10**	**96**	**–**	**96**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 7 – Deposits from the Public

Reported amounts (NIS in millions):

a. Deposit types by location and depositor type

	March 31,		December 31,
	2020	2019	2019
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	59,737	49,760	52,930
Interest-bearing	31,096	26,614	28,977
Total on-call	**90,833**	**76,374**	**81,907**
Term deposits	128,172	122,258	125,153
Total deposits in Israel(1)	**219,005**	**198,632**	**207,060**
Outside of Israel			
On-call			
Non interest-bearing	623	528	529
Interest-bearing	3	5	3
Total on-call	**626**	**533**	**532**
Term deposits	3,558	5,612	3,392
Total deposits overseas	**4,184**	**6,145**	**3,924**
Total deposits from the public	**223,189**	**204,777**	**210,984**
(1) Includes:			
Deposits from individuals	**110,458**	**97,555**	**100,915**
Deposits from institutional investors	**41,216**	**41,217**	**45,330**
Deposits from corporations and others	**67,331**	**59,860**	**60,815**

b. Deposits from the public by size

	March 31,		December 31,
	2020	2019	2019
		(unaudited)	(audited)
Maximum deposit (NIS in millions)			
Up to 1	76,545	71,887	72,152
Over 1 to 10	57,166	48,031	50,875
Over 10 to 100	31,803	27,424	29,582
Over 100 to 500	23,662	20,163	22,193
Above 500	34,013	37,272	36,182
Total	**223,189**	**204,777**	**210,984**

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Group employees and managers are determined by provisions of collective bargaining agreements. Pension liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2019.

2. Remuneration policy for Bank officers

   On December 18, 2019, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (hereinafter "Revised officer remuneration policy"). For more information see Note 22.A.3. to the 2019 financial statements.

3. Remuneration policy for all Bank employees other than officers

   In February 2020, the Bank Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a revised remuneration policy for 2020-2022 for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above. For more information see Note 22.A.5. to the 2019 financial statements.

4. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions):

	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019
	(unaudited)		(audited)
Under payroll and associated expenses			
Cost of service(1)	17	12	51
Under other expenses			
Cost of interest(2)	9	12	47
Expected return on plan assets(3)	(1)	(1)	(4)
Deduction of non-allowed amounts:			
Net actuarial loss(4)	10	10	36
Total under other expenses	18	21	79
Total benefit cost, net	**35**	**33**	**130**
Total expense with respect to defined-contribution pension	38	36	146
Total expenses recognized in profit and loss	**73**	**69**	**276**

	Forecast	Actual deposits		
	For(5)	For the three months ended March 31,		For the year ended December 31,
	2020	2020	2019	2019
		(unaudited)		(audited)
Deposits	5.1	1.5	1.6	6.4

(1) Cost of service is the current accrual of the future employee benefit in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated deposits to be paid into defined-benefit pension plans through end of 2020.

Note 9 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

a. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of March 31,		As of December 31,
	2020	**2019**	**2019**
		(unaudited)	**(audited)**
1. Consolidated data			
A. Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	16,718	15,618	16,520
Tier I capital	16,718	15,618	16,520
Tier II capital	5,803	5,042	6,090
Total capital	**22,521**	**20,660**	**22,610**
B. Weighted risk asset balances			
Credit risk	156,641	142,816	150,878
Market risks	1,843	1,790	1,791
Operational risk	10,517	9,709	10,189
Total weighted risk asset balances[(1)]	**169,001**	**154,315**	**162,858**
C. Ratio of capital to risk components			
		In %	
Ratio of Tier I capital to risk components	9.89	10.12	10.14
Ratio of Tier I capital to risk components	9.89	10.12	10.14
Ratio of total capital to risk components	13.33	13.39	13.88
Minimum Tier I capital ratio required by Supervisor of Banks[(2)]	8.82	9.83	9.83
Total minimum capital ratio required by the Supervisor of Banks[(2)]	12.32	13.33	13.33
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	9.54	9.46	9.51
Ratio of Tier I capital to risk components	9.54	9.46	9.51
Ratio of total capital to risk components	13.15	13.36	13.22
Minimum Tier I capital ratio required by Supervisor of Banks	8.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	11.50	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 65 million was deducted due to adjustments with respect to the streamlining plan (March 31, 2019: NIS 172 million; December 31, 2019: NIS 139 million).

(2) For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see section D. below.
An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date.

Note 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

a. Capital adequacy – Continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of March 31,		As of December 31,
	2020	**2019**	**2019**
		(unaudited)	**(audited)**
3. Capital components for calculating the capital ratio (on consolidated data)			
A. Tier I shareholders' equity			
Shareholders' equity	17,174	15,845	16,805
Differences between shareholders' equity and Tier I capital	(392)	(294)	(315)
Total Tier I capital before supervisory adjustments and deductions	**16,782**	**15,551**	**16,490**
Supervisory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Supervisory adjustments and other deductions	(42)	(7)	(14)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	**(129)**	**(94)**	**(101)**
Total adjustments with respect to the streamlining program[(1)]	65	161	131
Total Tier I capital after supervisory adjustments and deductions	**16,718**	**15,618**	**16,520**
B. Tier II capital			
Tier II capital: Instruments, before deductions	4,032	3,526	4,544
Tier II capital: Provisions, before deductions	1,771	1,516	1,546
Total Tier II capital, before deductions	**5,803**	**5,042**	**6,090**
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	**5,803**	**5,042**	**6,090**
Total capital	**22,521**	**20,660**	**22,610**

4. Effect of transitional provisions on Tier I capital ratio:

	As of March 31,		As of December 31,
	2020	**2019**	**2019**
			In %
Ratio of capital to risk components			
Ratio of Tier I capital to risk components, before effect of transitional provision of Directive 299 and before effect of adjustments with respect to the streamlining plan[(2)]	9.84	10.00	10.05
Effect of adjustments with respect to the streamlining plan	0.05	0.12	0.09
Ratio of Tier I capital to risk components after application of transitional provisions	9.89	10.12	10.14

(1) Of which, NIS 57 million with respect to streamlining program concerning employees and NIS 8 million with respect to streamlining program concerning real estate (on March 31, 2019: NIS 118 million with respect to streamlining program concerning employees and NIS 43 million with respect to streamlining program concerning real estate; on December 31, 2019: NIS 102 million with respect to streamlining program concerning employees and NIS 29 million with respect to streamlining program concerning real estate).

(2) Before effect of transitional provisions concerning adoption of US GAAP with regard to employees' rights.

Note 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

b. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of March 31, 2020	As of March 31, 2019	As of December 31, 2019
	(unaudited)	(unaudited)	(audited)
	In %		
1. Consolidated data			
Liquidity coverage ratio[1]	117	120	121
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio[1]	118	120	122
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio[1]	206	206	208
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

(1) In terms of simple average of daily observations during the reported quarter.

C. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of March 31, 2020	As of March 31, 2019	As of December 31, 2019
	(unaudited)	(unaudited)	(audited)
1. Consolidated data			
Tier I capital[1]	16,718	15,618	16,520
Total exposure	309,863	281,693	297,779
	In %		
Leverage ratio	5.40	5.54	5.55
Minimum leverage ratio required by the Supervisor of Banks[2]	5.00	5.00	5.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.16	5.41	5.56
Minimum leverage ratio required by the Supervisor of Banks[2]	4.70	4.70	4.70

(1) For effect of transitional provisions and effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

D. On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect. Consequently, the Bank's ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of March 31, 2020, would be at least 8.82% (with additional safety margins as appropriate), and the total capital ratio would be at least 12.32%.

E. On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of housing loans would not apply to housing loans to be provided during this crisis period.

F. The Bank applies the capital adequacy directives based on the Basel directives, as issued by the Supervisor of Banks in Proper Conduct of Banking Business Directives 201-211 and in the Q&A file.

For more information about the Supervisor of Banks' directives regarding capital adequacy, see Note 25 to the 2019 financial statements.

Note 10 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

	March 31, 2020	March 31, 2019	December 31, 2019
	(unaudited)		(audited)
1. Computerization and software service contracts	396	355	366
2. Acquisition and renovation of buildings	27	16	17
3. Long-term rental and lease contracts – rent for buildings, equipment and vehicles[(1)(2)(3)]:			
First year	203	186	208
Second year	200	196	197
Third year	190	188	187
Fourth year	183	179	182
Fifth year	176	175	174
Sixth year and thereafter	1,551	1,612	1,510
Total rent for buildings and equipment	**2,503**	**2,536**	**2,458**

4. Credit sales operations

The following table provides a summary of credit sales operations at the Bank:

	For the three months ended March 31, 2020	For the three months ended March 31, 2019	For the year ended December 31, 2019
	(unaudited)		(audited)
Carrying amount of credit sold	–	571	571
Consideration received in cash	–	535	577
Consideration received in securities	–	–	–
Total consideration	–	577	577
Total net gain with respect to credit sold	–	–	–

(1) The Bank and subsidiaries have rented buildings and equipment for the long term for which the rental payments are subject to linkage conditions.

(2) Includes IT and operating services provided to Bank Yahav by the international Tata Group company as from January 1, 2017. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Bank Yahav also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

Bank Yahav's contract with the company is a long-term one and Bank Yahav may optionally extend it for additional terms of up to 30 years.

(3) Rent is assuming exercise of optional lease extensions, if the Bank is expected to exercise such options to the maximum extent possible.

Note 10 – Contingent Liabilities and Special Commitments – continued

B. Contingent liabilities and other commitments

1. For details of other contingent liabilities and commitments by the Bank group, see Note 26 to the 2019 financial statements. Below is a description of material changes relative to the Note provided in the 2019 annual report.

2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims (for claims brought against the Bank) and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.
   Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2019 financial statements:

a) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court amounting to NIS 124 million. The claim involves setting of interest rate in housing loans bearing adjustable interest - debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track - debentures for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.
   The Bank filed its response on July 25, 2018. The plaintiff filed its response to the Bank's response on January 6, 2019. On February 27, 2019, a pre-trial hearing took place, and the Court scheduled a further pre-trial hearing to allow the parties to conduct preliminary proceedings. The Court also proposed that the parties try to reach agreement. As proposed by the Court, the parties have launched mediation proceedings, which have yet to be completed. In conformity with the Court ruling, on February 18, 2020, the parties filed an update notice with regard to the mediation process and an agreed motion asking for a further 60 days' extension in order to consider the feasibility of concluding this proceeding by agreement. Due to the Corona Virus crisis, the mediation meeting scheduled for March 19, 2020 was canceled and has yet to be rescheduled.

b) In September 2018, a lawsuit and motion for class action status was filed with the Tel Aviv Yafo District Court in the amount of NIS 180 million (estimate). Claim and motion for approval of class action status amounting to NIS 180 million (estimated).
   The motion alleges over-charging of commission upon early repayment of housing loans consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, in contravention of provisions of the Banking Ordinance (Early repayment of Housing Loan), 2002.
   The plaintiffs seek a ruling, pursuant to the Class Action Lawsuit Act, whereby the lawsuit would be filed on behalf of all Bank clients who have and/or would repay a mortgage by full or partial early repayment and one of their tracks generated a negative capitalization balance not offset against the early repayment fee, as stipulated by law. In March 2019, the plaintiff's attorney informed the Court of their intention to replace the expert opinion filed with the motions, with an opinion from another expert. Consequently, the deadline for filing the Bank's response to the motion was postponed by agreement to April 29, 2019. Due to disagreement on the text of the opinion, the filing of the response will be delayed pending a motion by the plaintiff to amend the motion for approval. On June 3, 2019, the parties reached a litigation agreement that was approved. According to this agreement, the Bank's response to the motion was filed on October 29, 2019 and the plaintiff's response to the Bank's response was filed on January 1, 2020. On January 5, 2020, a pre-trial hearing took place in this case, at which the Court ruled that it would await further claims to be formulated by the parties, including with regard to combined hearing with similar motions filed on the same matter; a further pre-trial hearing is scheduled for September 15, 2020.

c) In December 2018, a claim and motion for class action status was filed with the Tel-Aviv District Court, in the total amount of NIS 280 million, against the Bank, Bank Leumi, Bank HaPoalim, Bank Discount and against insurance companies Harel, HaPhoenix and Menorah, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period.
   The plaintiffs set their individual and joint damage at NIS 280 million. They claim that the damage with respect to each bank, should the defendants seek proportionate liability, is based on their market shares – with at least half of the damage to be attributed to the banks and the remainder – to the insurers.

Note 10 – Contingent Liabilities and Special Commitments – continued

The Bank filed its response to the motion on June 10, 2019 and the plaintiff has yet to file their response to the Bank's response. Due to the Corona Virus crisis, the pre-trial hearing scheduled for March 24, 2020 did not take place; in conformity with the Court decision, an alternative date was scheduled for September 25, 2020.

d) In June 2019, a motion for class action status was filed with the Tel Aviv-Yafo District Court against the Bank and 5 other banks. This motion involves allegedly unlawful over-charging of currency conversion differences and transaction fees with respect to foreign currency conversion transactions and lack of proper disclosure, in breach of multiple laws.
With regard to charging of currency conversion differences, the motion alleges that when clients conduct a foreign currency conversion transaction, the defendants charge for currency conversion differences that are not listed in the price list, hence these are charged without lawful authorization. The motion further alleges that because this charge is not visible to clients, clients cannot tell the cost of the currency conversion service.
With regard to the transaction fee, the motion alleges that the Bank (and 2 other defendants) calculate this fee after adding the currency conversion differences, thereby over-charging for the transaction fee. The motion further alleges that the defendants are party to a restrictive trade practice.
The motion defined the class as all persons or legal entities who used the defendants' services for currency conversion transactions, as well as the general public in Israel, which was directly and indirectly impacted by the aforementioned breach.
The damage incurred by the class, according to the motion, amounted to NIS 8 billion; the share attributable to the Bank amounted to NIS 1.745 billion. The Bank filed a motion to dismiss the motion out of hand. On October 27, 2019, the plaintiffs filed a motion to erase the motion to dismiss and a ruling on this motion is still pending. As resolved by the Court on October 26, 2019, the parties were granted an extension to file the defendants' response to the motion for approval, pending any other ruling. On March 9, 2020, a hearing took place to discuss the motion to dismiss filed by the Bank. After this discussion, the Court gave the plaintiff 15 days to inform the Court whether they insisted on their claim Consequently, on March 16, 2020 the plaintiffs informed the Court that they insisted on their motion for approval. A ruling on the motion to dismiss is still pending.
For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 25 million.

3. Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries, where the amount claimed is material, as itemized below, which, in the opinion of the Bank's management, based on the opinion of their legal counsel (with regard to lawsuits brought against the Bank), the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

A) In May 2020, the Bank received a motion for class action status filed with the Central District Court, against 15 banks including the Bank and Bank Yahav and against the National Insurance Institution, the Enforcement and Collection Authority, the Postal Authority ("the Motion"), citing two causes: one, alleging unlawful delay of provident fund amounts that may not be foreclosed, in contravention of the Court Order Enforcement Act; and the other, with respect to failure to issue debit cards to those who do not have a credit card or ATM card, in alleged breach of the directive by the Supervisor of Banks dated March 22, 2020.
The class was defined in the Motion as any person whose funds were unlawfully delayed by any of the defendant banks under circumstances as set forth in the Motion. The plaintiff set the claim amount for all respondents at NIS 300 million.

B) 1. In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.
On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to that proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of a derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval – which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

Note 10 – Contingent Liabilities and Special Commitments – continued

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, inter alia, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, inter alia, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, inter alia, the progress made in proceedings with the Department of Justice in the USA.

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents – the motion for approval would be considered a preliminary motion to any other motion, if filed.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding.

On August 3, 2017, the Attorney General submitted a notice on behalf thereof, regarding their appearance in the discovery process, to which they attached their position. On September 10, 2017, the Bank and the other defendants filed their responses to the Attorney General's position.

On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the defendants reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.

On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public in the Bank's financial statements as of June 30, 2018 whereby, inter alia, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.

On December 31, the Bank filed another update with the Court with regard to the investigation; the next update is due on March 31, 2019.

On March 14, 2019, the Bank filed an update notice with the Court, whereby on March 12, 2019, the Bank and the US Department of Justice signed a Deferred Prosecution Agreement to conclude the investigation.

In conformity with the District Court ruling dated October 10, 2019, the parties filed a notice of litigation agreement with regard to further litigation of this motion. On December 18, 2019, the Court handed down a ruling whereby, inter alia, a pre-trial hearing was scheduled for April 22, 2020 and requiring the parties to state their consent to referring their dispute to mediation. In view of the notice by the Bank dated January 1, 2020, stating that the Bank believes this is not the appropriate timing for mediation proceedings, However, as the Court ordered, in case of any circumstances or developments that warrant this, in the Bank's opinion, the Bank would re-consider this option. A pre-trial hearing is scheduled for June 24, 2020.

On March 27, 2020, the Independent Committee appointed by the Bank's Board of Directors, inter alia, as an independent claims committee, submitted its conclusions and recommendations with regard to the aforementioned proceedings. On March 31, 2020, the Bank Board of Directors resolved to adopt in full the conclusions and recommendations made by the Committee (not to take legal proceedings against Board members and other officers with respect to breach of fiduciary duty or breach of their duty of care, and not to require them to reimburse remuneration they had received, in conjunction with their office at the Bank in the relevant period, and not to take any legal action in this regard) and instructed Bank management to act to apply the recommendations, including with regard to a settlement agreement with insurers providing Board member and officer liability insurance. The Bank is acting in conformity with the Board of Directors' resolution in this matter.

Note 10 – Contingent Liabilities and Special Commitments – continued

2. On March 17, 2019, a Bank shareholder filed a motion with the Tel Aviv District Court, against the Bank, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") and Mizrahi Tefahot Trust Company Ltd., seeking a document discovery order pursuant to Section 198a of the Companies Law, 1999 ("Motion for Late Disclosure"), to instruct the Bank and the other defendants to disclose to the plaintiff various documents with regard to the investigation proceedings that took place in the USA and with regard to the Deferred Prosecution Agreement signed with the US Department of Justice to conclude the investigation. The plaintiff alleges that the findings of this investigation constitute prima faciae evidence, justifying the issue of the document discovery order, and that all requested documents are (or may be) relevant for filing a motion for approval of a derivative claim against officers and the independent auditors, with regard to damage incurred by the Bank due to the investigation and the penalty consequently imposed on the Bank.

   On March 24, the plaintiff filed a motion to combine the hearing of the two aforementioned motions, to which the Bank objected. On April 8, the Bank (and Mizrahi Tefahot Trust Company Ltd.) filed a motion to dismiss one of these motions. On April 15, 2019, the Court granted the motion by the parties and postponed the date for filing the Bank's response to the late discovery motion, to be submitted within 60 days after final resolution of the question as to which o the discovery motions with regard to the US investigation would proceed. On April 18, 2019, the Court handed down a resolution on the motions and the various responses filed by the parties, setting dates for filing the plaintiffs' responses to the motion to dismiss filed by the Bank. On June 24, 2019, a further Court hearing took place of the motion to dismiss filed by the Bank. On August 14, 2019, the Court issued its resolution, whereby the later motion for discovery should be erased. On September 10, 2019, the plaintiff appealed to the Supreme Court the resolution to dismiss. The parties filed their summations and a hearing of this appeal is scheduled for March 25, 2020.

   On October 10, 2019, the District Court ruled that the late discovery motion would be separated from the aforementioned lawsuit in section 1 above, and would be closed.

   The parties have filed their summations and a hearing of the appeal, scheduled for March 25, 2020, was postponed due to the Corona Virus crisis; an alternative hearing date has yet to be scheduled. On April 26, the appellant filed a motion to schedule a hearing as soon as possible; such hearing was scheduled for June 8, 2020.

   See also section 4) below, with regard to agreement signed with the US Department of Justice in 2019, to conclude the investigation with regard to Bank Group business with its US clients.

4. On March 12, 2019, a Deferred Prosecution Agreement ("DPA") was signed by the Bank and by subsidiaries thereof (hereinafter jointly: "the Bank Group") and by the US Department of Justice, to conclude the investigation concerning Bank Group business with its US clients ("the Agreement"). Further to signing the Agreement, on March 27, 2019 the Bank Board of Directors appointed due, *inter alia*, to the demand by the Supervisor of Banks, an independent committee headed by the Honorable Judge Gerstel (Ret.) ("the Committee"), to advise the Bank on whether legal proceedings should be brought against current and past officers of the Bank or anyone else, and to review and make recommendations to the Bank Board of Directors with regard to the managerial processes and control processes that had allowed in 2002-2012 ("the Relevant Period") certain former employees of the Bank Group (private bankers, relationship managers and other employees with similar levels of responsibility) to act in contravention of Bank Group policy and procedures, which allowed US clients to avoid their tax liabilities in the USA, with reference to aspects of corporate governance and conduct of senior management and of the Board of Directors, and to determine, based on their findings, any general and personal conclusions and recommendations, as required, including with regard to pay benefits awarded to officers in the Relevant Period.

   On March 31, 2020, the Bank Board of Directors resolved to adopt the conclusions made by the Committee (not to take legal proceedings against Board members and other officers with respect to breach of fiduciary duty or breach of their duty of care, and not to require them to reimburse remuneration they had received, in conjunction with their office at the Bank in the relevant period, and not to take any legal action in this regard. The Bank Board of Directors also adopted the recommendation made by the Committee to sign a settlement agreement, amounting to USD 23 million, with insurers that have issued a Board member and officer liability insurance policy, subject to approval by the Court where derivative proceedings are being conducted, as set forth in section 3a) of this Note above, and has directed Bank management to act to reach such agreement.

   Moreover, on May 18, 2020, the Board of Directors discussed an additional report provided by the Committee to the Board of Directors, concerning review of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement. This report stipulated that in most areas and processes reviewed by the Committee with regard to the Relevant Period, the Bank has made significant improvements and the Committee made no comments with regard to said improvements. For some of these, the Committee saw fit to recommend that the Bank apply additional processes, beyond the existing ones, and the Board of Directors is considering these recommendations.

Note 10 – Contingent Liabilities and Special Commitments – continued

b. Guarantees by maturity date

The following are guarantees issued by the Bank, by maturity date:

	As of March 31, 2020				
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,358	325	46	114	2,843
Guarantees to home buyers	8,413	2,580	97	83	11,173
Guarantees and other commitments	3,106	984	1,095	2,983	8,168
Commitments to issue guarantees	2,475	5,414	952	454	9,295
Total guarantees	**16,352**	**9,303**	**2,190**	**3,634**	**31,479**

	As of March 31, 2019				
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	1,894	273	118	143	2,428
Guarantees to home buyers	8,462	2,076	–	–	10,538
Guarantees and other commitments	3,813	779	138	3,151	7,881
Commitments to issue guarantees	3,077	4,744	285	–	8,106
Total guarantees	**17,246**	**7,872**	**541**	**3,294**	**28,953**

	As of December 31, 2019				
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,250	438	15	195	2,898
Guarantees to home buyers	8,500	2,083	56	33	10,672
Guarantees and other commitments	3,441	722	138	4,312	8,613
Commitments to issue guarantees	3,056	5,289	1,317	331	9,993
Total guarantees	**17,247**	**8,532**	**1,526**	**4,871**	**32,176**

Note 11 – Derivatives and hedging activities

Reported amounts (NIS in millions)

a. Activity on consolidated basis

	March 31, 2020			March 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions			NIS in millions		
1. Stated amounts of derivatives						
Interest contracts						
Forward contracts	1,491	–	1,491	2,037	400	2,437
Options written	–	82	82	18	–	18
Options purchased	4,734	82	4,816	872	239	1,111
Swaps(1)	7,267	31,761	39,028	8,314	28,240	36,554
Total(2)	**13,492**	**31,925**	**45,417**	**11,241**	**28,879**	**40,120**
Of which: Hedging derivatives(3)	**4,325**	**–**	**4,325**	**3,200**	**–**	**3,200**
Currency contracts						
Forward contracts(4)(6)	63,908	75,556	139,464	54,231	61,073	115,304
Options written	–	22,154	22,154	–	17,845	17,845
Options purchased	–	20,233	20,233	3	15,175	15,178
Swaps	1,345	2,246	3,591	3,525	2,805	6,330
Total	**65,253**	**120,189**	**185,442**	**57,759**	**96,898**	**154,657**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	298	6,997	7,295	95	8,285	8,380
Options purchased(5)	–	7,026	7,026	–	8,318	8,318
Swaps	–	2,918	2,918	–	3,109	3,109
Total	**298**	**16,941**	**17,239**	**95**	**19,712**	**19,807**
Commodities and other contracts						
Forward contracts	–	7	7	3	35	38
Options written	–	6,834	6,834	–	8,039	8,039
Options purchased	–	6,834	6,834	–	8,039	8,039
Total	**–**	**13,675**	**13,675**	**3**	**16,113**	**16,116**
Credit contracts						
Bank is guarantor	285	–	285	291	–	291
Bank is beneficiary	158	–	158	617	–	617
Total	**443**	**–**	**443**	**908**	**–**	**908**
Total stated amount	**79,486**	**182,730**	**262,216**	**70,006**	**161,602**	**231,608**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 25,852 million (as of March 31, 2019: NIS 26,312 million).
(2) Of which: NIS/CPI swaps amounting to NIS 8,139 million (as of March 31, 2019: NIS 8,559 million).
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 5,003 million (as of March 31, 2019: NIS 6,318 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 6,997 million (as of March 31, 2019: NIS 8,285 million).
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

a. Activity on consolidated basis – continued

	December 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivatives			
Interest contracts			
Forward contracts	1,562	–	1,562
Options written	–	79	79
Options purchased	174	148	322
Swaps(1)	8,263	30,577	38,840
Total(2)	**9,999**	**30,804**	**40,803**
Of which: Hedging derivatives(3)	**4,263**	**–**	**4,263**
Currency contracts			
Forward contracts(4)(6)	54,757	71,397	126,154
Options written	–	19,936	19,936
Options purchased	–	16,947	16,947
Swaps	3,325	2,736	6,061
Total	**58,082**	**111,016**	**169,098**
Of which: Hedging derivatives(3)	**–**	**–**	**–**
Contracts for shares			
Options written	88	15,564	15,652
Options purchased(5)	–	15,596	15,596
Swaps	–	1,794	1,794
Total	**88**	**32,954**	**33,042**
Commodities and other contracts			
Forward contracts	6	12	18
Options written	–	10,789	10,789
Options purchased	–	10,789	10,789
Total	**6**	**21,590**	**21,596**
Credit contracts			
Bank is guarantor	276	–	276
Bank is beneficiary	462	–	462
Total	**738**	**–**	**738**
Total stated amount	**68,913**	**196,364**	**265,277**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 27,626 million.
(2) Of which: NIS/CPI swaps amounting to NIS 8,484 million.
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 4,083 million.
(5) Of which: Traded on the Stock Exchange, amounting to NIS 15,564 million.
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

a. Activity on consolidated basis – continued

	March 31, 2020					
	Assets with respect to derivatives , gross			Liabilities with respect to derivatives , gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivatives, gross						
Interest contracts	323	525	848	327	623	950
Of which: Hedging derivatives	87	–	87	100	–	100
Currency contracts[(1)]	510	2,375	2,885	290	2,283	2,573
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	638	638	19	637	656
Commodities and other contracts	–	1	1	–	1	1
Credit contracts	5	–	5	20	–	20
Total assets / liabilities with respect to derivatives, gross[(2)]	**838**	**3,539**	**4,377**	**656**	**3,544**	**4,200**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivatives	**838**	**3,539**	**4,377**	**656**	**3,544**	**4,200**
Of which: Carrying amount with respect to derivatives not subject to a master netting agreement or to similar agreements	598	1,541	2,139	631	1,149	1,780

	March 31, 2019					
	Assets with respect to derivatives , gross			Liabilities with respect to derivatives , gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivatives, gross						
Interest contracts	206	463	669	283	489	772
Of which: Hedging derivatives	10	–	10	48	–	48
Currency contracts[(1)]	579	768	1,347	728	689	1,417
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	324	324	2	332	334
Commodities and other contracts	1	–	1	1	–	1
Credit contracts	5	–	5	5	–	5
Total assets / liabilities with respect to derivatives, gross[(2)]	**791**	**1,555**	**2,346**	**1,019**	**1,510**	**2,529**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivatives	**791**	**1,555**	**2,346**	**1,019**	**1,510**	**2,529**
Of which: Carrying amount with respect to derivatives not subject to a master netting agreement or to similar agreements	771	1,185	1,956	1,002	862	1,864

(1) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 8 million (as of March 31, 2019: NIS 5 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 19 million (as of March 31, 2019: NIS 2 million).

