Mizrahi-Tefahot Bank

Quarterly Condensed Financial Statements
As of June 30, 2020

This translation of the financial statement is for convenience purposes only. The only binding version of the financial statement is the Hebrew version.

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Mizrahi-Tefahot Bank

Report of the Board of Directors and management

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Condensed Report of the Board of Directors and Management To financial statements as of june 30, 2020

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 17, 2020, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risks Management Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of June 30, 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 half 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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
				NIS in millions		
Statement of profit and loss – highlights						
Interest revenues, net	1,323	1,347	1,352	1,214	1,543	1,231
Non-interest financing revenues	76	64	64	147	89	57
Commissions and other revenues	399	529	405	400	395	409
Total revenues	**1,798**	**1,940**	**1,821**	**1,761**	**2,027**	**1,697**
Expenses with respect to credit losses	270	345	119	70	99	76
Operating and other expenses	950	1,017	993	998	1,011	986
Of which: Payroll and associated expenses	596	644	628	650	648	636
Pre-tax profit	578	578	709	693	917	635
Provision for taxes on profit	196	200	247	251	318	213
Net profit(1)	**360**	**357**	**440**	**422**	**576**	**404**

	First half of		All of
	2020	2019	2019
			NIS in millions
Statement of profit and loss – highlights			
Interest revenues, net	2,670	2,774	5,340
Non-interest financing revenues	140	146	357
Commissions and other revenues	928	804	1,609
Total revenues	**3,738**	**3,724**	**7,306**
Expenses with respect to credit losses	615	175	364
Operating and other expenses	1,967	1,997	3,988
Of which: Payroll and associated expenses	1,240	1,284	2,562
Pre-tax profit	1,156	1,552	2,954
Provision for taxes on profit	396	531	1,029
Net profit(1)	**717**	**980**	**1,842**

(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.

Group net profit in the first half of 2020 amounted to NIS 717 million, compared to NIS 980 million in the corresponding period last year – a decrease by 26.8%. This reflects a 9.0% annualized return on equity, compared to 13.3% in the corresponding period last year and 11.9% for all of 2019.

Group net profit in the second quarter of 2020 amounted to NIS 360 million, compared to NIS 576 million in the corresponding period last year – a decrease by 37.5%. This reflects annualized return on equity of 9.0%, compared to 15.8% in the corresponding period last year.

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

- In the first half of 2020, concurrently with addressing the Corona Virus crisis and steps taken to help Bank clients to come through this period, the Bank continued to act pursuant to its growth targets. Total loans to the public, net increased in the first half by NIS 9.7 billion (or 4.8%) and total deposits from the public increased by NIS 20.8 billion (or 9.9%). Total assets on the Bank balance sheet increased by NIS 18.3 billion (or 6.7%). Results of the Bank Group in the reported period were also affected by the Corona Virus crisis, as follows: Increase in expenses with respect to credit losses and decrease in financing profit from current operations, as well as due to effect of the lower CPI on financing revenues.
- Expenses with respect to credit losses in the first half of 2020 amounted to NIS 615 million, compared to NIS 175 million in the corresponding period last year. The increase is primarily due to provision for credit losses on group basis due to the Corona Virus crisis, 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. Due to the Corona Virus crisis, the second quarter of 2020 saw further deterioration in benchmarks used to calculate the Qualitative Component and Consequently and in line with supervisory expectation, further increase in the provisions for credit losses with respect to the Qualitative Component. 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.
- The (known) CPI decreased by 0.7% in the first half of 2020, compared to an increase by 1.2% in the corresponding period last year. In the second quarter of 2020, the CPI decreased by 0.2%, compared to an increase by 1.5% in the corresponding period last year. The difference in CPI between the corresponding periods deducted NIS 316 million from financing revenues of the Bank, when comparing the two half-year periods, and NIS 275 million when comparing the two quarters.
- Total financing revenues from current operations increased in the first half of 2020 by 2.9% compared to the corresponding period last year, and in the second quarter of 2020 increased by 0.8% compared to the corresponding period last year, due to the negative effect of the lower interest rates in the USA and in Israel.

  For more information see under "Analysis of Development in financing revenues from current operations" below.
- Other revenues included revenues amounting to NIS 82 million included in the first quarter of 2020, with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" below.

	As of					
	June 30, 2020	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	291,560	284,731	273,244	267,001	264,223	260,011
Loans to the public, net	214,450	210,230	204,708	202,578	200,728	196,271
Cash and deposits with banks	61,532	56,385	51,672	47,125	48,700	48,396
Securities	8,440	8,709	10,113	10,566	8,816	9,130
Buildings and equipment	1,433	1,437	1,457	1,384	1,375	1,387
Deposits from the public	231,784	223,189	210,984	207,832	205,188	204,777
Debentures and subordinated notes	29,689	30,237	33,460	30,442	31,596	27,721
Deposits from banks	946	924	714	673	554	619
Shareholders' equity(1)	16,653	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 June 30, 2020 amounted to NIS 291.6 billion – an increase by NIS 27.3 billion or 10.3% compared to June 30, 2019.
- Loans to the public, net as of June 30, 2020 amounted to NIS 214.4 billion – an increase by NIS 13.7 billion or 6.8% compared to June 30, 2019. This increase was due, *inter alia*, to loans amounting to NIS 3.5 billion provided to businesses, from State-guaranteed funds, and to the growing need of Bank clients, mostly business clients, due to the Corona Virus crisis, to utilize existing credit facilities available to them, and to increase in housing loans. Conversely, loans to households decreased by NIS 0.2 billion compared to June 30, 2019.
- Deposits from the public as of June 30, 2020 amounted to NIS 231.8 billion – an increase by NIS 26.6 billion or 13.0% compared to June 30, 2019. The increase is due, *inter alia*, to significant diversion of client assets from the capital market to Bank deposits, as well as to deposit recruitment activity by the Bank.
- Shareholder equity as of June 30, 2020 amounted to NIS 16.7 billion – an increase by NIS 0.9 billion or 5.8% compared to June 30, 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		2019			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Key performance benchmarks						
Net profit return on equity(1)(2)	9.0	9.1	11.5	11.1	15.8	11.3
Net profit return on risk assets(1)(2)(3)	0.85	0.86	1.09	1.06	1.48	1.06
Return on average assets(2)	0.50	0.51	0.65	0.64	0.88	0.63
Deposits from the public to loans to the public, net	108.1	106.2	103.1	102.6	102.2	104.3
Ratio of Tier I capital to risk components	9.96	9.89	10.14	10.13	10.23	10.12
Leverage ratio(4)	5.36	5.40	5.55	5.62	5.67	5.54
(Quarterly) liquidity coverage ratio(5)	122	117	121	122	118	120
Ratio of revenues to average assets(2)	2.52	2.81	2.72	2.68	3.13	2.65
Operating expenses to total revenues						
Cost income ratio(6)	52.8	52.4	54.5	56.7	49.9	58.1
Basic earnings per share (in NIS)	1.53	1.52	1.88	1.80	2.46	1.73
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.96	0.91	0.82	0.81	0.80	0.80
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.34	1.41	1.36	1.29	1.28	1.25
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.50	0.66	0.23	0.14	0.20	0.15
Ratio of net accounting write-offs to average loans to the public(2)	0.15	0.16	0.12	0.07	0.13	0.14
Additional information						
Share price (in NIS) at end of the quarter	64.62	66.23	92.00	86.40	82.00	74.60
Dividends per share (in Agorot)(7)	–	75	72	(8)167	–	–
Ratio of net interest revenues to average assets(2)	1.85	1.95	2.02	1.84	2.38	1.92
Ratio of commissions to average assets(2)	0.52	0.61	0.58	0.58	0.57	0.59

	First half of		All of
	2020	2019	2019
Key performance benchmarks			
Net profit return on equity(1)(2)	9.0	13.3	11.9
Net profit return on risk assets(1)(2)(3)	0.86	1.27	1.17
Return on average assets(2)	0.51	0.75	0.70
Ratio of revenues to average assets(2)	2.66	2.88	2.76
Operating expenses to total revenues			
Cost income ratio(6)	52.6	53.6	54.6
Basic earnings per share (in NIS)	3.05	4.19	7.86
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.57	0.17	0.18
Ratio of net accounting write-offs to average loans to the public(2)	0.16	0.13	0.11
Additional information			
Dividends per share (in Agorot)(7)	75	–	178
Ratio of net interest revenues to average assets(2)	1.89	2.14	2.02
Ratio of commissions to average assets(2)	0.57	0.58	0.58

Financial ratios indicate:

- Net profit return in the second quarter of 2020 was 9.0%, compared to 15.8% in the corresponding period last year, and in the first half – 9.0%, compared to 13.3% 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, effect of the CPI and the lower interest rates in the USA and in Israel, offset by increase in loans, deposits and commissions.
- The ratio of deposits from the public to loans to the public, net reached 108.1%, due to significant increase in deposits and despite the increase in loans. The increase was due, inter alia, to significant diversion of client assets from the capital market to Bank deposits, as well as to deposit recruitment activity by the Bank. The increase in loans was due, inter alia, to loans amounting to NIS 3.5 billion provided to businesses from State-guaranteed funds, and to the growing need of Bank clients, mostly business clients, due to the Corona Virus crisis, to utilize existing credit facilities available to them, and to increase in housing loans.
- Ratio of Tier I capital to risk components as of June 30, 2020 was at 9.96%, compared to the minimum rate which the Bank is required to achieve: 8.79%. This ratio was affected by the decrease in net profit in the first half of this year, as noted above, and by the increase in loans extended to clients, in line with supervisory expectation in Proper Conduct of Bank Businesses Directive 250, dated March 31, 2020, with regard to Bank operations during the crisis and relief provided as a result of the crisis, for the minimum capital requirement of banking corporations. For more information see chapter "Significant Events in the Bank Group's Business" below.
- The cost-income ratio in the first half of 2020 reached 52.6%, due to maintaining similar expenses and despite the negative effect of the Consumer Price Index on revenues.
- As of June 30, 2020, the ratio of impaired debt or debt in arrears of 90 days or longer to total loans to the public, was 1.34%, compared to 1.28% at the end of the corresponding quarter last year and to 1.41% at the end of the first quarter of 2020. The change in the current quarter was affected, inter alia, by increase in loans and by repayment delays approved for clients. Note that the financial statements include a group-based provision for credit losses in conformity with a qualitative model, inter alia, with respect to risk associated with repayment delays approved for clients. For more information see chapter "Material developments in revenues, expenses and other comprehensive income" below.

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 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. This date may be revised further down the road, in conformity with economic developments.
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 obligatory notes 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 June 30, 2020 amounted to NIS 231.8 billion, compared to NIS 211.0 billion at end of 2019: an increase by 9.9%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first half of 2020 by 10.7%; deposits in the CPI-linked segment decreased by 0.1%; and deposits denominated in or linked to foreign currency increased by 10.3%. 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 half of 2020, the Bank conducted no issuances.
On June 30, 2020, Tefahot Issuance issued a new series of CPI-linked debentures (Series 52) of NIS 413 million par value, for consideration amounting to NIS 403 million, as well as CPI-linked debentures by way of expansion of an existing series (Series 46) of NIS 1,197 million par value, for consideration amounting to NIS 1,300 million.
As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 29.7 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 June 30, 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 June 30, 2020, amounted to NIS 2.1 billion, compared to NIS 2.0 billion as of 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 June 30, 2020, amounted to NIS 0.6 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 the entire world, including Israel, 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 set forth in the agreement (hereinafter: "the original 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); an appeal was filed in September 2018. On November 28, 2019, the verdict in this appeal was received, 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. The Supervisor's decision with regard to setting the aforementioned conditions was issued on January 8, 2020. For more information, including with regard to decisions by the Anti-Trust Supervisor, and addendums to the agreement agreed by the parties, see the Report of the Board of Directors and Management as of December 31, 2019.

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 Le-Israel Ltd. And by the controlling shareholders thereof. On May 31, 2020, the parties signed Addendum no. 5 to the original agreement (hereinafter: "Addendum no. 5"), which stipulates, *inter alia*, that the deadline for fulfilling the conditions for publication of the tender offer is delayed to August 31, 2020. Moreover, Addendum no. 5 stipulates other provisions similar to those of Addendum no. 4, as set forth above.

Further to the Supervisor's decision with regard to the sold operations, on July 14, 2020 the Bank and Peninsula Group Ltd. signed an agreement (hereinafter: "Peninsula" and "the Peninsula agreement" or "the Peninsula transaction") whereby, subject to closing of the transaction subject of the merger agreement and approval by the Supervisor ("the suspensive conditions of Peninsula transaction") and after control over Union would be transferred to the Bank, Union and Peninsula would sign an agreement regarding sale of the sold operations. According to the agreement, the consideration payable by Peninsula to Union would be based on the actual utilized credit in the credit portfolio upon closing of the credit transaction (except for credit to clients classified by Union as impaired debt, which would be sold to the credit buyer for no consideration) (value of the credit portfolio in the sold operations), reflecting a discount of 30% to 45% of the value of the credit portfolio in the sold operations. Moreover, Peninsula may return to Union a small portion of the credit portfolio, not to exceed 10% of the value of the credit portfolio of the sold operations. It was further agreed that should the suspensive conditions in the Peninsula transaction not be fulfilled within 8 months after signing the agreement between the Bank and Peninsula, this agreement would be null and void.

Further to the Bank agreement with Peninsula, on July 14, 2020, the Bank and the Sellers signed Addendum no. 6 to the merger agreement (hereinafter: "Addendum no. 6"), with the following highlights: (1) It was agreed that the term "effective financial statements" for the Bank or Union, as the case may be, shall mean the financial statements as of June 30, 2020; (2) The agreed formula in the merger agreement for determining the number of Bank shares that would constitute the consideration shares ("consideration shares") was amended so that the number of consideration shares shall reflect the ratio of 60% of total equity of Union in conformity with the effective financial statements of Union (as of June 30, 2020) (without any deduction or elimination of any amounts) ("Union equity") and the adjusted Bank share price, i.e. the quotient resulting from dividing (1) 108% of total equity of the Bank attributable to equity holders, in conformity with the Bank's effective financial statements (as of June 30, 2020) by (2) all Bank shares which constitute total ordinary shares in the Bank's issued and paid-in share capital upon signing Addendum no. 6 (235,176,254 shares). (All as set forth in the immediate report issued on July 14, 2020, reference no. 2020-01-067528); (3) The merger agreement dates were revised as follows: The deadline for fulfilling the conditions for publication of the tender offer shall be September 30, 2020 ("deadline for publication"). If by the deadline for publication, a verdict would be issued whereby the appeal to the Anti-Trust Court will have been rejected, or should no verdict be issued in this appeal, or should approval by the Anti-Trust Supervisor for the Peninsula transaction will not have been received, then the merger agreement would be terminated (unless the parties will have agreed in writing to delay any of the dates), such that none of the parties shall have any liability arising from the merger agreement nor any claims against the other parties to the merger agreement. The tender offer shall be made public within 60 days after the appeal will have been accepted, or after the date of receipt of the Supervisor's approval for the Peninsula transaction, whichever is sooner; (4) The right of mutual termination granted to the parties to the merger agreement shall be terminated, if the ratio of the product of Bank share price and the number of shares in the issued share capital in conformity with the relevant financial statements of the Bank, to the effective shareholder equity of the Bank (as defined in the merger agreement prior to Addendum no. 6) shall be lower than or higher than, respectively, of the ratios agreed by the parties (106% of effective shareholder equity of the Bank [termination right for the Bank] – 124% of effective shareholder equity of the Bank [termination right for the Sellers]), in view of the updated formula for calculating the consideration shares, as set forth above.
On July 27, 2020, the revised decision by the Supervisor (hereinafter: "the revised decision by the Supervisor") was received, including certain revisions to the original decision, which were discussed by the parties to the merger agreement and the Supervisor, in order for the transaction for sale of the credit portfolio to comply with conditions set forth in the Supervisor's decision. The revised decision by the Supervisor would allow, *inter alia*, for closing of the transaction for sale of the credit portfolio concurrently with closing of the merger. Furthermore, on said date, the Supervisor's approval was received for the identity of the buyer of the credit portfolio and the content of the sold operations of credit to the diamond sector.
For more information about the agreement with Bank Union shareholders and addendums to the agreement, 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, Immediate Report dated January 8, 2020 reference 2020-01-003750, Immediate Report dated January 27, 2020 reference 2020-01-010362, Immediate Report dated July 14, 2020 reference 2020-01-067528, Immediate Report dated July 27, 2020 reference 2020-01-079680).
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 launched in the fourth quarter of 2019, to replace the CRM system in order to empower personalized service for each client.

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.

As part of the review of the Bank's overall international presence, the Bank is considering sale of United Mizrahi Bank (Switzerland) Ltd.

Other matters

Appointment of 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. On June 8, 2020, the Bank’s Board of Directors resolved to adopt the recommendation of the search committee, and to appoint Mr. Moshe Larry to be the Bank's next President & CEO, as from September 16, 2020. On July 2, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Moshe Larry as President & CEO of the Bank.

For more information see Immediate Reports dated February 19, 2020, reference no. 2020-01-017268, report dated February 24, 2020, reference: 2020-01-018846, report dated June 8, 2020, reference: 2020-01-058554, report dated June 8, 2020, reference: 2020-01-058935, report dated June 8, 2020, reference: 2020-01-058938, report dated June 8, 2020, reference: 2020-01-058941, and report dated July 2, 2020, reference: 2020-01-062650).

Appointment of Manager, Finance Division

On July 20, 2020, the Bank’s Board of Directors resolved to appoint Mr. Adi Shachaf to the position of Manager, Finance Division effective as from September 16, 2020, replacing Mr. Moshe Larry who would start their term in office as Bank President & CEO on this date.

For more information see report dated July 20, 2020 (reference: 2020-01-070051).

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. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

Since May, the Bank has gradually returned to normal operation, after operating at a reduced capacity in March-April. Currently, Bank branches and units operate at full capacity, while maintaining social distancing and hygiene in conformity with directives of the Ministry of Health and using the remote work infrastructure as required. The Bank regularly provides detailed work instructions with regard to maintaining social distancing and proper hygiene and distributes equipment to improve protection, both personal protective equipment (masks, disinfectant) and barriers and separation means to reduce exposure among employees and to clients. 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.

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. In the first half of this year, 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.

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.

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. 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. Action taken by the Bank includes approval of a delay in current repayments, by up to 4 months, for mortgage clients who needed this due to temporary hardship resulting from the crisis, including further delay extensions granted as required: A further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. Delays and revised repayment 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 of June 30, 2020, total housing loans subject to repayment delays amounted to NIS 36.7 billion. The Bank allows borrowers to extend the delay period through 2020, or to apply for a delay by up to 6 months in case of an initial application, in conformity with the Bank of Israel outline. As of August 10, 2020, out of total loans subject to repayment delays, NIS 7 billion were subject to an additional delay (mostly through 2020). Borrowers with total debt amounting to NIS 14 billion have waived the Bank's offer for a further delay of repayments, and should resume normal loan repayments as from August 2020; borrowers with total debt amounting to NIS 16 billion are subject to a delay expected to expire in September-December 2020, unless they would apply for a further repayment delay. Note that for 60% of the balance of loans currently due for payment, no further delay was applied for and the clients resumed making payments. We should note that based on early indications with respect to borrowers who have resumed normal repayments, whose loan maturity was in early August 2020, no unusual issues were evident in making such repayments.

For commercial loans, as of June 30, 2020, the Bank granted repayment delay for clients with total loans amounting to NIS 4.3 billion, of which clients with a total loan amount of NIS 1.5 billion resumed repayments and as of August 10, 2020, a total of NIS 2.8 billion was still subject to repayment delay. As of August 10, 2020, total loans subject to repayment delays longer than 6 months amounted to only NIS 445 million.

Loans provided by the Bank from the State-guaranteed fund includes a State guarantee for 85% of each loan, with an aggregate total of 15% of the entire portfolio, against a deposit made by the client equal to 5% of the loan amount. These loans bear interest at the Prime lending rate + 1.5%. During the first year, no principal repayment is due for such loans, and interest is paid by the State. This fund also launched a special track for businesses at high risk ("enhanced track"), with state guarantee for 60% of the portfolio and loan terms identical to those in the general track of this fund. Concurrently, on April 30, 2020, a fund for large businesses was launched, which is guaranteed by the State at 75% per loan and up to 12% in total guarantee.

As of August 10, 2020, the Bank extended loans amounting to NIS 4.1 billion from State-guaranteed funds (as of June 30, 2020: NIS 3.5 billion).

For more information about group-based provision for credit losses recognized with respect to loans subject to repayment delay, in conformity with the risk attributes thereof, see below.

For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk". For more information about Bank activities to assist clients, in view of the Corona Virus crisis, see below.

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. Furthermore, 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.

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

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 June 30, 2020, would be at least 8.79% and the total capital ratio would be at least 12.29% (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 the financial statements. This circular emphasizes, inter alia, that banking corporations should ensure that their public reports 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. In conformity with the Bank of Israel publication, from the financial stability report for the first half of 2020, in order to calculate provisions for credit losses, the Bank is required to utilize reliable external sources and the most current macro-economic forecasts as anchor points.

Therefore, the calculation of qualitative adjustments 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.

Due to the prolonged crisis, in the second quarter of 2020 benchmarks used to calculate the qualitative component deteriorated further, including the unemployment and growth rates assumed in conformity with the Bank of Israel forecast for a second wave scenario for 2020 (unemployment rate of 11.5% and a 9% negative growth rate). Consequently, and in line with supervisory expectation, the provisions for credit losses with respect to the Qualitative Component increased further. 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. 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, the provision includes 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. Due to the continued Corona Virus crisis and extension of repayment delays for some clients, and in line with supervisory expectations, the second quarter of 2020 saw further deterioration in the analysis underlying the calculation of the Qualitative Component and therefore, further increase in the provisions for credit losses with respect to the Qualitative Component. We should note that this component would be adjusted in future in conformity with developments.

Expenses with respect to credit losses in the first half and in the second quarter of 2020, amounted to NIS 615 million and NIS 270 million, respectively, compared with NIS 175 million and NIS 99 million in the corresponding periods last year – an increase by NIS 440 million and NIS 171 million. The increase is primarily due to the reasons listed above. 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.

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 Bank's 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 has adopted most of these recommendations with slight changes.

For more information see Note 10.B.4 to the financial statements.

Stock options to the Bank President & CEO, Bank officers and other managers at the Bank and its subsidiaries

On June 22, 2020, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option allotment to the Bank President &CEO, to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 16 to the financial statements for additional information.

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 second quarter and in the first half 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 global trade, but also resulted in decrease on the demand side, due to restrictions imposed on business 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 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 Israel in the first quarter of 2020, GDP decreased at an annualized 6.9%, compared to 4.6% growth in the fourth quarter of 2019 and 3.5% growth for all of 2019. In the first quarter, GDP was primarily affected by the following: 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, export of goods increased sharply. Imports decline somewhat, which mitigated the decline in GDP. GDP excluding changes to inventory decreased at an even higher rate of 11.9%, compared to 5.9% growth in the fourth quarter of 2019 and 3.4% growth for all of 2019.

As from the end of April, the Government of Israel announced relief in restrictions on business activity. In June, morbidity started to increase which resulted in early July in the Government re-imposing restrictions. The Bank of Israel Composite Index decreased in the first six months of this year at an annualized rate of 5.5%, compared to an increase of 3.4% and 3.6% in 2019 and 2018, respectively. The number of people unemployed, employed but not working due to the Corona Virus and those who became unemployed due to termination or closing of their place of work rose sharply to 1.1 million in early May, or 26.6% of the work force. Since then, we saw partial return to work and at the start of July, the number of those seeking unemployment benefits was 511 thousand, or 12.3% of the work force.

According to a forecast from the Bank of Israel Research Division dated June, prior to renewed increase in morbidity, GDP in Israel is expected to decrease by 6.0% in 2020, and is expected to recover in 2021 with 7.5% growth. Unemployment should be at 9% in the final quarter of 2020 and should then decrease to 6% at the end of 2021. However, a note was made whereby these rates were expected to change in case of a second wave of morbidity, which indeed was the case.

Inflation and exchange rates

In the first half of 2020, the Consumer Price Index declined by 0.8%, compared to a 0.9% rise in the corresponding period last year. The CPI was mostly affected by lower prices of clothing and footwear, transportation and communications, education, culture and entertainment, which moderated the overall CPI by 0.8%. Conversely, higher prices of fruits and vegetables contributed 0.1% to the overall CPI figure.

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

	June 30, 2020	December 31, 2019	Change in %
Exchange rate of:			
USD (in NIS)	3.466	3.456	0.3
EUR (in NIS)	3.883	3.878	0.1

On August 7, 2020, the USD/NIS exchange rate was 3.402 – a 1.8% revaluation compared to June 30, 2020. The EUR/NIS exchange rate on this date was 4.013 – a devaluation of 3.4% since June 30, 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. The Bank of Israel also launched a monetary tool for extending long-term loans to the banking system, provided that such loans would be provided to micro and small businesses, as well as a program to purchase corporate debentures in the secondary market, valued at NIS 15 billion.