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

a. Activity on consolidated basis – continued

	December 31, 2019					
	Assets with respect to derivatives , gross			Liabilities with respect to derivatives , gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivatives, gross						
Interest contracts	206	469	675	273	543	816
Of which: Hedging derivatives	31	–	31	71	–	71
Currency contracts[(1)]	431	1,138	1,569	398	1,134	1,532
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	2	333	335	–	332	332
Commodities and other contracts	–	1	1	–	1	1
Credit contracts	6	–	6	5	–	5
Total assets / liabilities with respect to derivatives , gross[(2)]	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivatives	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Of which: Carrying amount with respect to derivatives not subject to a master netting agreement or to similar agreements	164	146	310	271	333	604

(1) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 8 million.

b. Accounting hedges

	For the three months ended March 31, 2020 (unaudited)		
	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Total
Interest contracts			
Derivatives used to hedge cash flows[(1)]	21	29	**50**
Derivatives used to hedge fair value[(2)]	(12)	(7)	**(19)**
Total	**9**	**22**	**31**

(1) Reflects amounts included in assessment of hedge effectiveness.

(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

c. Credit risk on financial derivatives according to counter-party to the contract – Consolidated

						March 31, 2020
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives	**151**	**1,609**	**45**	**–**	**2,572**	**4,377**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(552)	–	–	(386)	(1) (938)
Mitigation of credit risk with respect to cash collateral received	–	(123)	–	–	(60)	(183)
Net amount of assets with respect to derivatives	**151**	**934**	**45**		**2,126**	**3,256**
Off-balance sheet credit risk on derivatives(2)	101	979	136	–	1,115	2,331
Mitigation of off-balance sheet credit risk	–	(555)	–	–	(108)	(663)
Net off-balance sheet credit risk with respect to derivatives	**101**	**424**	**136**	**–**	**1,007**	**1,668**
Total credit risk on derivatives	**252**	**1,358**	**181**	**–**	**3,133**	**4,924**
Carrying amount of liabilities with respect to derivatives	**243**	**2,240**	**45**	**78**	**1,594**	**4,200**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(552)	–	–	(386)	(938)
Pledged cash collateral	–	(925)	–	(78)	–	(1,003)
Net amount of liabilities with respect to derivatives	**243**	**763**	**45**	**–**	**1,208**	**2,259**

						March 31, 2019
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives	**55**	**1,124**	**58**	**7**	**1,102**	**2,346**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(845)	–	–	(181)	(1) (1,026)
Mitigation of credit risk with respect to cash collateral received	–	(178)	–	–	(231)	(409)
Net amount of assets with respect to derivatives	**55**	**101**	**58**	**7**	**690**	**911**
Off-balance sheet credit risk on derivatives(2)	176	1,038	130	–	765	2,109
Mitigation of off-balance sheet credit risk	–	(490)	–	–	(215)	(705)
Net off-balance sheet credit risk with respect to derivatives	**176**	**548**	**130**	**–**	**550**	**1,404**
Total credit risk on derivatives	**231**	**649**	**188**	**7**	**1,240**	**2,315**
Carrying amount of liabilities with respect to derivatives	**56**	**1,288**	**58**	**4**	**1,123**	**2,529**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(845)	–	–	(181)	(1,026)
Pledged cash collateral	–	(443)	–	(4)	–	(447)
Net amount of liabilities with respect to derivatives	**56**	**–**	**58**	**–**	**942**	**1,056**

(1) This balance consists entirely of derivatives subject to offset agreements.
(2) The difference, if positive, between the total amounts with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

	December 31, 2019					
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Governments and central banks**	**Others**	**Total**
Carrying amount of assets with respect to derivatives	**57**	**1,349**	**73**	**1**	**1,106**	**2,586**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,006)	–	–	(181)	(1) (1,187)
Mitigation of credit risk with respect to cash collateral received	–	(290)	–	–	(241)	(531)
Net amount of assets with respect to derivatives	**57**	**53**	**73**	**1**	**684**	**868**
Off-balance sheet credit risk on derivatives(2)	179	1,034	157	–	617	1,987
Mitigation of off-balance sheet credit risk	–	(428)	–	–	(300)	(728)
Net off-balance sheet credit risk with respect to derivatives	**179**	**606**	**157**	**–**	**317**	**1,259**
Total credit risk on derivatives	**236**	**659**	**230**	**1**	**1,001**	**2,127**
Carrying amount of liabilities with respect to derivatives	**54**	**1,290**	**73**	**–**	**1,269**	**2,686**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,006)	–	–	(181)	(1,187)
Pledged cash collateral	–	(246)	–	–	–	(246)
Net amount of liabilities with respect to derivatives	**54**	**38**	**73**	**–**	**1,088**	**1,253**

(1) This balance consists entirely of derivatives subject to offset agreements.
(2) The difference, if positive, between the total amounts with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

In the first quarter of 2020, the Bank recognized credit losses with respect to derivatives, amounting to NIS 15 million (in the first quarter of 2019: NIS 1 million; in 2019 the Bank recognized income from reduced credit losses amounting to NIS 6 million).

d) Maturity dates – stated amounts: Balances at end of period – Consolidated

	March 31, 2020				
	Up to three months	**3 months to 1 year**	**1-5 years**	**Over five years**	**Total**
Interest contracts:					
NIS – CPI	1,104	2,864	3,107	1,065	8,140
Other	4,815	10,449	11,073	10,940	37,277
Currency contracts	111,309	68,870	4,878	385	185,442
Contracts for shares	14,301	2,548	390	–	17,239
Commodities and other contracts	13,675	–	330	113	14,118
Total	**145,204**	**84,731**	**19,778**	**12,503**	**262,216**
	March 31, 2019				
Total	**128,793**	**66,942**	**27,152**	**8,721**	**231,608**
	December 31, 2019				
Total	**160,575**	**76,526**	**20,655**	**7,521**	**265,277**

Note 12 – Operating Segments

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include – in Note 12 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended March 31, 2020 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	759	244	9	1,003	1	295
Interest expenses from externals	–	104	–	104	40	26
Interest revenues, net from externals	759	140	9	899	(39)	269
Interest revenues, net – inter-segment	(300)	197	(2)	(103)	61	29
Total interest revenues (expenses), net	**459**	**337**	**7**	**796**	**22**	**298**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	38	147	39	185	86	104
Total non-interest revenues	**38**	**147**	**39**	**185**	**86**	**104**
Total revenues	**497**	**484**	**46**	**981**	**108**	**402**
Expenses (reduction of expenses) with respect to credit losses	65	40	–	105	(1)	72
Operating and other expenses to externals	166	447	15	613	22	205
Operating and other expenses – inter-segment	–	(33)	(3)	(33)	2	(18)
Total operating and other expenses	**166**	**414**	**12**	**580**	**24**	**187**
Pre-tax profit (loss)	266	30	34	296	85	143
Provision (reduced provision) for taxes on profit	92	10	12	102	29	49
After-tax profit (loss)	**174**	**20**	**22**	**194**	**56**	**94**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	174	20	22	194	56	94
Net profit attributed to non-controlling interests	–	(12)	(1)	(12)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**174**	**8**	**21**	**182**	**56**	**93**
Average balance of assets	136,450	21,135	3,140	157,585	213	21,441
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	136,450	21,135	3,140	157,585	213	21,441
Balance of loans to the public at end of reported period	137,958	21,758	3,541	159,716	164	21,608
Balance of impaired debts	70	87	–	157	–	633
Balance of debt in arrears 90 days or longer	1,546	27	–	1,573	–	36
Average balance of liabilities	–	91,138	3,140	91,138	14,999	27,929
Of which: Average balance of deposits from the public	–	87,998	–	87,998	14,999	27,929
Balance of deposits from the public at end of reported period	–	94,443	–	94,443	16,015	29,644
Average balance of risk assets (1)	78,893	19,784	3,352	98,677	26	20,659
Balance of risk assets at end of reported period(1)	79,597	19,821	3,279	99,418	27	21,069
Average balance of assets under management(2)	10,124	40,417	–	50,541	3,272	27,942
Breakdown of interest revenues, net:						
Margin from credit granting operations	434	214	7	648	–	256
Margin from activities of receiving deposits	–	123	–	123	22	35
Other	25	–	–	25	–	7
Total interest revenues, net	**459**	**337**	**7**	**796**	**22**	**298**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Total – operations overseas	
	75	144	8	80	1,606	80	1,686
	13	53	59	26	321	18	339
	62	91	(51)	54	1,285	62	1,347
	14	43	80	(107)	17	(17)	–
	76	**134**	**29**	**(53)**	**1,302**	**45**	**1,347**
	–	–	–	64	64	–	64
	22	34	16	77	524	5	529
	22	**34**	**16**	**141**	**588**	**5**	**593**
	98	**168**	**45**	**88**	**1,890**	**50**	**1,940**
	72	87	2	2	339	6	345
	17	28	18	94	997	20	1,017
	14	21	13	1	–	–	–
	31	**49**	**31**	**95**	**997**	**20**	**1,017**
	(5)	32	12	(9)	554	24	578
	(2)	11	4	(1)	192	8	200
	(3)	**21**	**8**	**(8)**	**362**	**16**	**378**
	–	–	–	–	–	–	–
	(3)	21	8	(8)	362	16	378
	–	–	–	(8)	(21)	–	(21)
	(3)	**21**	**8**	**(16)**	**341**	**16**	**357**
	7,411	16,596	1,222	57,940	262,408	12,452	274,860
	–	–	–	31	31	–	31
	7,411	16,596	1,222	–	204,468	3,133	207,601
	7,431	17,692	1,792	–	208,403	3,760	212,163
	141	332	123	–	1,386	–	1,386
	–	–	–	–	1,609	–	1,609
	8,958	25,058	45,409	32,327	245,818	11,957	257,775
	8,958	25,058	45,409	–	210,351	4,545	214,896
	9,705	27,982	41,216	–	219,005	4,184	223,189
	8,462	24,359	2,455	6,904	161,542	4,388	165,930
	8,537	24,882	3,100	7,422	164,455	4,546	169,001
	3,474	20,830	378,649	2,632	487,340	–	487,340
	63	110	6	–	1,083	25	1,108
	10	18	22	–	230	3	233
	3	6	1	(53)	(11)	17	6
	76	**134**	**29**	**(53)**	**1,302**	**45**	**1,347**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended March 31, 2019 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	775	235	9	1,010	–	279
Interest expenses from externals	–	114	–	114	38	24
Interest revenues, net from externals	775	121	9	896	(38)	255
Interest revenues, net – inter-segment	(372)	214	(1)	(158)	60	25
Total interest revenues (expenses), net	**403**	**335**	**8**	**738**	**22**	**280**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	38	127	35	165	2	95
Total non-interest revenues	**38**	**127**	**35**	**165**	**2**	**95**
Total revenues	**441**	**462**	**43**	**903**	**24**	**375**
Expenses (reduction of expenses) with respect to credit losses	8	27	–	35	–	37
Operating and other expenses to externals	160	433	15	593	21	201
Operating and other expenses – inter-segment	–	(32)	(3)	(32)	2	(18)
Total operating and other expenses	**160**	**401**	**12**	**561**	**23**	**183**
Pre-tax profit (loss)	273	34	31	307	1	155
Provision (reduced provision) for taxes on profit	92	11	10	103	–	52
After-tax profit (loss)	**181**	**23**	**21**	**204**	**1**	**103**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	181	23	21	204	1	103
Net profit attributed to non-controlling interests	–	(10)	(1)	(10)	–	–
Net profit (loss) attributable to shareholders of the banking corporation	**181**	**13**	**20**	**194**	**1**	**103**
Average balance of assets	127,616	20,339	3,132	147,955	73	19,652
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	127,616	20,339	3,132	147,955	73	19,652
Balance of loans to the public at end of reported period	128,019	21,384	3,770	149,403	93	19,986
Balance of impaired debts	57	84	–	141	–	504
Balance of debt in arrears 90 days or longer	1,347	22	–	1,369	–	39
Average balance of liabilities	–	85,953	3,132	85,953	13,524	23,631
Of which: Average balance of deposits from the public	–	82,821	–	82,821	13,524	23,631
Balance of deposits from the public at end of reported period	–	83,563	–	83,563	13,992	24,410
Average balance of risk assets (1)	72,333	18,759	3,256	91,092	28	19,082
Balance of risk assets at end of reported period(1)	72,854	18,716	3,266	91,570	28	20,086
Average balance of assets under management(2)	9,844	41,081	–	50,925	2,609	28,510
Breakdown of interest revenues, net:						
Margin from credit granting operations	386	206	7	592	–	236
Margin from activities of receiving deposits	–	129	1	129	22	36
Other	17	–	–	17	–	8
Total interest revenues, net	**403**	**335**	**8**	**738**	**22**	**280**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

					Operations overseas	Total
Medium businesses	**Large businesses**	**Institutional investors**	**Financial Management Segment**	**Total – operations in Israel**	**Total – operations overseas**	
68	142	7	67	1,573	113	1,686
15	66	89	80	426	29	455
53	76	(82)	(13)	1,147	84	1,231
15	56	114	(83)	29	(29)	–
68	**132**	**32**	**(96)**	**1,176**	**55**	**1,231**
–	–	–	55	55	2	57
23	40	9	69	403	6	409
23	**40**	**9**	**124**	**458**	**8**	**466**
91	**172**	**41**	**28**	**1,634**	**63**	**1,697**
1	5	(1)	(2)	75	1	76
17	27	17	90	966	20	986
14	21	12	1	–	–	–
31	**48**	**29**	**91**	**966**	**20**	**986**
59	119	13	(61)	593	42	635
20	40	4	(20)	199	14	213
39	**79**	**9**	**(41)**	**394**	**28**	**422**
–	–	–	–	–	–	–
39	79	9	(41)	394	28	422
–	–	–	(8)	(18)	–	(18)
39	**79**	**9**	**(49)**	**376**	**28**	**404**
6,736	17,080	1,089	51,769	244,354	12,657	257,011
–	–	–	32	32	–	32
6,736	17,080	1,089	–	192,585	3,424	196,009
6,881	16,009	1,293	–	193,665	4,192	197,857
68	200	157	–	1,070	–	1,070
–	–	–	–	1,408	1	1,409
8,274	28,086	38,461	31,203	229,132	12,213	241,345
8,274	28,086	38,461	–	194,797	5,514	200,311
8,456	26,994	41,217	–	198,632	6,145	204,777
7,734	21,927	2,595	6,221	148,679	4,292	152,971
7,825	21,837	2,135	6,501	149,982	4,333	154,315
6,347	28,332	280,661	13,646	411,030	–	411,030
54	108	4	–	994	29	1,023
12	19	27	–	245	3	248
2	5	1	(96)	(63)	23	(40)
68	**132**	**32**	**(96)**	**1,176**	**55**	**1,231**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the year ended December 31, 2019 (audited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	4,014	961	36	4,975	2	1,157
Interest expenses from externals	–	576	–	576	176	118
Interest revenues, net from externals	4,014	385	36	4,399	(174)	1,039
Interest revenues, net – inter-segment	(2,319)	964	(6)	(1,355)	260	111
Total interest revenues (expenses), net	**1,695**	**1,349**	**30**	**3,044**	**86**	**1,150**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	160	526	149	686	11	387
Total non-interest revenues	**160**	**526**	**149**	**686**	**11**	**387**
Total revenues	**1,855**	**1,875**	**179**	**3,730**	**97**	**1,537**
Expenses (reduction of expenses) with respect to credit losses	44	99	–	143	2	166
Operating and other expenses to externals	651	1,762	62	2,413	85	809
Operating and other expenses – inter-segment	–	(134)	(12)	(134)	7	(75)
Total operating and other expenses	**651**	**1,628**	**50**	**2,279**	**92**	**734**
Pre-tax profit	1,160	148	129	1,308	3	637
Provision for taxes on profit	404	52	45	456	1	222
After-tax profit	**756**	**96**	**84**	**852**	**2**	**415**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	756	96	84	852	2	415
Net profit attributed to non-controlling interests	–	(44)	(5)	(44)	–	(5)
Net profit attributable to shareholders of the banking corporation	**756**	**52**	**79**	**808**	**2**	**410**
Average balance of assets	130,749	20,708	3,225	151,457	112	20,412
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	130,749	20,708	3,225	151,457	112	20,412
Balance of loans to the public at end of reported period	135,311	21,893	3,961	157,204	227	21,241
Balance of impaired debts	56	86	–	142	–	622
Balance of debt in arrears 90 days or longer	1,476	24	–	1,500	–	37
Average balance of liabilities	–	87,897	3,225	87,897	13,938	25,283
Of which: Average balance of deposits from the public	–	84,672	–	84,672	13,938	25,283
Balance of deposits from the public at end of reported period	–	86,076	–	86,076	14,839	26,725
Average balance of risk assets (1)	74,823	19,016	3,358	93,839	26	19,517
Balance of risk assets at end of reported period(1)	78,190	19,749	3,426	97,939	25	20,250
Average balance of assets under management(2)	9,945	42,576	–	52,521	2,687	29,648
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,622	831	30	2,453	–	984
Margin from activities of receiving deposits	–	516	–	516	86	142
Other	73	2	–	75	–	24
Total interest revenues, net	**1,695**	**1,349**	**30**	**3,044**	**86**	**1,150**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Total – operations overseas	
297	576	30	266	7,303	408	7,711
65	274	446	615	2,270	101	2,371
232	302	(416)	(349)	5,033	307	5,340
63	224	534	256	93	(93)	–
295	**526**	**118**	**(93)**	**5,126**	**214**	**5,340**
–	–	–	349	349	8	357
90	143	39	223	1,579	30	1,609
90	**143**	**39**	**572**	**1,928**	**38**	**1,966**
385	**669**	**157**	**479**	**7,054**	**252**	**7,306**
42	24	(6)	(3)	368	(4)	364
62	105	69	366	3,909	79	3,988
60	85	52	5	–	–	–
122	**190**	**121**	**371**	**3,909**	**79**	**3,988**
221	455	42	111	2,777	177	2,954
77	158	15	38	967	62	1,029
144	**297**	**27**	**73**	**1,810**	**115**	**1,925**
–	–	–	–	–	–	–
144	297	27	73	1,810	115	1,925
–	–	–	(34)	(83)	–	(83)
144	**297**	**27**	**39**	**1,727**	**115**	**1,842**
7,104	16,881	1,051	53,589	250,606	10,079	260,685
–	–	–	32	32	–	32
7,104	16,881	1,051	–	197,017	3,228	200,245
7,196	15,357	1,569	–	202,794	3,607	206,401
145	241	124	–	1,274	–	1,274
–	–	–	–	1,537	–	1,537
8,388	25,985	39,992	32,083	233,566	10,826	244,392
8,388	25,985	39,992	–	198,258	5,273	203,531
8,935	25,155	45,330	–	207,060	3,924	210,984
8,157	23,107	2,029	6,694	153,369	4,179	157,548
8,389	23,833	1,810	6,385	158,631	4,227	162,858
6,123	27,695	329,318	10,324	458,316	–	458,316
240	434	19	–	4,130	108	4,238
46	70	93	–	953	11	964
9	22	6	(93)	43	95	138
295	**526**	**118**	**(93)**	**5,126**	**214**	**5,340**

Note 12 – Operating Segments – continued

B. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivatives, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see information about supervisory operating segments above.

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business clients (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). It may happen, due to business growth of a client served by the Retail Division, that the client may exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business clients with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended March 31, 2020 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	174	684	(7)	206	52	213	25	1,347
Inter-segment	241	(283)	30	29	8	39	(64)	–
Total interest revenues (expenses), net	**415**	**401**	**23**	**235**	**60**	**252**	**(39)**	**1,347**
Non-interest financing revenues	2	–	1	1	–	6	54	64
Commissions and other revenues	144	38	95	86	16	64	86	529
Total revenues	**561**	**439**	**119**	**322**	**76**	**322**	**101**	**1,940**
Expenses with respect to credit losses	40	64	–	59	25	152	5	345
Operating and other expenses	430	158	33	158	39	99	100	1,017
Pre-tax profit (loss)	91	217	86	105	12	71	(4)	578
Provision (reduced provision) for taxes on profit	31	75	30	36	4	25	(1)	200
After-tax profit (loss)	**60**	**142**	**56**	**69**	**8**	**46**	**(3)**	**378**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	60	142	56	69	8	46	(3)	378
Attributable to non-controlling interests	(12)	–	–	(1)	–	–	(8)	(21)
Net profit (loss) attributable to shareholders of the Bank	**48**	**142**	**56**	**68**	**8**	**46**	**(11)**	**357**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.4%	7.7%	–	22.6%	4.3%	4.8%	–	9.1%
Average balance of loans to the public, net	26,523	130,348	1,089	14,644	6,091	27,228	–	205,923
Average balance of deposits from the public	97,806	–	9,162	25,424	8,412	58,572	15,520	214,896
Average balance of assets	26,904	130,696	1,523	14,741	6,139	35,296	59,561	274,860
Average balance of risk assets (2)	23,105	75,883	525	13,003	6,764	39,345	7,305	165,930

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended March 31, 2019 (unaudited)
Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	168	697	(8)	183	50	186	(45)	1,231
Inter-segment	235	(348)	32	38	6	55	(18)	–
Total interest revenues (expenses), net	**403**	**349**	**24**	**221**	**56**	**241**	**(63)**	**1,231**
Non-interest financing revenues	1	–	–	–	–	4	52	57
Commissions and other revenues	130	37	14	82	13	65	68	409
Total revenues	**534**	**386**	**38**	**303**	**69**	**310**	**57**	**1,697**
Expenses (reduction of expenses) with respect to credit losses	24	7	(1)	36	4	7	(1)	76
Operating and other expenses	417	155	32	155	37	95	95	986
Pre-tax profit (loss)	93	224	7	112	28	208	(37)	635
Provision (reduced provision) for taxes on profit	31	75	2	38	9	70	(12)	213
After-tax profit (loss)	**62**	**149**	**5**	**74**	**19**	**138**	**(25)**	**422**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	62	149	5	74	19	138	(25)	422
Attributable to non-controlling interests	(10)	–	–	–	–	–	(8)	(18)
Net profit (loss) attributable to shareholders of the Bank	**52**	**149**	**5**	**74**	**19**	**138**	**(33)**	**404**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	14.2%	8.7%	39.2%	24.2%	11.8%	17.1%	–	11.3%
Average balance of loans to the public, net	25,678	122,142	1,023	13,516	5,720	26,359	–	194,438
Average balance of deposits from the public	91,143	–	8,564	22,120	7,584	55,086	15,814	200,311
Average balance of assets	26,024	122,462	1,618	13,620	5,772	34,620	52,895	257,011
Average balance of risk assets (2)	22,134	69,531	565	12,004	6,586	35,583	6,568	152,971

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the year ended December 31, 2019 (audited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	574	3,693	(36)	746	199	674	(510)	5,340
Inter-segment	1,058	(2,231)	131	167	39	304	532	–
Total interest revenues, net	**1,632**	**1,462**	**95**	**913**	**238**	**978**	**22**	**5,340**
Non-interest financing revenues	5	–	2	1	1	26	322	357
Commissions and other revenues	546	159	60	334	59	235	216	1,609
Total revenues	**2,183**	**1,621**	**157**	**1,248**	**298**	**1,239**	**560**	**7,306**
Expenses (reduction of expenses) with respect to credit losses	96	42	(1)	148	39	44	(4)	364
Operating and other expenses	1,692	619	128	620	152	387	390	3,988
Pre-tax profit	395	960	30	480	107	808	174	2,954
Provision for taxes on profit	138	334	10	167	37	281	62	1,029
After-tax profit	**257**	**626**	**20**	**313**	**70**	**527**	**112**	**1,925**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit								
Before attribution to non-controlling interests	257	626	20	313	70	527	112	1,925
Attributable to non-controlling interests	(44)	–	–	(5)	–	–	(34)	(83)
Net profit attributable to shareholders of the Bank	**213**	**626**	**20**	**308**	**70**	**527**	**78**	**1,842**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.5%	8.6%	36.9%	25.1%	10.3%	14.2%	11.9%	11.9%
Average balance of loans to the public, net	26,163	124,979	1,036	13,931	6,005	26,538	–	198,652
Average balance of deposits from the public	93,578	–	8,663	23,584	7,898	54,435	15,373	203,531
Average balance of assets	26,599	125,498	1,558	14,059	6,067	32,624	54,280	260,685
Average balance of risk assets (2)	22,566	71,771	534	12,332	6,698	36,689	6,958	157,548

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the three months ended March 31, 2020 (unaudited)					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	239	65	39	343	2	345
Accounting write-offs[2]	(83)	(8)	(35)	(126)	–	(126)
Collection of debts written off for accounting purposes in previous years[2]	20	–	16	36	–	36
Net accounting write-offs	(63)	(8)	(19)	(90)	–	(90)
Balance of provision for credit losses at end of period	**1,041**	**731**	**293**	**2,065**	**3**	**2,068**
Of which: With respect to off balance sheet credit instruments	**119**	**–**	**13**	**132**	**–**	**132**
	For the three months ended March 31, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	43	8	27	78	(2)	76
Accounting write-offs[2]	(66)	(2)	(42)	(110)	–	(110)
Collection of debts written off for accounting purposes in previous years[2]	23	1	17	41	–	41
Net accounting write-offs	(43)	(1)	(25)	(69)	–	(69)
Balance of provision for credit losses at end of period	**766**	**651**	**265**	**1,682**	**2**	**1,684**
Of which: With respect to off balance sheet credit instruments	**86**	**–**	**10**	**96**	**–**	**96**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accounting write-offs presented in the Note primarily consists of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

	March 31, 2020 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	44,834	70	652	45,556	12,945	58,501
reviewed on group basis	9,022	138,126	19,459	166,607	–	166,607
Of which: the relevant provision is calculated by extent of arrears	1,913	138,126	–	140,039	–	140,039
Total debts	**53,856**	**(2)138,196**	**20,111**	**212,163**	**12,945**	**225,108**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	804	2	26	832	3	835
reviewed on group basis	118	729	254	1,101	–	1,101
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	7	729	–	736	–	736
Total provision for credit losses	**922**	**731**	**280**	**1,933**	**3**	**1,936**
	March 31, 2019 (unaudited)					
Recorded debt balance of debts [1]						
reviewed on individual basis	40,701	57	685	41,443	7,580	49,023
reviewed on group basis	8,826	128,241	19,347	156,414	–	156,414
Of which: the relevant provision is calculated by extent of arrears	1,725	128,241	–	129,966	–	129,966
Total debts	**49,527**	**(2)128,298**	**20,032**	**197,857**	**7,580**	**205,437**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	565	2	29	596	2	598
reviewed on group basis	115	649	226	990	–	990
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	6	649	–	655	–	655
Total provision for credit losses	**680**	**651**	**255**	**1,586**	**2**	**1,588**
	As of December 31, 2019 (audited)					
Recorded debt balance of debts [1]						
reviewed on individual basis	41,317	56	729	42,102	7,916	50,018
reviewed on group basis	8,915	135,520	19,864	164,299	–	164,299
Of which: the relevant provision is calculated by extent of arrears	1,638	135,520	–	137,158	–	137,158
Total debts	**50,232**	**(2)135,576**	**20,593**	**206,401**	**7,916**	**214,317**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	640	2	31	673	1	674
reviewed on group basis	115	672	233	1,020	–	1,020
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	6	672	–	678	–	678
Total provision for credit losses	**755**	**674**	**264**	**1,693**	**1**	**1,694**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 7,937 million (as of March 31, 2019: NIS 7,219 million and as of December 31, 2019: NIS 7,696 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 9 million (as of March 31, 2019: NIS 18 million, as of December 31, 2019: NIS 18 million), and assessed on group basis, amounting to NIS 531 million (as of March 31, 2019: NIS 450 million, as of December 31, 2019: NIS 475 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears

	As of March 31, 2020 (unaudited)					
	Problematic[2]				Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	14,224	68	102	14,394	5	38
Construction and real estate – real estate operations	3,950	368	51	4,369	1	13
Financial services	4,574	10	133	4,717	–	3
Commercial – other	24,970	530	888	26,388	30	160
Total commercial	**47,718**	**976**	**1,174**	**49,868**	**36**	**214**
Private individuals – housing loans	136,287	(7)1,546	70	137,903	(7)1,546	(6)637
Private individuals – other	19,763	153	87	20,003	27	79
Total public – activity in Israel	**203,768**	**2,675**	**1,331**	**207,774**	**1,609**	**930**
Banks in Israel	134	–	–	134	–	–
Government of Israel	173	–	–	173	–	–
Total activity in Israel	**204,075**	**2,675**	**1,331**	**208,081**	**1,609**	**930**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,000	–	–	2,000	–	–
Commercial – other	1,886	47	55	1,988	–	–
Total commercial	**3,886**	**47**	**55**	**3,988**	**–**	**–**
Private individuals	401	–	–	401	–	–
Total public – activity overseas	**4,287**	**47**	**55**	**4,389**	**–**	**–**
Overseas banks	11,980	–	–	11,980	–	–
Overseas governments	658	–	–	658	–	–
Total activity overseas	**16,925**	**47**	**55**	**17,027**	**–**	**–**
Total public	208,055	2,722	1,386	212,163	1,609	930
Total banks	12,114	–	–	12,114	–	–
Total governments	831	–	–	831	–	–
Total	**221,000**	**2,722**	**1,386**	**225,108**	**1,609**	**930**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 83 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 71 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 2,062 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of March 31, 2019 (unaudited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,364	71	148	13,583	7	14
Construction and real estate – real estate operations	3,462	12	23	3,497	–	8
Financial services	3,561	7	170	3,738	1	15
Commercial – other	23,496	318	583	24,397	31	78
Total commercial	**43,883**	**408**	**924**	**45,215**	**39**	**115**
Private individuals – housing loans	126,543	(7)1,347	57	127,947	(7)1,347	(6)520
Private individuals – other	19,516	148	84	19,748	22	77
Total public – activity in Israel	**189,942**	**1,903**	**1,065**	**192,910**	**1,408**	**712**
Banks in Israel	252	–	–	252	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**190,194**	**1,903**	**1,065**	**193,162**	**1,408**	**712**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,212	15	2	2,229	–	–
Commercial – other	2,080	–	3	2,083	–	–
Total commercial	**4,292**	**15**	**5**	**4,312**	**–**	**–**
Private individuals	634	1	–	635	1	–
Total public – activity overseas	**4,926**	**16**	**5**	**4,947**	**1**	**–**
Overseas banks	6,688	–	–	6,688	–	–
Overseas governments	640	–	–	640	–	–
Total activity overseas	**12,254**	**16**	**5**	**12,275**	**1**	**–**
Total public	194,868	1,919	1,070	197,857	1,409	712
Total banks	6,940	–	–	6,940	–	–
Total governments	640	–	–	640	–	–
Total	**202,448**	**1,919**	**1,070**	**205,437**	**1,409**	**712**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 72 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 85 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,879 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of December 31, 2019 (audited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,259	42	116	13,417	8	11
Construction and real estate – real estate operations	3,859	363	62	4,284	1	6
Financial services	3,889	9	135	4,033	–	1
Commercial – other	23,716	342	782	24,840	28	100
Total commercial	**44,723**	**756**	**1,095**	**46,574**	**37**	**118**
Private individuals – housing loans	133,724	[7]1,476	56	135,256	[7]1,476	[6]637
Private individuals – other	20,245	145	86	20,476	24	108
Total public – activity in Israel	**198,692**	**2,377**	**1,237**	**202,306**	**1,537**	**863**
Banks in Israel	110	–	–	110	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**198,802**	**2,377**	**1,237**	**202,416**	**1,537**	**863**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,846	–	1	1,847	–	–
Commercial – other	1,750	25	36	1,811	–	–
Total commercial	**3,596**	**25**	**37**	**3,658**	**–**	**–**
Private individuals	437	–	–	437	–	–
Total public – activity overseas	**4,033**	**25**	**37**	**4,095**	**–**	**–**
Overseas banks	7,150	–	–	7,150	–	–
Overseas governments	656	–	–	656	–	–
Total activity overseas	**11,839**	**25**	**37**	**11,901**	**–**	**–**
Total public	202,725	2,402	1,274	206,401	1,537	863
Total banks	7,260	–	–	7,260	–	–
Total governments	656	–	–	656	–	–
Total	**210,641**	**2,402**	**1,274**	**214,317**	**1,537**	**863**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 64 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 73 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,759 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof – is also classified as non-performing. Debt measured on a group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

For more information about directives of the Supervisor of Banks with regard to addressing the Corona Virus crisis, see Note 1.C.3. above.

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

	As of March 31, 2020 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	48,884	135,620	19,431	831	12,114	216,880
Debts in good standing other than at performing credit rating[1]	2,720	960	440	–	–	4,120
Troubled non-impaired debt.	1,023	1,546	153	–	–	2,722
Impaired debts	1,229	70	87	–	–	1,386
Total	**53,856**	**138,196**	**20,111**	**831**	**12,114**	**225,108**

	As of March 31, 2019 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debt in good standing[2]	46,239	126,113	19,467	640	6,940	199,399
Debts in good standing other than at performing credit rating[1][2]	1,936	780	333	–	–	3,049
Troubled non-impaired debt.	423	1,348	148	–	–	1,919
Impaired debts	929	57	84	–	–	1,070
Total	**49,527**	**128,298**	**20,032**	**640**	**6,940**	**205,437**

	As of December 31, 2019 (audited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing at performing credit rating	46,799	133,145	19,959	656	7,260	207,819
Debts in good standing other than at performing credit rating[1][2]	1,520	899	403	–	–	2,822
Troubled non-impaired debt.	781	1,476	145	–	–	2,402
Impaired debts	1,132	56	86	–	–	1,274
Total	**50,232**	**135,576**	**20,593**	**656**	**7,260**	**214,317**

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(2) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

A. Impaired debts and individual provision

	As of March 31, 2020 (unaudited)				
	Balance of impaired debts for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[(2)]	Total balance of impaired debts[(2)]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	94	24	8	102	175
Construction and real estate – real estate operations	37	2	14	51	70
Financial services	128	8	5	133	144
Commercial – other	781	191	107	888	1,039
Total commercial	**1,040**	**225**	**134**	**1,174**	**1,428**
Private individuals – housing loans	4	2	66	70	76
Private individuals – other	35	21	52	87	109
Total public – activity in Israel	**1,079**	**248**	**252**	**1,331**	**1,613**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,079**	**248**	**252**	**1,331**	**1,613**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	55	36	–	55	56
Total commercial	**55**	**36**	**–**	**55**	**56**
Private individuals	–	–	–	–	–
Total public – activity overseas	**55**	**36**	**–**	**55**	**56**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**55**	**36**	**–**	**55**	**56**
Total public	1,134	284	252	1,386	1,669
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,134**	**284**	**252**	**1,386**	**1,669**
Of which:					
Measured at present value of cash flows	1,087	282	238	1,325	
Debts under problematic debts restructuring	312	49	65	377	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	As of March 31, 2019 (unaudited)				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	143	18	5	148	221
Construction and real estate – real estate operations	20	1	3	23	34
Financial services	164	10	6	170	206
Commercial – other	510	108	73	583	678
Total commercial	**837**	**137**	**87**	**924**	**1,139**
Private individuals – housing loans	9	2	48	57	57
Private individuals – other	43	21	41	84	100
Total public – activity in Israel	**889**	**160**	**176**	**1,065**	**1,296**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**889**	**160**	**176**	**1,065**	**1,296**
Borrower activity overseas					
Public – commercial					
Construction and real estate	2	–	–	2	4
Commercial – other	3	–	–	3	6
Total commercial	**5**	**–**	**–**	**5**	**10**
Private individuals	–	–	–	–	–
Total public – activity overseas	**5**	**–**	**–**	**5**	**10**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**5**	**–**	**–**	**5**	**10**
Total public	894	160	176	1,070	1,306
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**894**	**160**	**176**	**1,070**	**1,306**
Of which:					
Measured at present value of cash flows	799	159	167	966	
Debts under problematic debts restructuring	285	26	80	365	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	As of December 31, 2019 (audited)				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	103	23	13	116	191
Construction and real estate – real estate operations	52	2	10	62	71
Financial services	130	8	5	135	144
Commercial – other	729	181	53	782	944
Total commercial	**1,014**	**214**	**81**	**1,095**	**1,350**
Private individuals – housing loans	4	2	52	56	56
Private individuals – other	37	22	49	86	103
Total public – activity in Israel	**1,055**	**238**	**182**	**1,237**	**1,509**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,055**	**238**	**182**	**1,237**	**1,509**
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	–	–	1	1
Commercial – other	36	16	–	36	36
Total commercial	**37**	**16**	**–**	**37**	**37**
Private individuals	–	–	–	–	–
Total public – activity overseas	**37**	**16**	**–**	**37**	**37**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**37**	**16**	**–**	**37**	**37**
Total public	1,092	254	182	1,274	1,546
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,092**	**254**	**182**	**1,274**	**1,546**
Of which:					
Measured at present value of cash flows	1,043	252	167	1,210	
Debts under problematic debts restructuring	268	33	63	331	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues[4]

	For the three months ended					
	March 31, 2020 (unaudited)			March 31, 2019 (unaudited)		
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	109	–	–	150	1	1
Construction and real estate – real estate operations	57	–	–	25	1	1
Financial services	134	–	–	169	–	–
Commercial – other	835	4	3	599	4	4
Total commercial	**1,135**	**4**	**3**	**943**	**6**	**6**
Private individuals – housing loans	63	–	–	59	–	–
Private individuals – other	87	1	1	81	2	2
Total public – activity in Israel	**1,285**	**5**	**4**	**1,083**	**8**	**8**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,285**	**5**	**4**	**1,083**	**8**	**8**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1	–	–	2	–	–
Commercial – other	46	–	–	3	–	–
Total commercial	**47**	**–**	**–**	**5**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**47**	**–**	**–**	**5**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**47**	**–**	**–**	**5**	**–**	**–**
Total public	1,332	5	4	1,088	8	8
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total(4)	**1,332**	**5**	**4**	**1,088**	**8**	**8**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 25 million (as of March 31, 2019 – NIS 20 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring

	March 31, 2020 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	14	–	–	–	14
Construction and real estate – real estate operations	3	–	–	–	3
Financial services	126	–	–	–	126
Commercial – other	158	–	–	11	169
Total commercial	**301**	**–**	**–**	**11**	**312**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	34	–	1	30	65
Total public – activity in Israel	**335**	**–**	**1**	**41**	**377**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**335**	**–**	**1**	**41**	**377**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	335	–	1	41	377
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**335**	**–**	**1**	**41**	**377**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

As of March 31, 2020, the Bank had commitments to provide additional credit amounting to NIS 3 million to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	March 31, 2019 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	22	–	–	8	30
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	158	–	–	–	158
Commercial – other	101	–	–	12	113
Total commercial	**282**	**–**	**–**	**20**	**302**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	38	–	1	24	63
Total public – activity in Israel	**320**	**–**	**1**	**44**	**365**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**320**	**–**	**1**	**44**	**365**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	320	–	1	44	365
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**320**	**–**	**1**	**44**	**365**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	As of December 31, 2019 (audited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	14	–	–	–	14
Construction and real estate – real estate operations	3	–	–	–	3
Financial services	129	–	–	–	129
Commercial – other	108	–	–	12	120
Total commercial	**254**	**–**	**–**	**12**	**266**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	33	–	1	31	65
Total public – activity in Israel	**287**	**–**	**1**	**43**	**331**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**287**	**–**	**1**	**43**	**331**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	287	–	1	43	331
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**287**	**–**	**1**	**43**	**331**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made[2]					
	For the three months ended					
	March 31, 2020 (unaudited)			March 31, 2019 (unaudited)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	13	1	1	11	1	1
Construction and real estate – real estate operations	–	–	–	–	–	–
Financial services	2	–	–	1	–	–
Commercial – other	96	66	65	91	33	32
Total commercial	**111**	**67**	**66**	**103**	**34**	**33**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	196	8	8	282	15	15
Total public – activity in Israel	**307**	**75**	**74**	**385**	**49**	**48**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**307**	**75**	**74**	**385**	**49**	**48**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total public	307	75	74	385	49	48
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**307**	**75**	**74**	**385**	**49**	**48**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made which are in default[2]			
	For the three months ended			
	March 31, 2020 (unaudited)		March 31, 2019 (unaudited)	
	Recorded debt balance			
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	2	–	2	–
Construction and real estate – real estate operations	–	–	1	–
Financial services	–	–	1	–
Commercial – other	23	–	28	2
Total commercial	**25**		**32**	**2**
Private individuals – housing loans	–	–	–	–
Private individuals – other	49	2	30	–
Total public – activity in Israel	**74**	**2**	**62**	**2**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**74**	**2**	**62**	**2**
Borrower activity overseas				
Public – commercial				
Construction and real estate	–	–	–	–
Commercial – other	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–
Overseas governments	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**
Total public	74	2	62	2
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**74**	**2**	**62**	**2**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

		March 31, 2020 (unaudited)			
		Housing loan balance			Off-balance sheet credit risk
		Total	**Of which: Bullet / balloon**	**Of which: Variable interest**	**Total**
Senior lien: LTV ratio	Up to 60%	92,699	2,468	59,567	2,840
	Over 60%	45,224	543	28,711	2,776
Junior lien or no lien		273	1	202	4,922
Total		**138,196**	**3,012**	**88,480**	**10,538**

		March 31, 2019 (unaudited)			
		Total	**Of which: Bullet / balloon**	**Of which: Variable interest**	**Total**
Senior lien: LTV ratio	Up to 60%	86,529	3,034	55,937	2,480
	Over 60%	41,499	550	26,813	1,756
Junior lien or no lien		270	2	200	5,747
Total		**128,298**	**3,586**	**82,950**	**9,983**

		As of December 31, 2019 (audited)			
		Total	**Of which: Bullet / balloon**	**Of which: Variable interest**	**Total**
Senior lien: LTV ratio	Up to 60%	91,321	2,850	58,824	2,955
	Over 60%	43,979	569	28,083	2,665
Junior lien or no lien		276	2	203	7,728
Total		**135,576**	**3,421**	**87,110**	**13,348**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended March 31, 2020				For the three months ended March 31, 2019			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	–	–	301	301	–	–	291	291
Loans sold	–	–	–	–	–	571	–	571

	For the year ended December 31, 2019			
	Commercial	Housing	Other(1)	Total
Loans acquired	–	–	782	782
Loans sold	–	571	–	571

(1) Excludes purchase of credit risk to foreign governments, amounting to NIS 38 million.