Fiscal policy

In the first half of 2020, the government budget recorded a NIS 58.2 billion cumulative deficit, compared to a NIS 22.0 billion cumulative budget deficit in the previous year. The deficit rate for the 12 months ended in June, as percentage of GDP, was at 6.4% in 2019, compared to 3.7% in 2019 and 2.9% in 2018. In the first half of 2020, expenditure by Government ministries increased by 7.4% compared to the corresponding period last year, and tax collection decreased by a nominal 6.4% compared to the corresponding period last year. The Ministry of Finance announced an economic plan to support the economy, intended to ensure that appropriate healthcare and civilian assistance is provided, support for economic development, maintaining business continuity and providing social security for households. As of June, out of the plan total value of NIS 100 billion, 47% was actually executed. In July, a further announcement was made of monetary awards to all families, at a total cost of NIS 6.5 billion.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first five months of 2020 demand for new apartments (apartments sold and apartments constructed not for sale, original data) was 18.1 apartments, a decrease by 15.1% over the corresponding period last year and an increase by 13.3% over the corresponding period in 2018. In the first half of 2020, housing loans given to the public amounted to NIS 37.5 billion, compared to NIS 32.6 billion in the corresponding period last year and NIS 29.2 billion in the corresponding period in 2018 – an increase by 15% and 28%, respectively.
According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended May 2020, increased by 2.0%, further to an increase by 3.4% in 2019 and an increase by 1.6% in the corresponding period last year.

Capital market

Trading on global equity markets in the second quarter of 2020 was positive, led by stock exchanges in the USA, in Europe and by major equity benchmarks in the Israeli market, compared to the negative trend in the first quarter of this year.

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

	2020		2019			
CPI	**Second quarter of**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Tel-Aviv 35	1.0	(21.0)	4.2	1.1	3.6	5.4
Tel-Aviv 125	3.8	(21.0)	5.5	3.2	4.7	6.4
Tel-Aviv 90	8.6	(21.6)	8.9	9.2	7.1	10.2

Average daily trading volume in equities and convertible securities in the second quarter and in the first half of this year was NIS 1.9 billion and NIS 2.1 billion, compared to NIS 1.3 billion and NIS 1.2 billion in the corresponding periods last year, and average daily trading volume of NIS 1.3 billion in 2019.

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

	2020		2019			
CPI	**Second quarter of**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
General debentures	2.9	(4.5)	1.0	2.6	1.7	3.2
CPI-indexed Government debentures	4.0	(3.0)	0.9	3.5	2.1	3.5
Non-linked Government debentures	3.0	(1.1)	0.9	3.5	1.4	2.3
Tel Bond 20	0.5	(7.1)	(0.1)	2.0	1.9	4.3
Tel Bond 40	2.3	(6.5)	2.1	1.1	2.1	3.2

Global economy

The US economy decreased in the second quarter of 2020 at an annualized 32.9%, following a decrease by 5.0% in the first quarter and compared to 2.1% growth in the fourth quarter of 2019 and 2.3% growth for all of 2019. This is due to the Corona Virus pandemic and restrictions imposed on business activity. The Purchasing Manager Indexes declined to historical lows in April, for both service and industrial sectors, but have since recovered to indicate expansion. The US economy lost many jobs in April, but in subsequent months showed some recovery, with the unemployment rate as of June being at 11.1%. 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 second quarter of 2020 declined at an annualized 40.3%, further to 13.6% annualized decrease in the first quarter and compared to 1.2% growth for all of 2019. The Purchasing Manager Indexes declined to historical lows in April, in view of the Corona Virus outbreak across the continent, but have since recovered to a significant extent, recovering in July to indicate expansion. The ECB maintained interest rates un-changed (at -0.5%), but launched an emergency plan to purchase debentures valued at EUR 1.35 trillion, expanded the loan program for banks and reduced capital requirements for banks. On the fiscal side, EU countries announced a bail-out fund established, valued at EUR 750 billion. 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 grew in the second quarter of 2020 at an annualized 3.2%, compared to a 6.8% decrease in the first 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 the second quarter, as restrictions on activity were eased. The Retail Trade Index also declined in the first quarter, but has improved somewhat since then. Purchasing Manager Indexes declined sharply in February of this year, as lock-down was imposed in Hubei Province, but recovered significantly in March, indicating a rapid return of activity to a growth trajectory.

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

	2020		2019			
CPI	**Second quarter of**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Dow Jones	23.3	(23.2)	6.0	1.2	2.6	11.2
S&P 500	25.5	(20.0)	8.5	1.2	3.8	13.1
NASDAQ 100	35.7	(10.5)	12.7	1.0	4.0	16.6
DAX	29.0	(25.0)	9.6	0.2	7.6	9.2
FTSE 100	13.9	(24.8)	6.7	(0.2)	2.0	8.2
CAC	17.3	(26.5)	0.5	2.5	3.5	13.1
Nikkei	22.8	(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 second 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 half of 2020 amounted to NIS 717 million, compared to NIS 980 million in the corresponding period last year – a decrease by 26.8%. This reflects a 9.0% annualized return on equity, compared to 13.3% in the corresponding period last year and 11.9% for all of 2019.
Group net profit in the second quarter of 2020 amounted to NIS 360 million, compared to NIS 576 million in the corresponding period last year – a decrease by 37.5%. This reflects annualized return on equity of 9.0%, compared to 15.8% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues (1) in the first half of 2020 amounted to NIS 2,810 million, as described below, compared to NIS 2,920 million in the corresponding period last year, a decrease by 3.8%.
Net interest revenues and non-interest financing revenues (1) from current operations in the second quarter of 2020 amounted to NIS 1,399 million, compared to NIS 1,632 million in the corresponding period last year, an increase by 14.3%.
Net interest revenues and non-interest financing revenues (1) from current operations in the first half of 2020 amounted to NIS 2,784 million, as described below, compared to NIS 2,706 million in the corresponding period last year, an increase by 2.9%.
Net interest revenues and non-interest financing revenues(1) from current operations in the second quarter of 2020 amounted to NIS 1,368 million, as described below, compared to NIS 1,357 million in the corresponding period last year, an increase by 0.8%.

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

	2020		2019				Change in %
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Second quarter of 2020 to second quarter of 2019
Interest revenues, net	1,323	1,347	1,352	1,214	1,543	1,231	
Non-interest financing revenues(1)	76	64	64	147	89	57	
Total financing revenues	**1,399**	**1,411**	**1,416**	**1,361**	**1,632**	**1,288**	**(14.3)**
Less:							
Effect of CPI	(40)	(83)	(36)	(81)	235	(42)	
Revenues from collection of interest on problematic debts	9	7	17	6	9	12	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	54	28	3	30	1	12	
Effect of accounting treatment of derivatives at fair value and others(2)	8	43	44	34	30	(43)	
Total effects from other than current operations	**31**	**(5)**	**28**	**(11)**	**275**	**(61)**	
Total financing revenues from current operations	**1,368**	**1,416**	**1,388**	**1,372**	**1,357**	**1,349**	**0.8**

	Six months		
	2,020	2,019	Change in %
Total financing revenues	**2,810**	**2,920**	**(3.8)**
Total effects from other than current operations	**26**	**214**	
Total financing revenues from current operations	**2,784**	**2,706**	**2.9**

Financing revenues from current operations decreased in the second quarter of 2020, compared to the first quarter of this year, due to the decrease in Bank of Israel interest rate, from 0.25% at end of March to 0.1% in early April, and to the decrease in interest rate of the Federal Reserve in the USA, on two occasions in March, from 1.50%-1.75% to 0.00%-0.25%.
Financing revenues from current operations increased in the first half of this year by 2.9% compared to the corresponding period last year, despite the negative effect of the lower interest rates in the USA and in Israel.

(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, 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.

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

Operating segment	First half of 2,020	2,019	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	923	818	105	12.8
Households – other	654	672	(18)	(2.7)
Private banking	41	44	(3)	(6.8)
Total – individuals	**1,618**	**1,534**	**84**	**5.5**
Business operations:				
Small and micro businesses	575	567	8	1.4
Medium businesses	147	143	4	2.8
Large businesses	266	263	3	1.1
Institutional investors	55	62	(7)	(11.3)
Total – business operations	**1,043**	**1,035**	**8**	**0.8**
Financial management	54	237	(183)	(77.2)
Total activity in Israel	**2,715**	**2,806**	**(91)**	**(3.2)**
Overseas operations	95	114	(19)	(16.7)
Total	**2,810**	**2,920**	**(110)**	**(3.8)**

Operating segment	Second quarter of 2,020	2,019	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	464	415	49	11.8
Households – other	317	337	(20)	(5.9)
Private banking	19	22	(3)	(13.6)
Total – individuals	**800**	**774**	**26**	**3.4**
Business operations:				
Small and micro businesses	277	287	(10)	(3.5)
Medium businesses	71	75	(4)	(5.3)
Large businesses	132	131	1	0.8
Institutional investors	26	30	(4)	(13.3)
Total – business operations	**506**	**523**	**(17)**	**(3.3)**
Financial management	43	278	(235)	–
Total activity in Israel	**1,349**	**1,575**	**(226)**	**(14.3)**
Overseas operations	50	57	(7)	(12.3)
Total	**1,399**	**1,632**	**(233)**	**(14.3)**

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):

Linkage segment	Second quarter of 2020	2019	Change in %	First half of 2020	2019	Change in %
Israeli currency – non-linked	189,717	169,728	11.8	186,679	167,751	11.3
Israeli currency – linked to the CPI	59,528	55,665	6.9	59,543	55,701	6.9
Foreign currency (including Israeli currency linked to foreign currency)	10,387	12,645	(17.9)	11,028	13,582	(18.8)
Total	**259,632**	**238,038**	**9.1**	**257,250**	**237,034**	**8.5**

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.

Below are interest 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:

	Second quarter of		First half of	
Linkage segments	**2020**	**2019**	**2020**	**2019**
Israeli currency – non-linked	1.98	2.10	2.08	2.11
Israeli currency – linked to the CPI	1.41	1.00	1.48	1.04
Foreign currency	1.33	0.68	1.13	0.73
Total	**1.77**	**1.86**	**1.80**	**1.79**

(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, the interest rate spread was affected by a decrease in Bank of Israel interest rates, which mostly affected the asset side, while the capacity to reflect the lower interest rate in deposit spreads is limited.

In the CPI-linked NIS-denominated segment, higher financing margins compared to the corresponding period last year.

In the foreign currency segment, the interest rate spread was affected by the decrease in FED and LIBOR interest rates, which mostly affected the cost of sources, while expenses due to derivatives operations were not included in the interest rate spreads listed above. Including the effect of derivatives, in the first half of 2020 the interest rate spread in foreign currency decreased by 0.1% compared to the corresponding period last year, and the overall interest rate spread decreased by 0.06%.

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 615 million in the first half of 2020, or an annualized rate of 0.57% of total loans to the public, net, compared with NIS 175 million in the corresponding period last year – an annualized rate of 0.17% of total loans to the public, net in the corresponding period last year.

Expenses with respect to credit losses for the Group amounted to NIS 270 million in the second quarter of 2020, or an annualized rate of 0.50% of total loans to the public, net, compared with NIS 99 million in the corresponding period last year – an annualized rate of 0.20% of total loans to the public, net.

The increase is primarily due to provision for credit losses on group basis due to the Corona Virus crisis, 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. Due to the Corona Virus crisis, the second quarter of 2020 saw further deterioration in benchmarks used to calculate the Qualitative Component and Consequently and in line, with supervisory expectation, further increase in the provisions for credit losses with respect to the Qualitative Component. 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.

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

	Second quarter of		First half of	
	2020	**2019**	**2019**	**2019**
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	135	122	288	226
Reduced expenses	(36)	(42)	(74)	(97)
Total individual provision	**99**	**80**	**214**	**129**
Provision for credit losses on Group basis:				
By extent of arrears	13	2	16	5
Other	158	17	385	41
Total expenses with respect to credit losses	**270**	**99**	**615**	**175**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.50%**	**0.20%**	**0.57%**	**0.17%**
Of which: With respect to commercial loans other than housing loans	**1.17%**	**0.50%**	**1.34%**	**0.44%**
Of which: With respect to housing loans	**0.15%**	**0.03%**	**0.17%**	**0.03%**

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

	Second quarter of		First half of		Rate of expenses with respect to credit losses[1] in the second quarter		Rate of expenses with respect to credit losses[1] in the first half	
Operating segment	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Individuals:								
Households – housing loans	53	11	118	19	0.15	0.03	0.17	0.03
Households – other	44	24	84	51	0.85	0.46	0.81	0.48
Private banking	1	–	–	–	3.19	–	–	–
Total – individuals	**98**	**35**	**202**	**70**	**0.24**	**0.09**	**0.25**	**0.09**
Business operations:								
Small and micro businesses	83	29	155	66	1.48	0.58	1.38	0.66
Medium businesses	7[2]	15	79	16	0.39	0.84	2.20	0.45
Large businesses	74	23	161	28	1.64	0.54	1.79	0.33
Institutional investors	4	(2)	6	(3)	0.72	(0.73)	0.54	(0.55)
Total – business operations	**168**	**65**	**401**	**107**	**1.35**	**0.57**	**1.60**	**0.47**
Financial management	(1)	(1)	1	(3)	–	–	–	–
Total activity in Israel	**265**	**99**	**604**	**174**	**0.50**	**0.20**	**0.57**	**0.18**
Overseas operations	5	–	11	1	0.53	–	0.58	0.05
Total	**270**	**99**	**615**	**175**	**0.50**	**0.20**	**0.57**	**0.17**

(1) Rate of expenses with respect to credit losses, as percentage of total loans to the public, net (annualized) (in %).
(2) Includes decrease in provision by NIS 11 million with respect to specific classified debt collected in the second quarter of 2020.

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 Risks Report on the Bank website.

Non-interest revenues in the first half of 2020 amounted to NIS 1,068 million, compared to NIS 950 million in the corresponding period last year, an increase by NIS 118 million. See explanation below.

Non-interest revenues amounted to NIS 475 million in the second quarter of 2020, compared with NIS 484 million in the corresponding period last year – a decrease by NIS 9 million. See explanation below.

Non-interest financing revenues in the fourth half of 2020 amounted to NIS 140 million, compared to NIS 146 million in the corresponding period last year.

Non-interest financing expenses in the first quarter of 2020 amounted to NIS 76 million, compared to NIS 89 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 instruments, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

Commission revenues amounted to NIS 800 million in the first half of 2020, compared with NIS 756 million in the corresponding period last year – a year-over-year increase of 5.8%.

Commission revenues in the second quarter of 2020 amounted to NIS 376 million, compared to NIS 373 million in the corresponding period last year – an increase by 0.8%.

Other revenues in the first half of 2020, amounted to NIS 128 million compared with NIS 48 million in the corresponding period last year – an increase by NIS 80 million.

Other revenues in the second quarter of 2020 amounted to NIS 23 million, compared to NIS 22 million in the corresponding period last year.

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

In the first half and in the second quarter of 2020, capital gain amounting to NIS 17 million and NIS 4 million from realization of assets was included in conjunction with asset reorganization and streamlining of the Bank's branch network, compared to NIS 26 million and NIS 10 million in the corresponding periods last year, respectively.

Operating and other expenses amounted to NIS 1,967 million in the first half of 2020, compared with NIS 1,997 million in the corresponding period last year – a decrease by 1.5%.

Operating and other expenses amounted to NIS 950 million in the second quarter of 2020, compared with NIS 1,011 million in the corresponding period last year – a decrease by 6.0%.

See details by operating expense component below.

Payroll and associated expenses amounted to NIS 1,240 million in the first half of 2020, compared with NIS 1,284 million in the corresponding period last year – a decrease by 3.4%.

Payroll and associated expenses amounted to NIS 596 million in the second quarter of 2020, compared with NIS 648 million in the corresponding period last year – a decrease by 8.0%.

The decrease in payroll expenses is primarily due to adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 413 million in the first half of 2020, compared with NIS 385 million in the corresponding period last year – an increase by 7.3%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 208 million in the second quarter of 2020, compared with NIS 194 million in the corresponding period last year – an increase by 7.2%.

The increase in maintenance expenses is primarily due to increase in rent expenses, further to application of the new standard on leases, to increase in security expenses due to the Corona Virus pandemic and to increase in depreciation expenses with respect to technology investments made 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 amounted to NIS 314 million in the first half of 2020, compared with NIS 328 million in the corresponding period last year – a decrease by 4.3%.

Other expenses in the second quarter of 2020 amounted to NIS 146 million, compared to NIS 169 million in the corresponding period last year – a decrease by 13.6%.

The decrease in other expenses is primarily due to decrease in advertising expenses and in actuarial components charged in conformity with accounting principles to Other Expenses, due to changes in interest rate curves.

Cost-income ratio dataCost-Income ratio information[(1)] (in %):

	2020		2019			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Cost-income ratio	52.8	[(2)]52.4	54.5	56.7	49.9	58.1

	First half of		All of
	2020	2019	2019
Cost-income ratio	52.6	53.6	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 half of 2020 amounted to NIS 1,156 million, compared to NIS 1,552 million in the corresponding period last year – a decrease by NIS 396 million. See detailed explanation above.

Pre-tax profit for the Group in the second quarter of 2020 amounted to NIS 578 million, compared to NIS 917 million in the corresponding period last year – a decrease by NIS 339 million. See detailed explanation above.

The rate of provision for taxes on profit in the first half of 2020 was 34.3% – compared to 34.2% in the corresponding period last year.

The provision rate for taxes on profit in the second quarter of 2020 was 33.9% – compared to 34.7% in the corresponding period last year. The rate of provision for taxes on profit was affected, inter alia, by disallowed expenses for tax purposes with respect to the Bank's employee stock option plan.

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

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first half of 2020 amounted to NIS 43 million, compared to NIS 41 million in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the second quarter of 2020 amounted to NIS 23 million, similar to the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first half of 2020 amounted to NIS 717 million, compared to NIS 980 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the second quarter of 2020 amounted to NIS 360 million, compared to NIS 576 million in the corresponding period last year.

Shareholder equity of the Bank includes an increase by NIS 26 million and a decrease by NIS 80 million in the first half and in the second quarter of this year, respectively, due to adjustments with respect to employee benefits and to adjustments with respect to presentation of debentures available for sale at fair value ("Other comprehensive income attributable to shareholders of the Bank"), compared to increase by NIS 62 million and NIS 26 million in the corresponding periods last year. For more information see Note 4 to the financial statements.

Development of Group return on equity and ratio of Tier I capital to risk components, liquidity coverage ratio and leverage ratio at the end of the quarter (in %)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			
	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Net return on equity	9.0	[(5)]9.1	11.5	11.1	15.8	11.3
Ratio of Tier I capital to risk components at end of quarter	9.96	9.89	10.14	10.13	10.23	10.12
(Quarterly) liquidity coverage ratio	122	117	121	122	118	120
Leverage ratio at end of quarter	5.36	5.40	5.55	5.62	5.67	5.54

	First half of		All of
	2020	2019	2019
Net return on equity	9.0	13.3	11.9

(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 per ordinary, NIS 0.1 par value share are as follows (in NIS):

	Second quarter of		First half of		All of
	2020	2019	2020	2019	2019
Basic earnings per share	1.53	2.46	3.05	4.19	7.86
Diluted earnings per share	1.53	2.45	3.04	4.17	7.83
Dividends per share	–	–	75	–	178

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	
		June 30,	December 31,	June 30,	December 31,
	2020	2019	2019	2019	2019
Balance sheet total	291,560	264,223	273,244	10.3	6.7
Cash and deposits with banks	61,532	48,700	51,672	26.3	19.1
Loans to the public, net	214,450	200,728	204,708	6.8	4.8
Securities	8,440	8,816	10,113	(4.3)	(16.5)
Buildings and equipment	1,433	1,375	1,457	4.2	(1.6)
Deposits from the public	231,784	205,188	210,984	13.0	9.9
Deposits from banks	946	554	714	70.8	32.5
Debentures and subordinated notes	29,689	31,596	33,460	(6.0)	(11.3)
Shareholders' equity	16,653	15,740	16,033	5.8	3.9

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first half of 2020 by NIS 9.9 billion. The increase in this 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 June 30, 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 half of 2020 by NIS 9.7 billion, an increase by 4.8%.

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 Risks Report on the Bank website.

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2020	2019	2019	2019	2019
Israeli currency					
Non-linked	145,586	133,792	137,223	8.8	6.1
CPI-linked	58,233	55,937	57,272	4.1	1.7
Foreign currency and foreign currency linked	10,631	10,999	10,213	(3.3)	4.1
Total	**214,450**	**200,728**	**204,708**	**6.8**	**4.8**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2020	2019	2019	2019	2019
Individuals:					
Households – housing loans	139,605	130,140	134,637	7.3	3.7
Households – other	20,766	21,061	21,632	(1.4)	(4.0)
Private banking	127	104	224	22.1	(43.3)
Total – individuals	**160,498**	**151,305**	**156,493**	**6.1**	**2.6**
Business operations:					
Small and micro businesses	22,613	20,059	20,857	12.7	8.4
Medium businesses	7,219	7,196	7,063	0.3	2.2
Large businesses	18,116	17,107	15,152	5.9	19.6
Institutional investors	2,228	1,098	1,563	–	42.5
Total – business operations	**50,176**	**45,460**	**44,635**	**10.4**	**12.4**
Overseas operations	3,776	3,963	3,580	(4.7)	5.5
Total	**214,450**	**200,728**	**204,708**	**6.8**	**4.8**

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.

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 loss:

	As of June 30, 2020				As of June 30, 2019				As of December 31, 2019			
	Credit risk[(1)]				Credit risk[(1)]				Credit risk[(1)]			
Reported amounts (NIS in millions)	**Com-mercial**	**Hou-sing**	**Indivi-dual**	**Total**	**Com-mercial**	**Hou-sing**	**Indivi-dual**	**Total**	**Com-mercial**	**Hou-sing**	**Indivi-dual**	**Total**
1. Credit risk at performing credit rating[(2)]												
Balance sheet credit risk	53,375	138,288	18,988	210,651	49,131	128,859	19,429	197,419	48,582	133,145	19,993	201,720
Off balance sheet credit risk[(3)]	41,598	13,647	12,194	67,439	34,320	10,712	11,179	56,211	38,035	13,348	11,301	62,684
Total credit risk at performing credit rating	**94,973**	**151,935**	**31,182**	**278,090**	**83,451**	**139,571**	**30,608**	**253,630**	**86,617**	**146,493**	**31,294**	**264,404**
2. Credit risk other than at performing credit rating												
A. Non-Problematic[(4)]	3,173	827	374	4,374	2,387	763	425	3,575	1,520	899	403	2,822
B. Total problematic	2,326	1,500	233	4,059	1,785	1,453	229	3,467	2,113	1,532	234	3,879
Special supervision[(5)]	728	1,432	101	2,261	609	1,407	117	2,133	716	1,476	117	2,309
Inferior	290	–	42	332	125	–	26	151	212	–	30	242
Impaired	1,308	68	90	1,466	1,051	46	86	1,183	1,185	56	87	1,328
Total credit risk other than at performing credit rating	**5,499**	**2,327**	**607**	**8,433**	**4,172**	**2,216**	**654**	**7,042**	**3,633**	**2,431**	**637**	**6,701**
Of which: Balance sheet credit risk	4,102	2,327	581	7,010	3,104	2,216	650	5,970	2,845	2,431	633	5,909
Of which: Off balance sheet credit risk[(3)]	1,397	–	26	1,423	1,068	–	4	1,072	788	–	4	792
Of which: Non-impaired debts in arrears 90 days or longer[(5)]	42	1,432	27	1,501	36	1,407	20	1,463	37	1,476	24	1,537
Total credit risk, including risk to the public[(6)]	**100,472**	**154,262**	**31,789**	**286,523**	**87,623**	**141,787**	**31,262**	**260,672**	**90,250**	**148,924**	**31,931**	**271,105**
Non-performing assets[(7)]	**1,223**	**68**	**57**	**1,348**	**969**	**46**	**58**	**1,073**	**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) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(5) 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.

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

(7) Assets not accruing interest.

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 June 30, 2020 amounted to NIS 287 billion, compared to NIS 271 billion as of December 31, 2019 – an increase by 5.7%.

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.

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

				Change in % over	
		June 30,	December 31,	June 30,	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	19,292	16,324	14,734	18.2	30.9
Guarantees to home buyers	10,794	11,142	10,672	(3.1)	1.1
Irrevocable commitments for loans approved but not yet granted	22,950	17,228	22,466	33.2	2.2
Un-utilized revolving credit card facilities	8,873	7,948	8,160	11.6	8.7
Commitments to issue guarantees	9,354	7,807	9,993	19.8	(6.4)
Guarantees and other commitments	8,879	7,882	8,613	12.6	3.1
Loan guarantees	2,923	2,442	2,898	19.7	0.9
Documentary credit	171	166	206	3.0	(17.0)
Financial derivatives[(2)]:					
Total par value of derivative financial instruments	237,307	231,735	265,277	2.4	(10.5)
(On-balance sheet) assets with respect to derivatives	2,200	2,117	2,578	3.9	(14.7)
(On-balance sheet) liabilities with respect to derivatives	2,898	2,276	2,686	27.3	7.9

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 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 Risks Report on the Bank website.