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

	March 31, 2020	March 31, 2019	December 31, 2019	March 31, 2020	March 31, 2019	December 31, 2019
	Balance(1)			Provision for credit losses		
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions in which the balance represents a credit risk:						
– Un-utilized debitory account and other credit facilities in accounts available on demand	17,214	17,578	14,734	28	19	20
– Guarantees to home buyers(3)	11,173	10,538	10,672	4	3	4
– Irrevocable commitments for loans approved but not yet granted(4)	19,679	16,431	22,466	21	14	19
– Un-utilized revolving credit card facilities	8,758	7,726	8,160	7	5	5
– Commitments to issue guarantees(3)	9,295	8,106	9,993	3	2	3
– Other guarantees and liabilities(2)(3)	8,168	7,881	8,613	35	29	36
– Loan guarantees(3)	2,843	2,428	2,898	32	23	31
– Documentary credit	234	300	206	2	1	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.
(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 75 million. (as of March 31, 2019 and December 31, 2019 – NIS 28 million and NIS 57 million, respectively).
(3) The Bank provides guarantees to improve the credit and transaction capacity of its clients.
The term to maturity of guarantees to home buyers is typically up to three years.
With respect to these guarantees and to commitments to issue such guarantees, the Bank has acquired a credit exposure insurance policy. The insurance policy covers 80% of the guarantees and is effective as from December 31, 2016.
The term to maturity of other guarantees, performance guarantees and credit backing guarantees is typically up to one year.
(4) Includes the effect of extension of the lock period for approval in principle of housing loans, from 12 days to 24 days, in conformity with the revision of Proper Conduct of Banking Business Directive 451 "Procedures for extending housing loans".

Note 14 – Assets and Liabilities by Linkage Basis

As of March 31, 2020 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	44,004	–	11,868	288	225	–	56,385
Securities	4,568	1,060	2,710	234	–	137	8,709
Securities borrowed or bought in conjunction with resale agreements	35	1	–	–	–	–	36
Loans to the public, net[3]	141,386	57,981	6,082	3,187	1,594	–	210,230
Loans to Governments	–	–	637	194	–	–	831
Investments in associated companies	36	–	–	–	–	(6)	30
Buildings and equipment	–	–	–	–	–	1,437	1,437
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivatives	2,102	122	1,925	117	103	–	4,369
Other assets	1,421	406	118	–	40	632	2,617
Total assets	**193,552**	**59,570**	**23,340**	**4,020**	**1,962**	**2,287**	**284,731**
Liabilities							
Deposits from the public	168,001	14,343	34,888	3,927	2,030	–	223,189
Deposits from banks	91	–	661	141	31	–	924
Deposits from the Government	45	2	21	1	–	–	69
Debentures and subordinated notes	8,329	21,908	–	–	–	–	30,237
Liabilities with respect to derivatives	2,024	22	1,938	84	113	–	4,181
Other liabilities	6,883	1,659	110	6	22	277	8,957
Total liabilities	**185,373**	**37,934**	**37,618**	**4,159**	**2,196**	**277**	**267,557**
Difference	**8,179**	**21,636**	**(14,278)**	**(139)**	**(234)**	**2,010**	**17,174**
Impact of hedging derivatives:							
Derivatives (other than options)	3,580	(3,580)	–	–	–	–	–
Non-hedging derivatives:							
Derivatives (other than options)	(13,197)	(753)	13,743	136	71	–	–
Net in-the-money options (in terms of underlying asset)	(497)	–	569	(57)	(15)	–	–
Net out-of-the-money options (in terms of underlying asset)	(183)	–	162	52	(31)	–	–
Grand total	**(2,118)**	**17,303**	**196**	**(8)**	**(209)**	**2,010**	**17,174**
Net in-the-money options (capitalized par value)	(2,156)	–	1,730	425	1	–	–
Net out-of-the-money options (capitalized par value)	3,470	–	(2,778)	(841)	149	–	–

(1) Includes linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – Continued

As of March 31, 2019 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	41,311	124	6,567	342	52	–	48,396
Securities	3,566	500	4,115	840	–	109	9,130
Securities borrowed or bought in conjunction with resale agreements	30	12	–	–	–	–	42
Loans to the public, net[3]	130,572	54,081	6,600	2,869	2,149	–	196,271
Loans to Governments	–	–	505	135	–	–	640
Investments in associated companies	36	–	–	–	–	(4)	32
Buildings and equipment	–	–	–	–	–	1,387	1,387
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivatives	1,366	340	540	61	34	–	2,341
Other assets	1,068	442	69	–	44	62	1,685
Total assets	**177,949**	**55,499**	**18,396**	**4,247**	**2,279**	**1,641**	**260,011**
Liabilities							
Deposits from the public	148,047	16,112	34,308	4,081	2,229	–	204,777
Deposits from banks	110	4	450	55	–	–	619
Deposits from the Government	18	2	23	–	–	–	43
Debentures and subordinated notes	8,360	19,361	–	–	–	–	27,721
Liabilities with respect to derivatives	1,676	85	645	89	32	–	2,527
Other liabilities	6,143	1,251	696	5	137	247	8,479
Total liabilities	**164,354**	**36,815**	**36,122**	**4,230**	**2,398**	**247**	**244,166**
Difference	**13,595**	**18,684**	**(17,726)**	**17**	**(119)**	**1,394**	**15,845**
Impact of hedging derivatives:							
Derivatives (other than options)	2,467	(2,467)	–	–	–	–	–
Non-hedging derivatives:							
Derivatives (other than options)	(15,841)	(1,796)	17,733	21	(117)	–	–
Net in-the-money options (in terms of underlying asset)	614	–	(590)	(38)	14	–	–
Net out-of-the-money options (in terms of underlying asset)	(386)	–	392	(18)	12	–	–
Grand total	**449**	**14,421**	**(191)**	**(18)**	**(210)**	**1,394**	**15,845**
Net in-the-money options (capitalized par value)	(899)	–	195	679	25	–	–
Net out-of-the-money options (capitalized par value)	2,919	–	(1,383)	(1,804)	268	–	–

(1) Includes linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2019 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	44,161	–	6,986	277	248	–	51,672
Securities	5,038	607	3,883	436	–	149	10,113
Securities borrowed or bought in conjunction with resale agreements	104	16	–	–	–	–	120
Loans to the public, net[3]	137,223	57,272	5,612	3,008	1,593	–	204,708
Loans to Governments	–	–	453	203	–	–	656
Investments in associated companies	36	–	–	–	–	(4)	32
Buildings and equipment	–	–	–	–	–	1,457	1,457
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivatives	1,766	345	234	96	137	–	2,578
Other assets	1,123	531	88	–	26	53	1,821
Total assets	**189,451**	**58,771**	**17,256**	**4,020**	**2,004**	**1,742**	**273,244**
Liabilities							
Deposits from the public	158,980	14,345	31,352	4,123	2,184	–	210,984
Deposits from banks	178	–	395	117	24	–	714
Deposits from the Government	8	2	19	–	–	–	29
Debentures and subordinated notes	8,294	25,166	–	–	–	–	33,460
Liabilities with respect to derivatives	1,986	76	358	142	124	–	2,686
Other liabilities	6,858	1,287	102	7	46	266	8,566
Total liabilities	**176,304**	**40,876**	**32,226**	**4,389**	**2,378**	**266**	**256,439**
Difference	**13,147**	**17,895**	**(14,970)**	**(369)**	**(374)**	**1,476**	**16,805**
Impact of hedging derivatives:							
Derivatives (other than options)	3,458	(3,458)	–	–	–	–	–
Non-hedging derivatives:							
Derivatives (other than options)	(15,982)	(1,024)	16,203	602	201	–	–
Net in-the-money options (in terms of underlying asset)	1,367	–	(1,133)	(212)	(22)	–	–
Net out-of-the-money options (in terms of underlying asset)	(249)	–	325	(71)	(5)	–	–
Grand total	**1,741**	**13,413**	**425**	**(50)**	**(200)**	**1,476**	**16,805**
Net in-the-money options (capitalized par value)	(1,880)	–	921	981	(22)	–	–
Net out-of-the-money options (capitalized par value)	4,423	–	(2,495)	(2,042)	114	–	–

(1) Includes linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 15 – Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	March 31, 2020 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	56,385	16,329	38,167	1,887	56,383
Securities(3)	8,709	6,407	2,265	68	8,740
Securities loaned or purchased in resale agreements	36	36	–	–	36
Loans to the public, net	210,230	954	10,410	(5)197,578	208,942
Loans to Governments	831	–	–	830	830
Investments in associated companies	30	–	–	30	30
Assets with respect to derivatives	4,369	310	1,690	(2)2,369	4,369
Other financial assets	836	5	–	831	836
Total financial assets	**(4)281,426**	**24,041**	**52,532**	**203,593**	**280,166**
Financial liabilities					
Deposits from the public	223,189	954	71,098	152,554	224,606
Deposits from banks	924	–	317	608	925
Deposits from the Government	69	–	–	72	72
Debentures and subordinated notes	30,237	28,344	–	1,735	30,079
Liabilities with respect to derivatives	4,181	401	1,951	(2)1,829	4,181
Other financial liabilities	7,122	667	4,453	2,002	7,122
Total financial liabilities	**(4)265,722**	**30,366**	**77,819**	**158,800**	**266,985**

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 74,201 million and NIS 76,447 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 8 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	March 31, 2019 (unaudited)				
		Fair value			
	Book balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	48,396	11,128	36,012	1,254	48,394
Securities[3]	9,130	6,008	3,052	107	9,167
Securities loaned or purchased in resale agreements	42	42	–	–	42
Loans to the public, net	196,271	529	10,885	[5]184,395	195,809
Loans to Governments	640	–	–	640	640
Investments in associated companies	32	–	–	32	32
Assets with respect to derivatives	2,341	207	1,362	[2]772	2,341
Other financial assets	524	23	–	501	524
Total financial assets	**[4]257,376**	**17,937**	**51,311**	**187,701**	**256,949**
Financial liabilities					
Deposits from the public	204,777	529	55,393	149,822	205,744
Deposits from banks	619	–	390	229	619
Deposits from the Government	43	–	–	45	45
Debentures and subordinated notes	27,721	26,854	–	1,864	28,718
Liabilities with respect to derivatives	2,527	208	1,477	[2]842	2,527
Other financial liabilities	6,757	423	4,509	1,825	6,757
Total financial liabilities	**[4]242,444**	**28,014**	**61,769**	**154,627**	**244,410**

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 67,362 million and NIS 63,919 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 5 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	As of December 31, 2019 (audited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	51,672	11,846	38,978	848	51,672
Securities[(3)]	10,113	7,571	2,537	66	10,174
Securities loaned or purchased in resale agreements	120	120	–	–	120
Loans to the public, net	204,708	781	10,887	[(5)]194,709	206,377
Loans to Governments	656	–	–	657	657
Investments in associated companies	32	–	–	32	32
Assets with respect to derivatives	2,578	215	1,662	[(2)]701	2,578
Other financial assets	627	6	–	621	627
Total financial assets	**[(4)]270,506**	**20,539**	**54,064**	**197,634**	**272,237**
Financial liabilities					
Deposits from the public	210,984	781	64,919	147,289	212,989
Deposits from banks	714	–	315	399	714
Deposits from the Government	29	–	–	31	31
Debentures and subordinated notes	33,460	32,750	–	1,990	34,740
Liabilities with respect to derivatives	2,686	213	1,509	[(2)]964	2,686
Other financial liabilities	6,616	490	4,874	1,251	6,615
Total financial liabilities	**[(4)]254,489**	**34,234**	**71,617**	**151,924**	**257,775**

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 72,028 million and NIS 67,968 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 8 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	March 31, 2020 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	1,361	2,009	–	3,370
Of foreign governments	678	–	–	678
Of banks and financial institutions overseas	–	112	–	112
Investments in shares not held for trading	69	–	18	87
Securities held for trading:				
Debentures of the Government of Israel	645	144	–	789
Securities loaned or acquired in resale agreements	36	–	–	36
Credit with respect to loans to clients	954	–	–	954
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	123	182	305
Other	–	334	209	543
Currency contracts	60	1,186	1,639	2,885
Contracts for shares	250	45	335	630
Commodities and other contracts	–	2	4	6
Other financial assets	5	–	–	5
Other	–	–	8	8
Total assets	**4,058**	**3,955**	**2,395**	**10,408**
Liabilities				
Deposits with respect to borrowing from clients	954	–	–	954
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	96	11	107
Other	–	492	351	843
Currency contracts	151	1,158	1,264	2,573
Contracts for shares	250	185	202	637
Commodities and other contracts	–	20	1	21
Other financial liabilities	667	–	–	667
Other	–	–	19	19
Total liabilities	**2,022**	**1,951**	**1,848**	**5,821**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	March 31, 2019 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	414	2,582	–	2,996
Of foreign governments	1,838	–	–	1,838
Of banks and financial institutions overseas	–	470	–	470
Investments in shares not held for trading	2	–	17	19
Securities held for trading:				
Debentures of the Government of Israel	511	–	–	511
Securities loaned or acquired in resale agreements	42	–	–	42
Credit with respect to loans to clients	529	–	–	529
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	110	74	184
Other	–	469	16	485
Currency contracts	55	748	544	1,347
Contracts for shares	151	35	133	319
Commodities and other contracts	1	–	5	6
Other financial assets	23	–	–	23
Other	–	–	5	5
Total assets	**3,566**	**4,414**	**794**	**8,774**
Liabilities				
Deposits with respect to borrowing from clients	529	–	–	529
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	55	32	87
Other	–	655	30	685
Currency contracts	55	754	608	1,417
Contracts for shares	152	10	170	332
Commodities and other contracts	1	3	2	6
Other financial liabilities	423	–	–	423
Other	–	–	2	2
Total liabilities	**1,160**	**1,477**	**844**	**3,481**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	As of December 31, 2019 (audited)			
	Prices quoted on active market (level 1)	**Other significant observed data (level 2)**	**Non-observed significant data (level 3)**	**Total fair value**
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	1,187	2,175	–	3,362
Of foreign governments	1,440	–	–	1,440
Of banks and financial institutions overseas	–	362	–	362
Investments in shares not held for trading	83	–	17	100
Securities held for trading:				
Debentures of the Government of Israel	427	–	–	427
Debentures of foreign governments	341	–	–	341
Securities loaned or acquired in resale agreements	120	–	–	120
Credit with respect to loans to clients	781	–	–	781
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	70	126	196
Other	–	455	24	479
Currency contracts	47	1,037	485	1,569
Contracts for shares	167	97	63	327
Commodities and other contracts	1	3	3	7
Other financial assets	6	–	–	6
Other	–	–	8	8
Total assets	**4,600**	**4,199**	**726**	**9,525**
Liabilities				
Deposits with respect to borrowing from clients	781	–	–	781
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	67	14	81
Other	–	695	40	735
Currency contracts	44	717	771	1,532
Contracts for shares	168	29	135	332
Commodities and other contracts	1	1	4	6
Other financial liabilities	490	–	–	490
Total liabilities	**1,484**	**1,509**	**964**	**3,957**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	March 31, 2020 (unaudited)				For the three months ended March 31, 2020
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	(Losses)
Impaired credit whose collection is contingent on collateral	–	9	50	59	(8)