Securities – the balance of investment in securities decreased in the first half of 2020 by NIS 1.7 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)]
					June 30, 2020
Debentures held to maturity	3,985	3,985	73	–	4,058
Debentures available for sale	3,989	3,961	[(2)]40	[(2)](12)	3,989
Investment in shares not held for trading	133	106	[(3)]27	–	133
Debentures held for trading	333	329	[(3)]4	–	333
Total securities	**8,440**	**8,381**	**144**	**(12)**	**8,513**
					June 30, 2019
Debentures held to maturity	2,701	2,701	42	–	2,743
Debentures available for sale	5,576	5,537	[(2)]53	[(2)](14)	5,576
Investment in shares not held for trading	126	110	[(3)]16	–	126
Debentures held for trading	413	412	[(3)]1	–	413
Total securities	**8,816**	**8,760**	**112**	**(14)**	**8,858**
					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:

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2020	**2019**	**2019**	**2019**	**2019**
Israeli currency					
Non-linked	4,393	2,872	5,038	53.0	(12.8)
CPI-linked	1,010	754	607	34.0	66.4
Foreign currency and foreign currency linked	2,904	5,064	4,319	(42.7)	(32.8)
Non-monetary items	133	126	149	5.6	(10.7)
Total	**8,440**	**8,816**	**10,113**	**(4.3)**	**(16.5)**

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

	Carrying amount as of		
	June 30, 2020	**June 30, 2019**	**December 31, 2019**
Government debentures:			
Government of Israel	6,607	6,355	7,821
Government of USA	1,169	2,028	1,781
Total government debentures	**7,776**	**8,383**	**9,602**
Debentures of financial institutions in Israel	**388**	**–**	**–**
Debentures of banks in developed nations:			
USA(1)	–	72	70
Germany	–	91	44
South Korea	110	–	108
Other(1)	–	144	140
Total debentures of banks in developed nations	**110**	**307**	**362**
Corporate debentures (composition by economic sector):			
Public and community services	1	–	–
Power	32	–	–
Total corporate debentures	**33**	**–**	**–**
Investment in shares not held for trading	**133**	**126**	**149**
Of which: Shares for which no fair value is available(2)	51	57	49
Total securities	**8,440**	**8,816**	**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 half of 2020 by NIS 24 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 79% of total consolidated balance sheet as of June 30, 2020, compared to 77% as of December 31, 2019. In the first half of 2020, deposits from the public with the Bank Group increased by NIS 20.8 billion, or 9.9% (increase by 13.0% over the end of the corresponding period last year).

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2020	2019	2019	2019	2019
Israeli currency					
Non-linked	175,923	148,820	158,980	18.2	10.7
CPI-linked	14,333	15,520	14,345	(7.6)	(0.1)
Foreign currency and foreign currency linked	41,528	40,848	37,659	1.7	10.3
Total	**231,784**	**205,188**	**210,984**	**13.0**	**9.9**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2020	2019	2019	2019	2019
Individuals:					
Households – other	96,329	84,917	86,076	13.4	11.9
Private banking	16,002	14,179	14,839	12.9	7.8
Total – individuals	**112,331**	**99,096**	**100,915**	**13.4**	**11.3**
Business operations:					
Small and micro businesses	33,539	25,357	26,725	32.3	25.5
Medium businesses	10,193	8,301	8,935	22.8	14.1
Large businesses	28,695	25,943	25,155	10.6	14.1
Institutional investors	42,179	41,731	45,330	1.1	(7.0)
Total – business operations	**114,606**	**101,332**	**106,145**	**13.1**	**8.0**
Overseas operations	4,847	4,760	3,924	1.8	23.5
Total	**231,784**	**205,188**	**210,984**	**13.0**	**9.9**

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.

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

		June 30,	December 31,
	2020	2019	2019
Maximum deposit			
Up to 1	78,419	72,114	72,152
Over 1 to 10	57,925	48,962	50,875
Over 10 to 100	33,201	28,735	29,582
Over 100 to 500	26,333	20,297	22,193
Above 500	35,906	35,080	36,182
Total	**231,784**	**205,188**	**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 June 30, 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 June 30, 2020 amounted to NIS 29.7 billion, a decrease by NIS 3.8 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 June 30, 2020 amounted to NIS 16.7 billion, compared to NIS 16.0 billion and NIS 15.7 billion as of December 31, 2019 and as of June 30, 2019, an increase by 3.9% and 5.8%, respectively.

Composition of shareholder equityBelow is the composition of shareholder equity (NIS in millions):

		June 30,	December 31,
	2020	**2019**	**2019**
Share capital and premium[1]	2,238	2,218	2,232
Capital reserve from benefit from share-based payment transactions	66	44	70
Total cumulative other loss[2][3]	(306)	(284)	(332)
Retained earnings [4]	14,655	13,762	14,063
Total	**16,653**	**15,740**	**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 shareholders' equity to total assets for the Group as of June 30, 2020 was 5.71% compared to 5.87% as of December 31, 2019 and 5.96% as of June 30, 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 June 30, 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 Risks Report on the Bank website.

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. 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 minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of June 30, 2020, would be at least 8.79%, and the total capital ratio would be at least 12.29% (with additional safety margins as appropriate).

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

	As of June 30,		As of December 31,
	2020	**2019**	**2019**
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	17,033	16,220	16,520
Tier I capital	17,033	16,220	16,520
Tier II capital	5,966	5,783	6,090
Total capital	**22,999**	**22,003**	**22,610**
Weighted risk asset balances			
Credit risk	158,555	146,566	150,878
Market risks	1,616	2,214	1,791
Operational risk	10,821	9,846	10,189
Total weighted risk asset balances	**170,992**	**158,626**	**162,858**

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

	June 30, 2020	**June 30, 2019**	**December 31, 2019**
Ratio of Tier I capital to risk components	9.96	10.23	10.14
Ratio of total capital to risk components	13.45	13.87	13.88
Minimum Tier I capital ratio required by Supervisor of Banks	8.79	9.83	9.83
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.29	13.33	13.33

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 under reference to dividend policy.

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

	As of June 30, 2020		As of June 30, 2019		As of December 31, 2019	
Exposure group	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(3)
Sovereign debts	131	16	218	29	90	12
Public sector entity debts	227	28	205	27	208	28
Banking corporation debts	972	119	677	90	517	69
Corporate debts	47,515	5,840	43,829	5,842	44,210	5,893
Debts secured by commercial real estate	4,288	527	3,279	437	4,101	547
Retail exposure to individuals	14,638	1,799	(4)15,067	(4)2,009	15,372	2,049
Loans to small businesses	9,067	1,114	(4)7,954	(4)1,060	8,309	1,108
Residential mortgages	75,609	9,292	69,613	9,279	72,671	9,687
Other assets	5,681	698	5,333	711	5,016	669
Total	**158,128**	**19,433**	**146,175**	**19,484**	**150,494**	**20,062**

(1) The capital requirement was calculated at 12.29% 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) Reclassified

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

	As of June 30, 2020		As of June 30, 2019		As of December 31, 2019	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(3)
Market risk	1,616	199	2,214	294	1,791	239
CVA risk with respect to derivatives(4)	427	52	391	52	384	51
Operational Risk(5)	10,821	1,330	9,846	1,312	10,189	1,358
Total	**12,864**	**1,581**	**12,451**	**1,658**	**12,364**	**1,648**
Total risk assets	**170,992**	**21,014**	**158,626**	**21,142**	**162,858**	**21,710**

(1) The capital requirement was calculated at 12.29% 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, to financing transactions for securities and off-balance sheet items.

Below is the Bank's leverage ratio:

	As of June 30,		As of December 31,
	2,020	2,019	2,019
1. Consolidated data			
Tier I capital	17,033	16,220	16,520
Total exposure	317,759	285,858	297,779
			In %
Leverage ratio	5.36	5.67	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	5.13	5.45	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)
August 12, 2019	August 27, 2019	167.21	(3)0.40	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	
		June 30,	December 31,	June 30,	December 31,
	2020	2019	2019	2019	2019
Securities(1)(3)	412,322	416,893	452,549	(1.1)	(8.9)
Assets of provident funds for which the Group provides operating services	91,595	89,914	93,336	1.9	(1.9)
Assets held in trust by the Bank Group	57,392	70,327	68,308	(18.4)	(16.0)
Assets of mutual funds for which the Bank provides operating services	11,230	12,394	13,546	(9.4)	(17.1)
Other assets under management(2)	15,132	15,438	15,519	(2.0)	(2.5)

(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.

(3) In July 2020, after the balance sheet date, total assets under custody increased by NIS 20 billion. The increase is primarily due to large institutional clients.

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 %)	
	First half of		First half of	
	2,020	2,019	2,020	2,019
Individuals:				
Households – housing loans	368	363	49.7	37.0
Households – other	12	20	1.6	2.0
Private banking	(1)59	1	8.0	0.1
Total – individuals	**439**	**384**	**59.3**	**39.1**
Business operations:				
Small and micro businesses	170	210	22.9	21.4
Medium businesses	34	71	4.6	7.2
Large businesses	50	136	6.7	13.9
Institutional investors	9	16	1.2	1.6
Total – business operations	**263**	**433**	**35.4**	**44.1**
Financial management	(24)	106	–	10.8
Total activity in Israel	**678**	**923**	**94.7**	**94.0**
Overseas operations	39	57	5.3	6.0
Total	**717**	**980**	**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 six months ended June 30					
			2,020			2,019
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	654	923	1,577	672	818	1,490
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	282	75	357	255	77	332
Total revenues	**936**	**998**	**1,934**	**927**	**895**	**1,822**
Expenses with respect to credit losses	84	118	202	51	19	70
Operating and other expenses	798	320	1,118	813	324	1,137
Profit before provision for taxes	54	560	614	63	552	615
Provision for taxes	18	192	210	22	189	211
After-tax profit	36	368	404	41	363	404
Net profit:						
Attributable to non-controlling interests	(24)	–	(24)	(21)	–	(21)
Attributable to shareholders of the banking corporation	**12**	**368**	**380**	**20**	**363**	**383**
Balance sheet – key items:						
Loans to the public (end balance)	21,062	140,388	161,450	21,315	130,800	152,115
Loans to the public, net (end balance)	20,766	139,605	160,371	21,061	130,140	151,201
Deposits from the public (end balance)	96,329	–	96,329	84,917	–	84,917
Average balance of loans to the public	20,659	137,907	158,566	20,433	128,560	148,993
Average balance of deposits from the public	91,754	–	91,754	83,534	–	83,534
Average balance of risk assets	19,655	79,719	99,374	18,734	73,261	91,995
Credit margins and deposit margins:						
Margin from credit granting operations	419	872	1,291	411	783	1,194
Margin from activities of receiving deposits	236	–	236	260	–	260
Other	(1)	51	50	1	35	36
Total interest revenues, net	**654**	**923**	**1,577**	**672**	**818**	**1,490**

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in the first half of 2020 amounted to NIS 380 million, compared to NIS 383 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 half of 2020 amounted to NIS 368 million, compared to NIS 363 million in the corresponding period last year. Total interest revenues, net amounted to NIS 923 million, compared to NIS 818 million in the corresponding period last year, an increase by 12.8% – primarily due to an increase of NIS 9.3 billion in total loan balance and to increase in lending margins. In the first half of 2020, the Bank recognized expenses with respect to credit losses amounting to NIS 118 million, compared to NIS 19 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 and to an increase by NIS 11 million in the provision with respect to extent of arrears. For more information see chapter "Significant Events in the Bank Group's Business" above. Operating expenses amounted to NIS 320 million, compared to NIS 324 million in the corresponding period last year.

Contribution of other household operations (other than housing loans) in the first half of 2020 amounted to a profit of NIS 12 million, compared to NIS 20 million in the corresponding period last year. Total interest revenues, net amounted to NIS 654 million, compared to NIS 672 million in the corresponding period last year. The decrease is primarily due to decrease in financing margin, primarily due to effect of the lower Prime lending rate. Commissions and other revenues amounted to NIS 282 million, compared to NIS 255 million in the corresponding period last year – an increase by 10.6%, 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 84 million, compared to NIS 51 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 798 million, compared to NIS 813 million in the corresponding period last year. The change is primarily due to decrease in payroll expenses due to adjustment of variable remuneration components to Bank return and profit and to decrease in head count due to employee retirements.

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.

	For the three months ended June 30					
			2,020			2,019
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	317	464	781	337	415	752
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	135	37	172	128	39	167
Total revenues	**452**	**501**	**953**	**465**	**454**	**919**
Expenses with respect to credit losses	44	53	97	24	11	35
Operating and other expenses	384	154	538	412	164	576
Profit before provision for taxes	24	294	318	29	279	308
Provision for taxes	8	100	108	10	97	107
After-tax profit	16	194	210	19	182	201
Net profit:						
Attributable to non-controlling interests	(12)	–	(12)	(11)	–	(11)
Attributable to shareholders of the banking corporation	**4**	**194**	**198**	**8**	**182**	**190**
Balance sheet – key items:						
Loans to the public (end balance)	21,062	140,388	161,450	21,315	130,800	152,115
Loans to the public, net (end balance)	20,766	139,605	160,371	21,061	130,140	151,201
Deposits from the public (end balance)	96,329	–	96,329	84,917	–	84,917
Average balance of loans to the public	20,183	139,364	159,547	20,527	129,504	150,031
Average balance of deposits from the public	95,510	–	95,510	84,247	–	84,247
Average balance of risk assets	19,609	80,483	100,092	18,701	73,986	92,687
Credit margins and deposit margins:						
Margin from credit granting operations	205	438	643	205	397	602
Margin from activities of receiving deposits	113	–	113	131	–	131
Other	(1)	26	25	1	18	19
Total interest revenues, net	**317**	**464**	**781**	**337**	**415**	**752**

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 six months ended June 30		For the three months ended June 30,	
	2,020	**2,019**	**2,020**	**2,019**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	41	44	19	22
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	88	5	2	3
Total revenues	**129**	**49**	**21**	**25**
Expenses with respect to credit losses	–	–	1	–
Operating and other expenses	40	48	16	24
Profit before provision for taxes	89	1	4	1
Provision for taxes	30	–	1	–
Net profit	**59**	**1**	**3**	**1**
Balance sheet – key items:				
Loans to the public (end balance)	129	105	129	105
Loans to the public, net (end balance)	127	104	127	104
Deposits from the public (end balance)	16,002	14,179	16,002	14,179
Average balance of loans to the public	181	80	149	87
Average balance of deposits from the public	15,365	13,641	15,731	13,758
Average balance of risk assets	26	28	26	28
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	41	44	19	22
Other	–	–	–	–
Total interest revenues, net	**41**	**44**	**19**	**22**

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in the first half of 2020 amounted to profit of NIS 59 million, compared to NIS 1 million in the corresponding period last year.

Total interest revenues, net amounted to NIS 41 million, compared to NIS 44 million in 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 6 million, similar to the corresponding period last year.

Operating expenses amounted to NIS 40 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.

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 six months ended June 30		For the three months ended June 30,	
	2,020	2,019	2,020	2,019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	575	567	277	287
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	203	192	99	96
Total revenues	**778**	**759**	**376**	**383**
Expenses with respect to credit losses	155	66	83	29
Operating and other expenses	362	370	175	187
Profit before provision for taxes	261	323	118	167
Provision for taxes	89	111	40	58
After-tax profit	**172**	**212**	**78**	**109**
Net profit attributed to non-controlling interests	(2)	(2)	(1)	–
Net profit attributable to shareholders of the banking corporation	**170**	**210**	**77**	**109**
Balance sheet – key items:				
Loans to the public (end balance)	23,079	20,408	23,079	20,408
Loans to the public, net (end balance)	22,613	20,059	22,613	20,059
Deposits from the public (end balance)	33,539	25,357	33,539	25,357
Average balance of loans to the public	21,781	19,906	22,121	20,160
Average balance of deposits from the public	29,825	24,428	31,721	25,225
Average balance of risk assets	21,050	19,140	21,450	19,669
Credit margins and deposit margins:				
Margin from credit granting operations	498	480	242	244
Margin from activities of receiving deposits	64	73	29	37
Other	13	14	6	6
Total interest revenues, net	**575**	**567**	**277**	**287**

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in the first half of 2020 amounted to NIS 170 million, compared to NIS 210 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net amounted to NIS 575 million, compared to NIS 567 million in the corresponding period last year. The increase is primarily due to higher loans and deposits, offset by decrease in financing margin, primarily due to effect of the lower Prime lending rate.
Commissions and other revenues amounted to NIS 203 million, compared to NIS 192 million in the corresponding period last year – an increase by 5.7%, primarily due to increase in revenues from commissions on securities and from commissions from financing business.
Expenses with respect to credit losses amounted to NIS 155 million, compared to NIS 66 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 362 million, compared to NIS 370 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.

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 six months ended June 30		For the three months ended June 30,	
	2,020	**2,019**	**2,020**	**2,019**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	147	143	71	75
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	43	43	21	21
Total revenues	**190**	**186**	**92**	**96**
Expenses with respect to credit losses	79	16	7	15
Operating and other expenses	59	62	28	31
Profit before provision for taxes	52	108	57	50
Provision for taxes	18	37	19	17
Net profit	**34**	**71**	**38**	**33**
Balance sheet – key items:				
Loans to the public (end balance)	7,413	7,307	7,413	7,307
Loans to the public, net (end balance)	7,219	7,196	7,219	7,196
Deposits from the public (end balance)	10,193	8,301	10,193	8,301
Average balance of loans to the public	7,556	6,933	7,701	7,130
Average balance of deposits from the public	9,398	8,300	9,838	8,326
Average balance of risk assets	8,435	7,977	8,459	8,144
Credit margins and deposit margins:				
Margin from credit granting operations	124	115	61	61
Margin from activities of receiving deposits	18	24	8	12
Other	5	4	2	2
Total interest revenues, net	**147**	**143**	**71**	**75**

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first half of 2020 amounted to NIS 34 million, compared to NIS 71 million in the corresponding period last year.
Interest revenues, net, amounted to NIS 147 million, compared to NIS 143 million in the corresponding period last year. The change is primarily due to increase in activity, offset by a decrease due to the lower deposit margin.
Expenses with respect to credit losses amounted to expenses of NIS 79 million, compared to NIS 16 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. Expenses also include a decrease in provision by NIS 11 million with respect to specific classified debt collected in the second quarter of 2020. For more information see chapter "Significant Events in the Bank Group's Business" above.
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 six months ended June 30		For the three months ended June 30,	
	2,020	**2,019**	**2,020**	**2,019**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	266	263	132	131
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	65	70	31	30
Total revenues	**331**	**333**	**163**	**161**
Expenses with respect to credit losses	161	28	74	23
Operating and other expenses	94	98	45	50
Profit before provision for taxes	76	207	44	88
Provision for taxes	26	71	15	31
Net profit	**50**	**136**	**29**	**57**
Balance sheet – key items:				
Loans to the public (end balance)	18,417	17,307	18,417	17,307
Loans to the public, net (end balance)	18,116	17,107	18,116	17,107
Deposits from the public (end balance)	28,695	25,943	28,695	25,943
Average balance of loans to the public	17,385	17,048	18,174	17,016
Average balance of deposits from the public	27,275	27,364	29,492	26,642
Average balance of risk assets	24,838	22,645	25,341	22,958
Credit margins and deposit margins:				
Margin from credit granting operations	221	217	111	109
Margin from activities of receiving deposits	33	36	15	17
Other	12	10	6	5
Total interest revenues, net	**266**	**263**	**132**	**131**

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in the first half of 2020 amounted to NIS 50 million, compared to NIS 136 million in the corresponding period last year.
Total interest revenues, net amounted to NIS 266 million, compared to NIS 263 million in the corresponding period last year.
Commissions and other revenues amounted to NIS 65 million, compared to NIS 70 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 161 million, compared to NIS 28 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 94 million, compared to NIS 98 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 six months ended June 30		For the three months ended June 30,	
	2,020	**2,019**	**2,020**	**2,019**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	55	62	26	30
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	27	18	11	9
Total revenues	**82**	**80**	**37**	**39**
Expenses (reduction of expenses) with respect to credit losses	6	(3)	4	(2)
Operating and other expenses	62	59	31	30
Profit before provision for taxes	14	24	2	11
Provision for taxes	5	8	1	4
Net profit	**9**	**16**	**1**	**7**
Balance sheet – key items:				
Loans to the public (end balance)	2,240	1,104	2,240	1,104
Loans to the public, net (end balance)	2,228	1,098	2,228	1,098
Deposits from the public (end balance)	42,179	41,731	42,179	41,731
Average balance of loans to the public	1,204	1,122	1,186	1,155
Average balance of deposits from the public	42,558	39,255	39,707	40,049
Average balance of risk assets	2,463	2,280	2,789	1,893
Credit margins and deposit margins:				
Margin from credit granting operations	14	9	8	5
Margin from activities of receiving deposits	40	52	18	25
Other	1	1	–	–
Total interest revenues, net	**55**	**62**	**26**	**30**

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first half of 2020 amounted to NIS 9 million, compared to NIS 16 million in the corresponding period last year.

Interest revenues, net, amounted to NIS 55 million, compared to NIS 62 million in the corresponding period last year. The decrease is due to the lower deposit margin, due to the lower Prime lending rate.

Commissions and other revenues amounted to NIS 27 million, compared to NIS 18 million in the corresponding period last year – primarily due to increase in commission revenues from securities.

Expenses with respect to credit losses amounted to an expense of NIS 6 million, compared to a decrease in expenses of NIS 3 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 62 million, compared to NIS 59 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 six months ended June 30		For the three months ended June 30,	
	2,020	**2,019**	**2,020**	**2,019**
	NIS in millions			
Profit and profitability				
Total interest revenues (expenses), net	(86)	95	(33)	191
Non-interest financing revenues	140	142	76	87
Commissions and other revenues	132	132	55	63
Total revenues	**186**	**369**	**98**	**341**
Expenses (reduction of expenses) with respect to credit losses	1	(3)	(1)	(1)
Operating and other expenses	195	184	100	94
Profit (loss) before provision for taxes	(10)	188	(1)	248
Provision (reduced provision) for taxes	(3)	64	–	86
After-tax profit (loss)	(7)	124	(1)	162
Share of banking corporation in earnings of associated companies	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	(7)	124	(1)	162
Net profit attributed to non-controlling interests	(17)	(18)	(9)	(11)
Net profit (loss) attributable to shareholders of the banking corporation	**(24)**	**106**	**(10)**	**151**
Balance sheet – key items:				
Average balance of risk assets	6,974	6,579	7,269	6,898
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	(86)	95	(33)	191
Total interest revenues, net	**(86)**	**95**	**(33)**	**191**

Operating results of the financial management segment (in conformity with supervisory definitions) in the first half of 2020 amounted to a loss of NIS 24 million, compared to a profit of NIS 106 million in the corresponding period last year.

Financing revenues, net, amounted to NIS 54 million, compared to NIS 237 million in the corresponding period last year. The decrease in financing revenues, net is primarily due to the effect of the lower Consumer Price Index compared to an increase in the corresponding period last year. The change is also due to a decrease in effect of accounting treatment of derivatives at fair value and to the lower Fed interest rate. Conversely, an increase was due to profit from realized debentures and securities.
Operating and other expenses amounted to NIS 195 million, compared to NIS 184 million in the corresponding period last year, an increase by NIS 11 million, primarily due to increase in rent expenses, further to application of the new standard with regard to leases, and to increase in depreciation expenses for technology investments made in the fourth quarter of 2019. For more information about application of the standard concerning leases, see Note 1 to the financial statements.
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 six months ended June 30		For the three months ended June 30,	
	2,020	2,019	2,020	2,019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	95	110	50	55
Non-interest financing revenues	–	4	–	2
Commissions and other revenues	13	12	8	6
Total revenues	**108**	**126**	**58**	**63**
Expenses with respect to credit losses	11	1	5	–
Operating and other expenses	37	39	17	19
Profit before provision for taxes	60	86	36	44
Provision for taxes	21	29	12	15
Net profit	**39**	**57**	**24**	**29**
Balance sheet – key items:				
Loans to the public (end balance)	3,810	3,996	3,810	3,996
Loans to the public, net (end balance)	3,776	3,963	3,776	3,963
Deposits from the public (end balance)	4,847	4,760	4,847	4,760
Average balance of loans to the public	3,236	3,477	3,339	3,530
Average balance of deposits from the public	4,649	5,270	4,753	5,026
Average balance of risk assets	4,457	4,213	4,570	4,193
Credit margins and deposit margins:				
Margin from credit granting operations	53	57	28	28
Margin from activities of receiving deposits	4	6	1	3
Other	38	47	21	24
Total interest revenues, net	**95**	**110**	**50**	**55**

Contribution of overseas operations to Group profit in the first half of 2020 amounted to NIS 39 million, compared to NIS 57 million in the corresponding period last year.

Interest revenues, net, amounted to NIS 95 million, compared to NIS 110 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 11 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 37 million, compared to NIS 39 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.

Major Investee companies

The contribution of investees to net operating profit in the first half of 2020 amounted to NIS 98 million, compared with NIS 84 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 investees amounted to NIS 95 million, compared to NIS 97 million in the corresponding period last year – see explanation under Investees 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 half of 2020 amounted to NIS 43 million, compared to NIS 41 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2020 was 11.0% on annualized basis, compared to return of 11.7% in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 17 million in the first half of 2020, compared to NIS 14 million in the corresponding period last year. The increase is due to group-based provision in conformity with qualitative attributes, with respect to the Corona Virus crisis.

Bank Yahav's balance sheet total as of June 30, 2020 amounted to NIS 31,304 million, compared to NIS 27,299 million as of December 31, 2019 – an increase by NIS 4,005 million, or 15%. Net loans to the public as of June 30, 2020 amounted to NIS 10,599 million, compared to NIS 10,880 million as of December 31, 2019 – a decrease by NIS 281 million, or 3%. Net deposits from the public as of June 30, 2020 amounted to NIS 27,367 million, compared to NIS 23,345 million as of December 31, 2019 – an increase by NIS 4,022 million, or 17%.