	March 31, 2019 (unaudited)				For the three months ended March 31, 2019
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains
Impaired credit whose collection is contingent on collateral	–	16	87	103	7

	As of December 31, 2019 (audited)				For the year ended December 31, 2019
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains
Impaired credit whose collection is contingent on collateral	–	16	46	62	24

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2020 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2019	In statement of profit and loss	under Other Comprehensive Income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[4]	Fair value as of March 31, 2020	Unrealized gains (losses) with respect to instruments held as of March 31, 2020
Assets									
Shares not held for trading	17	1	–	–	–	–	–	18	1
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	126	37	–	8	–	(14)	25	182	70
Other	24	157	–	28	–	–	–	209	237
Currency contracts	485	7	–	1,147	–	–	–	1,639	826
Contracts for shares	63	157	–	117	–	(2)	–	335	–
Commodities and other contracts	3	–	–	1	–	–	–	4	1
Other	8	–	–	–	–	–	–	8	–
Total assets	**726**	**359**	**–**	**1,301**	**–**	**(16)**	**25**	**2,395**	**1,135**
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	14	(1)	–	–	–	(13)	11	11	(51)
Other	40	234	–	77	–	–	–	351	374
Currency contracts	771	(256)	–	749	–	–	–	1,264	1,119
Contracts for shares	135	(8)	–	77	–	(2)	–	202	–
Commodities and other contracts	4	(4)	–	1	–	–	–	1	1
Other	–	19	–	–	–	–	–	19	–
Total liabilities	**964**	**(16)**	**–**	**904**	**–**	**(15)**	**11**	**1,848**	**1,443**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2019 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[4]	Fair value as of March 31, 2019	Unrealized gain (loss) with respect to instruments held as of March 31, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	75	12	–	–	–	(23)	10	74	132
Other	9	(2)	–	9	–	–	–	16	136
Currency contracts	1,092	(106)	–	253	–	(695)	–	544	319
Contracts for shares	156	(46)	–	59	–	(36)	–	133	–
Commodities and other contracts	3	2	–	1	–	(1)	–	5	–
Other	4	1	–	–	–	–	–	5	–
Total assets	**1,339**	**(139)**	**–**	**322**	**–**	**(755)**	**27**	**794**	**587**
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	25	(4)	–	–	–	(5)	16	32	–
Other	27	3	–	–	–	–	–	30	241
Currency contracts	584	136	–	157	–	(269)	–	608	610
Contracts for shares	206	(84)	–	50	–	(2)	–	170	–
Commodities and other contracts	3	–	–	–	–	(1)	–	2	–
Other	8	(6)	–	–	–	–	–	2	–
Total liabilities	**853**	**45**	**–**	**207**	**–**	**(277)**	**16**	**844**	**851**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the year ended December 31, 2019 (audited)								
		Realized / unrealized gains (losses) included, net[(1)]							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[(4)]	Fair value as of December 31, 2019	Unrealized gains (losses) with respect to instruments held as of December 31, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	75	7	–	24	–	(52)	72	126	114
Other	9	(18)	–	33	–	–	–	24	133
Currency contracts	1,092	(137)	–	1,020	–	(1,490)	–	485	362
Contracts for shares	156	(65)	–	68	–	(96)	–	63	–
Commodities and other contracts	3	3	–	1	–	(4)	–	3	–
Other	4	4	–	–	–	–	–	8	–
Total assets	**1,339**	**(206)**	**–**	**1,146**	**–**	**(1,642)**	**89**	**726**	**609**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	25	(10)	–	3	–	(20)	16	14	(36)
Other	27	(10)	–	23	–	–	–	40	244
Currency contracts	584	113	–	1,159	–	(1,085)	–	771	731
Contracts for shares	206	(164)	–	179	–	(86)	–	135	–
Commodities and other contracts	3	2	–	–	–	(1)	–	4	–
Other	8	(8)	–	–	–	–	–	–	–
Total liabilities	**853**	**(77)**	**–**	**1,364**	**–**	**(1,192)**	**16**	**964**	**939**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of March 31, 2020	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	18	Quote from counter-party to the transaction			
Assets with respect to derivatives:					
Interest contracts – NIS CPI	173	Cash flows discounting	Inflationary expectations	(0.31%)-(0.27%)	(0.30%)
Contracts for shares	975	Options pricing model	Standard deviation per share	90.88% – 89.34%	89.83%
Other	1,229	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.69%
Liabilities with respect to derivatives:					
Interest contracts – NIS CPI	11	Cash flows discounting	Inflationary expectations	(0.31%)-(0.27%)	(0.30%)
Other	953	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.71%

	Fair value as of March 31, 2019	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	17	Quote from counter-party to the transaction			
Assets with respect to derivatives:					
Interest contracts – NIS CPI	50	Cash flows discounting	Inflationary expectations	1.23% – 1.15%	1.18%
Contracts for shares	370	Options pricing model	Standard deviation per share	41.77% – 36.79%	39.63%
Other	357	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.77%
Liabilities with respect to derivatives:					
Interest contracts – NIS CPI	26	Cash flows discounting	Inflationary expectations	1.23% – 1.15%	1.19%
Other	818	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.77%

	Fair value as of December 31, 2019	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	17	Quote from counter-party to the transaction			
Assets with respect to derivatives:					
Interest contracts – NIS CPI	123	Cash flows discounting	Inflationary expectations	0.93%- 0.82%	0.84%
Contracts for shares	300	Options pricing model	Standard deviation per share	41.49% – 40.86%	41.26%
Other	286	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.66%
Liabilities with respect to derivatives:					
Interest contracts – NIS CPI	14	Cash flows discounting	Inflationary expectations	0.93%- 0.82%	0.89%
Other	950	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.76%

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain debentures would be charged to the Statement of Profit and Loss, with debentures classified under the portfolio held for trading, although they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of December 31, 2019, the Bank elected the fair value option with regard to securities classified as securities held for trading, even though they had not been acquired for trading purposes. For more information see Note 5.D.

As of March 31, 2020 and March 31, 2019, the Bank did not elect the fair value option.

	Fair value as of December 31, 2019	Gains with respect to changes in fair value for the year ended December 31, 2019
Securities available for sale	341	2

Note 16 – Significant events during the reported period

Effect of the Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity, significant increase in the unemployment rate and sharp volatility in financial markets. March saw sharp declines on the Stock Exchange, with sharp volatility. The sharp declines in financial markets resulted in households selling securities and in heavy redemptions, primarily in the mutual fund market.

For more information about supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis, see Note 1.C.3. above.

For more information about Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", see Note 9.

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the group-based provision.

In conformity with directives of the Supervisor of Banks, the Bank applies a methodology for measuring the group provision, which takes into account both past loss rates, since 2011, and adjustments with respect to relevant environmental factors. These factors include the following: Trends in credit volume for each sector as well as sector conditions, macro-economic data, general assessment of credit quality for each economic sector, changes in volume and in trend of balances in arrears, changes to Bank policy on extending credit and so forth. In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should review all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provision for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.

Expenses with respect to credit losses in the first quarter of 2020, amounted to NIS 345 million compared with NIS 76 million in the corresponding period last year – an increase by NIS 269 million. For more information about the provision for credit losses included on these financial statements, see Notes 6 and 13.

Mizrahi-Tefahot Bank

Corporate governance, audit, other information about the Bank and its management

Table of Contents

Corporate governance

Board of Directors and management

Board of Directors

During the first quarter of 2020, the Bank's Board of Directors held 8 plenary meetings. During this period there were also 19 meetings of Board committees and one Board member workshop.

Presented below are changes since January 1, 2020 through publication of these financial statements:

On December 24, 2019, the Bank's Board of Directors approved the following appointments and changes in committee membership, effective as from January 1, 2020:

- Appointment of Mr. Yoav Asher Nachshon as member of the Bank's Board of Directors and member of the Credit Committee and of the IT and Technology Innovation Committee.
- Appointment of Ms. Hannah Fayer as Chair of the Remuneration Committee.
- Appointment of Mr. Yosef Plus as Chair of the Audit Committee.
- Appointment of Mr. Yoni Kaplan as member of the Credit Committee and termination of their membership of the IT and Technology Innovation Committee.
- Appointment of Mr. Eli Elroy as member of the IT and Technology Innovation Committee.
- Termination of Mr. Ron Gazit's membership of the Credit Committee.

On February 24, 2020, Mr. Moshe Vidman concluded their term in office as Chairman, IT and Technology Innovation Committee but continues to be a member of this Committee.

On February 24, 2020, Mr. Gilad Rabinowitz started their term in office as Chairman, IT and Technology Innovation Committee.

Members of Bank management and senior officers

On February 29, 2020, Ms. Maya Feller retired from the position of Bank Secretary. Replacing her, Mr. Ofer Hurwitz was appointed Bank Secretary and Manager, Bank Headquarters.

On December 31, 2019, Ms. Rita Rubinstein retired from the position of Manager, Human Resources and Administration Division. Replacing her, Mr. Nissan Levi was appointed Manager, Human Resources, Resources and Operations Division.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2019 annual report.

Due to the Corona Virus pandemic, Internal Audit adapted its operations in the first quarter of 2020, in order to reduce the physical attendance of employees and preserve the capacity to review major risks.

Transactions with controlling shareholders and related parties

Transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

On March 25, 2020, the General Meeting of Bank shareholders approved, after approval by the Remuneration Committee and by the Board of Directors, for the Bank to contract a Board member and officer liability insurance policy (including controlling shareholders of the Bank and their relatives who may serve from time to time, including those to be appointed in future), or those who have served as Bank Board members, including officers where the controlling shareholder of the Bank has a personal interest in their liability insurance, for a term of twelve months starting on April 1, 2020, other than pursuant to the officer remuneration policy.

For more information see Immediate Reports dated February 19, 2020 (reference: 2020-01-017409 and reference: 2020-01-017415) and report dated March 25, 2020 (reference: 2020-01-029814).

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

Economic Plan Act (Legislation Amendments to Implement Economic Policy for 2019 Budget Year), 2018

On March 22, 2018, the Act was made public, including multiple legislative amendments. These include amendment of the Banking Act (Customer Service), 1981. The amendment to the Act involves client transition from one bank to another, and would become effective on March 22, 2021 unless postponed (two allowed six-month postponements).

According to the amendment to the Act, should a client (individual or corporation of the type specified in regulations by the Governor of the Bank of Israel) wish to transfer to another bank, the client's original bank and the receiving bank shall take all required actions to allow the client to transfer their financial activity to the receiving bank through an online, convenient, reliable, secure process at no cost to the client for such transfer of their financial activity, within seven business days or by another date specified by the Governor of the Bank of Israel with consent of the Minister of Finance.

As for the period prior to the effective start date of the Act, it was stipulated that should a client ask to close their account with their bank, the bank shall not rescind, merely due to the closing request, any benefits and discounts to which the client was eligible in managing their account, sooner than prescribed in an agreement between the bank and the client and, unless otherwise stipulated, for at least three months.

On December 17, 2019, the Governor of the Bank of Israel issued Banking Rules (Customer Service) (Transfer of Client Financial Activity between Banks), 2019, which stipulate the types of accounts and financial activities subject to the Act.

Application of the amendment to the Act is not expected to have any material impact on the Bank's financial statements.

Payment Services Act, 2019

On January 9, 2019, the Payment Services Act, 2019 was published (hereinafter: "the Payment Services Act"), which would mostly become effective on October 14, 2020; a small part of this Act (Section 77(b) and (c)) would become effective on January 9, 2022.

Provisions of the Act are primarily based on corresponding regulation in Europe (the PSD2 Directive and implementation of provisions of the Directive in key European countries) and on arrangement pursuant to the Charge Card Act, 1986, which is superseded by the Payment Services Act.

The key purpose of the Payment Services Act is to provide consumer protection to clients (payers or recipients) who would receive in future "payment services" from "payment service providers" (including banks, credit card companies, payment apps etc.), to increase public trust in diverse "means of payment" and to create the initial infrastructure to increase competition in the payment services market in Israel.

The Act defines two types of payment services:

a. "Payment services to beneficiary", including management of payment account on behalf of a recipient and settlement of payment transactions for recipients (merchants); and
b. "Payment services to payer", including management of payment account on behalf of the payer and issuing of "means of payment" to the payer.

Definition of "means of payment" in the new Act is distinct from the physical aspect of means of payment as a required component. Thus, whereas the Charge Card Act only applies to physical charge cards, the Payment Services Act applies to all "means of payment" – current or future, physical or non-physical. That is to say, the consumer protection specified in the Payment Services Act would apply not only to making transactions and payments using charge cards, but also to making transfers, deposits and withdrawals from a bank current account, to standing orders to charge an account, to transactions using advanced means of payment, such as eWallets and payment apps, and to foreign payment service providers operating, or who would be operating in future, in Israel.

Whereas the Charge Card Act only refers to the legal relationship between the charge card issuer and the card holder, the Payment Services Act also covers the obligations of the payment service provider towards the recipient (e.g. the settlement provider) towards the recipient (e.g. the merchant).

The Bank is preparing to implement provisions of the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Supervisor of Banks

Circulars and Public Reporting Directives

Preparations for discontinued use of LIBOR

As announced by the Financial Conduct Authority (FCA) in the UK and by the US Securities and Exchange Commission (SEC) in July 2017, a decision has been made to gradually discontinue use of LIBOR, by the end of 2021. Further to this decision, diverse teams have been set up around the world, in order to determine interest rate benchmarks.

Discontinuation of the use of LIBOR and transition to alternative interest rate benchmarks should have wide-ranging implications for the Bank, including economic, operating and accounting implications.

The Bank has started reviewing the expected impact of discontinued publication of LIBOR information, including review of potential alternatives for each of the aforementioned currencies, potential financial implications due to the transition to using the aforementioned alternative interest rate benchmarks and the required preparations in both business and risk management aspects.