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. Net profit of Tefahot Insurance Agency in the first half of 2020, excluding financing revenues, net from excess cash of the company (hereinafter: "Net profit from current operations") amounted to NIS 34 million, compared to NIS 31 million in the corresponding period last year.

Net profit return on equity from current operations in the first half of 2020 was 5.9%, compared to 5.8% 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 half of 2020 NIS 22 million – compared to NIS 8 million in the corresponding period last year. This includes profit amounting to NIS 19 million in the first half of 2020 (NIS million in the corresponding period last year) from operations of Mizrahi Tefahot Trust Company Ltd., including revenues from indemnification received from insurers.

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 half of 2020 amounted to CHF 0.4 million, compared to CHF 0.6 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of June 30, 2020 amounted to CHF 117 million, compared to CHF 121 million as of December 31, 2019.

Interest revenues and net interest revenues in the first half of 2020 amounted to CHF 0.8 million, compared to CHF 1.1 million in the corresponding period last year. Pre-tax revenues in the first half of 2020 amounted to CHF 0.5 million, compared to CHF 0.6 million in the corresponding period last year. Pre-tax income net of exchange rate effects in the first half of 2020 amounted to NIS 1.8 million, compared to NIS 2.0 million in the corresponding period last year.

The balance of loans to the public as of June 30, 2020 amounted to CHF 50 million, compared to CHF 52 million as of December 31, 2019. Deposits with banks as of June 30, 2020 amounted to CHF 64 million, compared to CHF 65 million as of December 31, 2019. Deposits from the public as of June 30, 2020 amounted to CHF 77 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.

As part of the review of the Bank's overall international presence, the Bank is considering sale of United Mizrahi Bank (Switzerland) Ltd.

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.

Some 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 June 30, 2020 amounted to NIS 162 million, compared to NIS 157 million and NIS 181 million as of June 30, 2019 and as of December 31, 2019, respectively. Bank net loss from investment in shares in the first half of 2020 amounted to NIS 17 million, compared to gain of NIS 33 million in the corresponding period last year. The loss in the first half 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.

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.

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 stress scenario, the recovery process and return to routine operations only take place in the first quarter of 2021. These results demonstrate the Bank's capacity to withstand potential losses under the stress scenario, 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).

The Bank also conducted a system-wide stress scenario – a uniform stress scenario delivered by the Supervisor of Banks to the banking system. The stress scenario is based on a renewed Corona Virus outbreak in the fourth quarter of 2020 and a shut-down of the economy (to a lesser degree). The results of this scenario, provided to the Bank of Israel in late June, indicate that the Bank is capable of withstanding the impact of the Corona Virus crisis.

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-medium	
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 Bank's overall risk profile increased 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. This effect continued in the second quarter of this year. 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. However, the impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet. 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.

In the current quarter, the risk level in the housing loan portfolio was raised from Low to Low-Medium, due to on-going uncertainty with regard to further development of the crisis. In order to assist clients with a mortgage at the Bank, the Bank has allowed clients to receive a full or partial repayments delay by up to 4 months, and as from July, in conformity with the expanded Bank of Israel outline (clients who have already delayed repayments – a further extension through December 31, 2021; clients who have yet to delay repayments – delay of up to 6 months). The delayed payments were re-attributed over the remaining mortgage term. The Bank closely monitors this activity and risk aspects with regard to the following: The grace amount, number of applications, grace period, borrower profile, LTV ratio and so forth. One of the key parameters for risk review is borrower behavior after expiration of the repayment delay.

The Bank continues to monitor development of borrower behavior after expiration of the repayment delay in subsequent months, and the rate of further delay extensions in conformity with the Bank of Israel's revised outline. 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. For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Credit risk" below.

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 and remained Medium in the second quarter of 2020. The higher risk level also applies to the individual segment, but primarily applies to the business segment, especially small and medium businesses, due to various restrictions with regard to social distancing imposed on different sectors in Israel. Material risk factors are the sharp increase in unemployment rate, slow-down in economic activity, and in particular in specific economic sectors (such as: Aviation, fashion, hotels, accommodation and dining services, leisure and culture) which were impacted, and volatility in financial markets affecting the 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.

One of the key parameters for risk review is borrower behavior after expiration of the repayment delay. Note that for 60% of the balance of loans currently due for payment, no further delay was applied for and the clients resumed making payments. Based on early indications with respect to borrowers who have resumed normal repayments, whose loan maturity was in early August 2020, it would appear that other than a negligible number of exceptions, all repayments were duly made. This points to a positive indication with regard to return to employment.

Assessment of all risk factors other than the aforementioned credit risk (including the housing loan portfolio) 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.

Technology risk and cyber and information security risk are material risks for the Bank and the potential damage due to materialization of such risk may be significant, during routine operations and even more so during an emergency. Activity during the crisis was managed in a focused manner, with all efforts marshaled to provide the service required for the Bank, focused on needs that changed along the way, taking most of the steps to reduce potential risk in as much as possible. In actual fact, there were no material events related to technology nor to cyber and information security.

In the second quarter, liquidity risk remained Low-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 for liquidity, from Elevated to Yellow (alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods), due to continued spread of the Corona Virus and 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. The alert level returned down to Elevated in mid-May, with resumption of routine operations. 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.

Reputation risk remained low in the second quarter; 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 further down the road, in conformity with economic developments.

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, and remained Medium in the second quarter of 2020 as well; the risk level in the housing loan portfolio increased in the current quarter from Low to Low-Medium due to the on-going uncertainty.

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.

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.

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 June 30, 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 June 30, 2020 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Financial services	40	1,250	1,290
2.	Financial services	1,037	200	1,237
3.	Financial services	17	1,219	1,236
4.	Industry and production	–	1,095	1,095
5.	Construction and real estate	274	653	927
6.	Industry and production	–	889	889

(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):

	June 30, 2020				June 30, 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	–	104	104	–	52	26	78	–	–	–	–	–
Commerce	136	–	136	–	150	–	150	–	153	–	153	–
Total	**136**	**104**	**240**	–	**202**	**26**	**228**	–	**153**	–	**153**	–

Credit to leveraged companies (NIS in millions):

	June 30, 2020				June 30, 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**
Industry and production	–	–	–	–	70	1	71	1	–	–	–	–
Construction and real estate	355	–	355	–	368	–	368	–	355	–	355	–
Water	–	–	–	–	–	–	–	–	36	40	76	16
Commerce	369	54	423	23	221	60	281	–	412	88	500	22
Transport and storage	46	9	55	–	–	–	–	–	–	–	–	–
Information and communications	–	–	–	–	37	90	127	–	45	86	131	–
Financial services	123	–	123	3	156	–	156	4	124	–	124	3
Business services and other services	97	1	98	–	–	–	–	–	–	–	–	–
Public and community services	136	8	144	–	86	5	91	–	134	8	142	–
Total	**1,126**	**72**	**1,198**	**26**	**938**	**156**	**1,094**	**5**	**1,106**	**222**	**1,328**	**41**

Developments in problematic credit risk

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 debt, credit risk and provision for credit lossBelow 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		
	June 30, 2020	**June 30, 2019**	**December 31, 2019**
Problematic credit risk:			
Impaired credit risk	1,466	1,183	1,328
Inferior credit risk	332	151	242
Credit risk under special supervision – housing	1,432	1,407	1,476
Credit risk under special supervision – other	829	726	833
Total problematic credit risk	**4,059**	**3,467**	**3,879**

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

	June 30, 2020	June 30, 2019	December 31, 2019
Ratio of impaired loans to the public to total loans to the public	0.6	0.6	0.6
Ratio of impaired loans to the public to total non-housing loans	1.7	1.5	1.7
Ratio of problematic loans to the public to total non-housing loans	3.1	2.7	3.0
Ratio of housing loans in arrears 90 days or longer to total loans to the public [(1)(2)]	0.7	0.7	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.4	1.3	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.

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

	Debts subject to delayed repayments		Further details of recorded debt balance of debts subject to delayed repayment					Further details of debts subject to delayed repayment, by repayment delay period[(1)]		Credit provided in State funds
				Of which:	Non-problematic debts			Non-problematic debts		
Loans to the public	Recorded debt balance	Number of loans	Problematic debts	Classified as problematic during the repayment delay period	Debts not at performing credit rating	Debts at performing credit rating, in arrears 30 days or longer	Debts at performing credit rating, not in arrears	Debts subject to delay of 3 to 6 months	Debts subject to delay of 6 months or longer	Recorded debt balance
										As of August 10, 2020
Large businesses	387	38	–	–	–	–	387	385	12	945
Medium businesses	144	74	1	1	4	1	138	77	63	426
Small businesses	1,517	5,131	33	6	113	24	1,347	1,072	349	2,745
Private individuals	732	13,422	5	1	8	4	715	692	21	–
Housing loans	22,173	31,388	428	–	300	119	21,326	13,425	7,381	–
Total as of 8/10/2020	**24,953**	**50,053**	**468**	**8**	**425**	**148**	**23,913**	**[(3)]15,651**	**[(3)]7,825**	**4,116**
										As of June 30, 2020
Large businesses	470	63	5	–	–	–	465	296	11	774
Medium businesses	338	182	4	1	16	1	317	325	1	362
Small businesses	2,681	9,744	41	17	148	39	2,452	2,400	24	2,323
Private individuals	846	15,070	6	4	–	5	836	807	5	–
Housing loans	36,698	[(2)]53,208	531	–	320	161	35,686	35,420	129	–
Total as of June 30, 2020	**41,033**	**78,267**	**587**	**21**	**483**	**205**	**39,757**	**[(3)]39,247**	**[(3)]170**	**3,459**
Total as of 3/31/2020	**31,981**	**54,234**	**296**	**5**	**230**	**66**	**31,390**	**[(3)]29,690**	**[(3)]20**	**–**

(1) The repayment delay period is the cumulative delay period granted to debt since the start of the Corona Virus crisis, excluding any delay to which the borrower is entitled by law.
(2) Number of Borrowers.
(3) Excludes debt classified as problematic (in separate column) and debt subject to shorter delays.

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. 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. Action taken by the Bank includes approval of a delay in current repayments, by up to 4 months, for mortgage clients who needed this due to temporary hardship resulting from the crisis, including further delay extensions granted as required: A further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. Delays and revised repayment 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.

The above table lists total debt subject to repayment delay, divided into problematic debt and debt in good standing. It further shows the composition of debt by length of approved delay (from the original delay approval date): Delay by 3-6 months and delay by over 6 months. The remaining debt was granted delays for shorter original periods. Data as of July 31, 2020 include, in the column "Delay by over 6 months", debt originally granted shorter delays, which were granted an extension in July, such that the total delay is over 6 months.

As of June 30, 2020, total housing loans subject to repayment delays amounted to NIS 36.7 billion. The Bank allows borrowers to extend the delay period through 2020, or to apply for a delay by up to 6 months in case of an initial application, in conformity with the Bank of Israel outline. As of August 10, 2020, out of total loans subject to repayment delays, NIS 7 billion were subject to an additional delay (mostly through 2020). Borrowers with total debt amounting to NIS 14 billion have waived the Bank's offer for a further delay of repayments, and should resume normal loan repayments as from August 2020; borrowers with total debt amounting to NIS 16 billion are subject to a delay expected to expire in September-December 2020, unless they would apply for a further repayment delay. Note that for 60% of the balance of loans currently due for payment, no further delay was applied for and the clients resumed making payments.
Based on early indications with respect to borrowers who have resumed normal repayments, whose loan maturity was in early August 2020, it would appear that other than a negligible number of exceptions, all repayments were duly made.
For commercial loans, as of June 30, 2020, the Bank granted repayment delay for clients with total loans amounting to NIS 4.3 billion, of which clients with a total loan amount of NIS 1.5 billion resumed repayments and as of August 10, 2020, a total of NIS 2.8 billion was still subject to repayment delay. As of August 10, 2020, total loans subject to repayment delays longer than 6 months amounted to only NIS 445 million.