The Bank is reviewing interest rate alternatives that may replace LIBOR. However, at this stage and due to absence of directives with regard to implementation of the transition, it is impossible to assess the impact on the Bank due to discontinued use of LIBOR.

The following table lists Bank contracts impacted by LIBOR interest rates with regard to contracts scheduled to continue beyond 2021:

	As of March 31, 2020
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	4,919
Deposits from the public	86
Net derivatives (par value)	817

Major risks and Bank preparations there for

Discontinued use of LIBOR and transition to alternative interest rate benchmarks pose various risks for the Bank; the Bank has identified such risks through, *inter alia*, mapping of all relevant contracts and exposures.

In 2019, the Bank started preparing to manage and mitigate the risks identified with regard to discontinued use of LIBOR. As part of such preparations, the Bank has set up a steering committee and a custom team tasked, *inter alia*, with development of work processes to identify the risks, to review the impact of each risk and to monitor these risks and associated impact. Updates were provided to management and to the Bank's Board of Directors. Note that the Bank has already informed its clients of the potential discontinuation of LIBOR at end of 2021.

Expected accounting implications

Discontinued use of LIBOR and transition to alternative interest rate benchmarks are expected to have diverse accounting implications in multiple areas, including the following:

- Hedge accounting – a review would be required of terms and effectiveness of accounting hedges, and documentation would need to be revised due to transfer to an alternative interest benchmark. Key expected impact is with regard to hedging of interest rate risk.
- Debt modifications – debt modifications that do not make reference to a fall back may require amendment and review as to whether such modifications would be accounted for as de-recognition of the existing contracts and initial recognition of the new contracts, with potential effect on the statement of profit and loss, or alternatively as continuation of the existing contracts, by updating the effective interest rate.
- Discount rates – transition to alternative interest rate benchmarks may result in changes to discount rates used as input in various models for valuation of diverse assets and liabilities, such as: financial instruments, leases, derivatives, impairment of non-financial assets.
- Fair value ranking – some of the alternative interest rate benchmarks, such as SOFR (Secured Overnight Financing Rate) have been recently published and therefore have no active market using them. Therefore, it is anticipated that

contracts making reference to these alternative interest rate benchmarks would be classified at Level 2 or 3 of the fair value ranking.

Note, in this regard, that in October 2018, the US Financial Accounting Standards Board ("FASB") issued standards update ASU 2018-16, with regard to adding SOFR to the list of interest rate benchmarks in the USA valid for use in accounting hedging. Moreover, in March 2020, FASB issued a proposed amendment with regard to relief due to the impact of interest rate benchmark reform on financial reporting, including *inter alia* relief with regard to changes in contracts, in hedge accounting and in debentures held to maturity. The Bank is reviewing the effect of the relief measures on its financial statements.

Debit cards

On January 9, 2020, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 470 "Debit cards" and to Proper Conduct of Banking Business Directive 472 "Settlement providers and settlement of debit card transactions". According to this circular, and to promote adoption and use of the EMV standard (a technology for reading the chip embedded in the credit card) and to improve the user experience, a transition period was specified, to allow for gradual introduction of contact-less cards. It was further stipulated that due to the increase in ATM fraud, due to the fact that such devices do not support the smart standard and allow fund withdrawal using counterfeit cards, banking corporations were prohibited from connecting to their systems any device that does not support the EMV standard. Provisions of this circular are effective as from the issue date thereof, other than some exceptions that would become effective gradually.

The Bank applies the sections in effect and is preparing to apply the other provisions of this circular. Application of this circular has no material impact on the Bank's financial statements.

Implementation of open banking standard in Israel

On February 24, 2020, the Bank of Israel issued a circular concerning Proper Conduct of Banking Business Directive 368 "Implementation of open banking standard". This circular describes the evolution of open banking world-wide and the standards created, elaborating the legislation being enacted in Israel, which resulted in the Supervisor of Banks promoting the open banking project and issuing a directive with regard to this matter. The directive includes instructions with regard to implementation of the open banking standard, rules for service level and client consent, as well as instructions with regard to architecture and information security. This directive applies to banks and to credit card companies in their operations in Israel, with respect to accounts held by individuals. The directive also stipulates instructions with regard to corporate governance, including details of the roles and responsibilities of the Board of Directors and senior management in setting policy, allocating appropriate resources and supervising the implementation of the open banking management framework. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular regarding evolution of the Corona Virus pandemic, containing revised effective start dates for Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)

On March 19, 2020, the Bank of Israel issued a circular regarding Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus". The circular lists a range of relief measures incorporated in the interim directive due to development of the Corona Virus pandemic and its economic implications globally and in Israel. The adjustments to the directive are intended to provide banks with the business flexibility required at this time. Further adjustments to the directive were issued in circulars dated March 31, 2020, April 1, 2020 and April 7, 2020.

The Bank applies some of the relief measures set forth in the directive, as well as further relief measures pursuant to business decisions made by the Bank, including the following:

- Suspension of limitation of accounts and account holders due to checks denied due to insufficient funds as from March 4, 2020.
- Issuance of immediate debit cards to clients who do not hold a debit card and who withdraw their pensions at branches.
- Implementation of instructions with regard to reduced branch opening hours and to reduced operations and movement in the public space. These instructions were later gradually removed in view of relief measured issued by the Government.

- Relief for limitations on extending housing loans and for issue dates for letters of intent and settlement confirmations.
- Relief for online banking, providing instructions by telephone and giving precedence in queues to senior citizens.
- Delay in payments for commercial loans and housing loans.

Application of this circular has no material impact on the Bank's financial statements.

Bank's credit rating

On July 11, 2019, S&P Global Ratings Ma'alot Ltd. (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook. According to the rating agency: "This rating confirmation reflects the Bank's stronger position within the ilAAA rating group and our assessment of credit stability over the next two years."

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.

Rating of the Bank's subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, was raised to ilAA-.

The contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- with Stable rating outlook.

On August 1, 2019, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") confirmed the Bank's ratings. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook. Subordinated notes (Lower Tier II capital) are rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) are rated Aa2.il / Stable outlook.

Contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable. This rating has been unchanged since then.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2019 financial statements.

Addendums to condensed quarterly financial statements

Addendum I – Interest Revenue and Expense Rates – of the Bank and its Subsidiaries(1)

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Average balance(2)	Interest revenues	Revenue rate	Average balance(2)	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public(3)						
In Israel	200,439	(7)1,552	3.13	188,783	(7)1,552	3.25
Outside of Israel	3,133	49	6.40	3,424	60	7.20
Total	**203,572**	**1,601**	**3.18**	**192,207**	**1,575**	**3.32**
Loans to the Government						
In Israel	191	–	–	143	1	2.83
Outside of Israel	456	7	6.28	486	8	6.75
Total	**647**	**7**	**4.40**	**629**	**9**	**5.85**
Deposits with banks						
In Israel	1,046	1	0.38	1,383	5	1.45
Outside of Israel	198	–	–	258	1	1.56
Total	**1,244**	**1**	**0.32**	**1,641**	**6**	**1.47**
Deposits with central banks						
In Israel	43,363	23	0.21	35,910	18	0.20
Outside of Israel	7,118	21	1.19	6,746	40	2.39
Total	**50,481**	**44**	**0.35**	**42,656**	**58**	**0.54**
Securities loaned or purchased in resale agreements						
In Israel	47	–	–	93	–	–
Outside of Israel	–	–	–	–	–	–
Total	**47**	**–**	**–**	**93**	**–**	**–**
Debentures held to maturity and available for sale(4)						
In Israel	7,926	27	1.37	9,401	32	1.37
Outside of Israel	656	4	2.46	897	5	2.25
Total	**8,582**	**31**	**1.45**	**10,298**	**37**	**1.44**
Debentures held for trading(5)						
In Israel	811	2	0.99	333	1	1.21
Outside of Israel	–	–	–	–	–	–
Total	**811**	**2**	**0.99**	**333**	**1**	**1.21**
Total interest-bearing assets	**265,384**	**1,686**	**2.57**	**247,857**	**1,686**	**2.75**
Receivables for credit card operations	3,800			3,609		
Other non-interest bearing assets(6)	5,447			5,352		
Total assets	**274,631**			**256,818**		
Total interest-bearing assets attributable to operations outside of Israel	**11,561**	**81**	**2.83**	**11,811**	**114**	**3.92**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries(1) – Continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Average balance(2)	Interest expenses (revenues)	Expense (revenue) rate	Average balance(2)	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	29,495	6	0.08	24,971	11	0.18
Term deposits	123,717	289	0.94	121,295	342	1.13
Outside of Israel						
On-call	576	–	–	590	–	–
Term deposits	3,969	17	1.72	4,924	28	2.29
Total	**157,757**	**312**	**0.79**	**151,780**	**381**	**1.01**
Deposits from the Government						
In Israel	33	–	–	42	–	–
Outside of Israel	–	–	–	–	–	–
Total	**33**	**–**	**–**	**42**	**–**	**–**
Deposits from banks						
In Israel	1,140	2	0.70	995	2	0.81
Outside of Israel	3	–	–	1	–	–
Total	**1,143**	**2**	**0.70**	**996**	**2**	**0.81**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	32,334	25	0.31	29,598	71	0.96
Outside of Israel	–	–	–	–	–	–
Total	**32,334**	**25**	**0.31**	**29,598**	**71**	**0.96**
Other liabilities						
In Israel	414	–	–	188	1	2.14
Outside of Israel	–	–	–	–	–	–
Total	**414**	**–**	**–**	**188**	**1**	**2.14**
Total interest-bearing liabilities	**191,681**	**339**	**0.71**	**182,604**	**455**	**1.00**
Non-interest bearing deposits from the public	56,910			48,338		
Payables for credit card transactions	3,866			3,675		
Other non-interest bearing liabilities(8)	5,089			6,535		
Total liabilities	**257,546**			**241,152**		
Total equity resources	**17,085**			**15,666**		
Total liabilities and equity resources	**274,631**			**256,818**		
Interest margin			**1.86**			**1.75**
Net return(9) on interest-bearing assets						
In Israel	253,823	1,283	2.04	236,046	1,145	1.95
Outside of Israel	11,561	64	2.23	11,811	86	2.94
Total	**265,384**	**1,347**	**2.05**	**247,857**	**1,231**	**2.00**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,548**	**17**	**1.50**	**5,515**	**28**	**2.05**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries(1) – Continued

Reported amounts (NIS in millions)

B Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Average balance(2)	Interest expenses (revenues)	Expense (revenue) rate	Average balance(2)	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	182,727	1,342	2.97	165,775	1,211	2.95
Total interest-bearing liabilities	131,189	(251)	(0.77)	120,547	(240)	(0.80)
Interest margin			**2.20**			**2.15**
Israeli currency – linked to the CPI						
Total interest-bearing assets	59,426	162	1.09	55,740	243	1.76
Total interest-bearing liabilities	38,380	40	0.42	35,902	(59)	(0.66)
Interest margin			**1.51**			**1.10**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	11,670	101	3.51	14,531	118	3.29
Total interest-bearing liabilities	17,564	(111)	(2.55)	20,640	(128)	(2.50)
Interest margin			**0.96**			**0.79**
Total – operations in Israel						
Total interest-bearing assets	253,823	1,605	2.55	236,046	1,572	2.69
Total interest-bearing liabilities	187,133	(322)	(0.69)	177,089	(427)	(0.97)
Interest margin			**1.86**			**1.72**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

C. Analysis of changes in interest revenues and expenses

	For the three months ended March 31, 2020 compared to the three months ended March 31, 2019		
	Increase (decrease) due to change[10]		
	Quantity	Price	Net change
Interest-bearing assets			
Loans to the public			
In Israel	90	(53)	37
Outside of Israel	(5)	(6)	(11)
Total	**85**	**(59)**	**26**
Other interest-bearing assets			
In Israel	6	(10)	(4)
Outside of Israel	–	(22)	(22)
Total	**6**	**(32)**	**(26)**
Total interest revenues	**91**	**(91)**	**-**
Interest-bearing liabilities			
Deposits from the public			
In Israel	13	(71)	(58)
Outside of Israel	(4)	(7)	(11)
Total	**9**	**(78)**	**(69)**
Other interest-bearing liabilities			
In Israel	2	(49)	(47)
Outside of Israel	–	–	–
Total	**2**	**(49)**	**(47)**
Total interest expenses	**11**	**(127)**	**(116)**

(1) Information in these tables is after effect of hedging l derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month periods ended March 31, 2020 and March 31, 2019, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 10 million and NIS (46) million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2020 and March 31, 2019, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures held for trading, amounting to NIS 16 million and NIS 1 million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 133 million and NIS 71 million included under interest revenues for the three-month periods ended March 31, 2020 and 2019, respectively.
(8) Includes derivative instruments.
(9) Net return – net interest revenues divided by total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

Terms with regard to risks management at the Bank and to capital adequacy

B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	**CVA - Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
E	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
I	**ICAAP – Internal Capital Adequacy Assessment Process** by the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.
	LGD (Loss Given Default) – Loss as percentage of credit should the client go into default.
M	**Minimum capital ratio** – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Conduct of Banking Business Directive 201.
P	**Pillar 2** – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.
	Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
	PD (Probability Of Default) – Probability in percent of a borrower going into default within a specified time.
R	**Risks document –** A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
S	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I capital, additional Tier I capital and Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital".
	Subordinated notes – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
V	**VaR** – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

Terms with regard to banking and finance

A	**Average effective duration** – The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.
	Active market – A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
D	**Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Debt whose collection is contingent on collateral – Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
	Debt under restructuring – Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
	Derivative – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
F	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
I	**Inferior debt** – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 on problematic debt in housing loans.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
O	**Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivative instruments).
P	**Problematic debt –** Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
S	**Syndication** – A loan extended jointly by a group of lenders.

Terms with regard to regulatory directives

F	**FATCA - Foreign Accounts Tax Compliance Act** – The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
L	**LCR – Liquidity Coverage Ratio** – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

Index

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To see in each person his personal imprint

At Mizrahi Tefahot we view each person's individuality as representing the way we treat our customers; each customer is a person, a unique and complete world.

When we adopt such a view of our customers, we are committed to acting according to our customers' individual needs and wishes, in a fair and empathetic manner.

By doing so, we realize one of the most significant values of the Bank - the person is in the center, a value that guides us in all of our actions and operations.

מזרחי טפחות
MIZRAHI TEFAHOT

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