Analysis of change to impaired debts

Analysis of movement in impaired debts and impaired debt under restructuring Movement in impaired debts and impaired debt under restructuring (NIS in millions):

Movement in impaired debt with respect to loans to the public[1]	**For the six months ended June 30, 2020**			**For the six months ended June 30, 2019**			**For the year ended December 31, 2019**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of impaired debts at start of the period	1,132	142	1,274	964	137	1,101	964	137	1,101
Debts classified as impaired during the period	334	34	368	249	23	272	706	101	807
Debts re-classified as non-impaired during the period	(26)	(2)	(28)	(16)	–	(16)	(83)	(19)	(102)
Impaired debts written off	(96)	(10)	(106)	(65)	(11)	(76)	(117)	(20)	(137)
Impaired debts repaid	(162)	(11)	(173)	(178)	(26)	(204)	(412)	(72)	(484)
Other changes	50	5	55	35	8	43	74	15	89
Balance of impaired debts at end of the period	**1,232**	**158**	**1,390**	**989**	**131**	**1,120**	**1,132**	**142**	**1,274**

[1] Includes: Movement in problematic debts under restructuring	**For the six months ended June 30, 2020**			**For the six months ended June 30, 2019**			**For the year ended December 31, 2019**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of problematic debts under restructuring at start of period	266	65	331	290	58	348	290	58	348
Re-structuring made during the period	111	21	132	43	25	68	62	45	107
Debt reclassified as non-impaired due to subsequent restructuring	(1)	–	(1)	(5)	–	(5)	(6)	(1)	(7)
Debts under restructuring written off	(38)	(8)	(46)	(10)	(10)	(20)	(19)	(17)	(36)
Debts under restructuring repaid	(16)	(13)	(29)	(25)	(10)	(35)	(75)	(20)	(95)
Other changes	16	2	18	10	–	10	14	–	14
Balance of problematic debts under restructuring at end of period	**338**	**67**	**405**	**303**	**63**	**366**	**266**	**65**	**331**

For more information about problematic credit risk, see Notes 6 and 13 to the financial statements.

Analysis of provision for credit losses

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

	For the three months ended June 30, 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	1,041	731	293	2,065	3	2,068
Expenses with respect to credit losses	173	53	45	271	(1)	270
Net accounting write-offs	(54)	(1)	(24)	(79)	–	(79)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
	For the three months ended June 30, 2019					
Balance of provision for credit losses at start of period	766	651	265	1,682	2	1,684
Expenses with respect to credit losses	65	11	24	100	(1)	99
Net accounting write-offs	(38)	(2)	(24)	(64)	–	(64)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
	For the six months ended June 30, 2020					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	412	118	84	614	1	615
Net accounting write-offs	(117)	(9)	(43)	(169)	–	(169)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
	For the six months ended June 30, 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	108	19	51	178	(3)	175
Net accounting write-offs	(81)	(3)	(49)	(133)	–	(133)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**

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):

	June 30, 2020	June 30, 2019	December 31, 2019
Ratio of provision for credit losses to total loans to the public	1.0	0.8	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.8	0.7	0.7
	First half of[1]		
	2020	2019	2019
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.6	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	0.6	0.2	0.2
Of which: With respect to commercial loans other than housing loans[2]	1.4	0.5	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 June 30,		As of December 31,
	2020	**2019**	**2019**
Debts			
Checking balances	1,786	2,143	2,133
Utilized credit card balances	3,546	3,824	3,973
Auto loans – adjustable interest	558	814	671
Auto loans – fixed interest	960	763	926
Other loans and credit – variable interest	12,279	11,996	12,515
Other loans and credit – fixed interest	237	213	258
Total debt (on-balance sheet credit)	**19,366**	**19,753**	**20,476**
Un-utilized facilities, guarantees and other commitments			
Checking accounts – un-utilized facilities	4,546	4,079	4,172
Credit cards – un-utilized facilities	7,170	6,496	6,627
Guarantees	176	226	187
Other liabilities	53	33	33
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**11,945**	**10,834**	**11,019**
Total credit risk to individuals	**31,311**	**30,587**	**31,495**
Of which:			
Bullet / balloon loans[(3)]	394	538	469
Financial asset portfolio and other collateral against credit risk[(4)]			
Financial assets portfolio:			
Deposits	3,468	3,518	3,723
Securities	176	216	219
Other monetary assets	307	356	328
Other collateral[(5)]	854	842	880
Total financial assets portfolio and other collateral against credit risk	**4,805**	**4,932**	**5,150**

(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 June 30, 2020 Number of Borrowers	As of June 30, 2020 Total credit risk	As of June 30, 2019 Number of Borrowers	As of June 30, 2019 Total credit risk	As of December 31, 2019 Number of Borrowers	As of December 31, 2019 Total credit risk
	Up to 10	303,262	658	292,876	622	288,830	632
Above 10	Up to 20	89,903	1,307	88,510	1,272	89,176	1,280
Above 20	Up to 40	120,015	3,474	117,542	3,372	118,756	3,409
Above 40	Up to 80	125,459	7,156	122,376	6,939	124,993	7,100
Above 80	Up to 150	81,476	8,773	80,776	8,654	82,664	8,860
Above 150	Up to 300	40,122	8,157	39,960	8,051	41,128	8,324
Above 300		4,019	1,786	3,621	1,677	3,999	1,890
Total		**764,256**	**31,311**	**745,661**	**30,587**	**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 June 30, 2020 NIS in millions	As of June 30, 2020 In %	As of June 30, 2019 NIS in millions	As of June 30, 2019 In %	As of December 31, 2019 NIS in millions	As of December 31, 2019 In %
Accounts with no fixed income for the account	2,073	10.7	1,350	6.8	1,601	7.8
Less than NIS 10 thousand.	5,076	26.2	5,008	25.4	5,402	26.4
Between NIS 10 thousand and NIS 20 thousand	7,231	37.3	7,237	36.6	7,768	37.9
Over NIS 20 thousand	4,986	25.8	6,158	31.2	5,705	27.9
Total	**19,366**	**100**	**19,753**	**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 June 30, 2020 NIS in millions	As of June 30, 2020 In %	As of June 30, 2019 NIS in millions	As of June 30, 2019 In %	As of December 31, 2019 NIS in millions	As of December 31, 2019 In %
Up to 1 year	3,512	25.0	3,517	25.5	3,669	25.5
Over 1 year to 3 years	4,682	33.4	4,644	33.7	4,805	33.4
Over 3 years to 5 years	2,616	18.6	2,502	18.1	2,640	18.4
Over 5 years to 7 years	1,490	10.6	1,467	10.6	1,513	10.5
Over 7 years[(2)]	1,734	12.4	1,656	12.1	1,743	12.2
Total	**14,034**	**100**	**13,786**	**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 June 30, 2020			As of June 30, 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	230	3	233	225	4	229	231	3	234
Problematic credit risk rate(2)	1.19%	0.03%	0.74%	1.14%	0.04%	0.75%	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):

	First half of		2019
	2020	2019	
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.87%	0.52%	0.49%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) decreased by 2.7% compared to June 30, 2019 and decreased by 6.1% 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 half of 2020.

  As of June 30, 2020:
  Checking accounts – 9.2%
  Credit cards 18.3%
  Auto loans – 7.8%
  Other loans and credit 64.7%

- Of all debts (on-balance sheet credit) as of June 30, 2020, 25% is secured by financial assets and other collateral in the client's account (similar to rates as of June 30, 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 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):

	June 30, 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 problematic(4)	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	9,759	15,306	25,065	24	20	82	37
Commercial and industrial	6,427	1,057	7,484	60	364	61	2
Total secured by real estate in Israel	**16,186**	**16,363**	**32,549**	**84**	**384**	**143**	**39**
Not secured by real estate in Israel	2,552	3,650	6,202	124	63	46	22
Total for construction and real estate economic sector in Israel	**18,738**	**20,013**	**38,751**	**208**	**447**	**189**	**61**
Of which: Designated for project assistance	8,702	14,212	22,914	22	15	76	37
	June 30, 2019						
Secured by real estate in Israel:							
Housing	9,285	12,867	22,152	23	8	81	28
Commercial and industrial	5,451	1,257	6,708	43	372	32	2
Total secured by real estate in Israel	**14,736**	**14,124**	**28,860**	**66**	**380**	**113**	**30**
Not secured by real estate in Israel	2,694	2,904	5,598	129	51	42	12
Total for construction and real estate economic sector in Israel	**17,430**	**17,028**	**34,458**	**195**	**431**	**155**	**42**
Of which: Designated for project assistance	9,033	11,852	20,885	1	15	77	32
	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 derivative instruments 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):

	June 30, 2020			June 30, 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	4,088	623	4,711	5,203	1,222	6,425	3,858	539	4,397
Real estate under construction	6,909	14,797	21,706	5,341	11,658	16,999	6,966	15,557	22,523
Real estate completely constructed	5,189	943	6,132	4,192	1,244	5,436	4,777	1,407	6,184
Total credit secured by real estate in Israel	**16,186**	**16,363**	**32,549**	**14,736**	**14,124**	**28,860**	**15,601**	**17,503**	**33,104**
Not secured by real estate in Israel	2,552	3,650	6,202	2,694	2,904	5,598	2,104	2,998	5,102
Total credit risk for construction and real estate	**18,738**	**20,013**	**38,751**	**17,430**	**17,028**	**34,458**	**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 June 30, 2020 show that 46.4% of the on-balance sheet credit risk and 71.0% 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 June 30, 2020, as presented below (Credit Risk by Economic Sector) is 13.9%. 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 10.8% (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 June 30, 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	967	927	23	17	967	716	17	7	2	–	10
Mining and excavation	674	575	–	99	674	300	99	69	21	–	25
Industry and production	10,939	10,143	292	504	10,833	5,913	504	304	50	9	196
Of which: Diamonds	1,676	1,407	105	164	1,675	1,140	164	111	8	(2)	31
Construction and real estate – construction[7]	33,458	32,006	1,222	230	33,441	13,880	230	147	41	15	209
Construction and real estate – real estate operations	5,293	4,695	173	425	5,272	4,836	425	61	8	(3)	41
Electricity and water delivery	2,957	2,912	33	12	2,666	1,581	12	–	2	2	8
Commerce	12,638	11,562	670	406	12,504	9,829	406	340	87	48	243
Hotels, dining and food services	1,691	1,425	188	78	1,691	1,316	78	33	24	6	47
Transport and storage	1,804	1,673	53	78	1,699	1,250	78	23	22	4	36
Information and communications	1,353	1,254	83	16	1,337	819	16	12	16	11	15
Financial services	14,253	14,108	10	135	12,732	5,907	135	133	41	4	119
Other business services	5,071	4,755	167	149	5,064	3,471	149	67	45	19	96
Public and community services	2,749	2,496	227	26	2,741	2,203	26	19	4	2	17
Total commercial	**93,847**	**88,531**	**3,141**	**2,175**	**91,621**	**52,021**	**2,175**	**1,215**	**363**	**117**	**1,062**
Private individuals – housing loans	153,983	151,656	827	1,500	153,983	140,336	1,500	68	118	9	782
Private individuals – other	31,664	31,057	374	233	31,304	19,366	233	90	84	43	314
Total public – activity in Israel	**279,494**	**271,244**	**4,342**	**3,908**	**276,908**	**211,723**	**3,908**	**1,373**	**565**	**169**	**2,158**
Banks in Israel	1,606	1,606	–	–	622	570	–	–	–	–	–
Government of Israel	6,661	6,661	–	–	3	3	–	–	–	–	–
Total activity in Israel	**287,761**	**279,511**	**4,342**	**3,908**	**277,533**	**212,296**	**3,908**	**1,373**	**565**	**169**	**2,158**
Borrower activity overseas											
Total public – activity overseas	7,029	6,846	32	151	6,955	4,815	151	93	49	–	99
Overseas banks	10,284	10,284	–	–	9,317	9,254	–	–	1	–	2
Overseas governments	1,795	1,795	–	–	626	626	–	–	–	–	-
Total activity overseas	**19,108**	**18,925**	**32**	**151**	**16,898**	**14,695**	**151**	**93**	**50**	**–**	**101**
Total	**306,869**	**298,436**	**4,374**	**4,059**	**294,431**	**226,991**	**4,059**	**1,466**	**615**	**169**	**2,259**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 226,991; debentures – 8,307; securities borrowed or acquired in conjunction with resale agreements – 51; Assets with respect to derivatives – 2,200; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 69,320.

(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 1,976 million and off-balance sheet credit risk amounting to NIS 2,254 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,382 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 June 30, 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	849	835	–	14	849	640	14	6	1	(1)	10
Mining and excavation	593	560	33	–	570	377	–	–	1	1	4
Industry and production	9,986	9,328	234	424	9,856	5,793	424	347	30	21	131
Of which: Diamonds	1,794	1,672	34	88	1,794	1,212	88	88	1	3	24
Construction and real estate – construction[(7)]	30,482	29,508	744	230	30,461	13,867	230	175	5	(3)	173
Construction and real estate – real estate operations	3,976	3,484	96	396	3,966	3,563	396	20	(31)	–	24
Electricity and water delivery	2,748	2,543	186	19	2,291	1,356	19	3	1	–	10
Commerce	11,672	11,265	107	300	11,580	9,146	300	223	34	36	178
Hotels, dining and food services	1,381	1,281	55	45	1,378	1,042	45	21	5	6	27
Transport and storage	1,805	1,545	235	25	1,797	1,233	25	9	5	2	13
Information and communications	1,161	1,127	23	11	1,152	610	11	6	–	2	7
Financial services	10,870	10,397	301	172	9,291	4,492	172	170	40	2	107
Other business services	4,603	4,296	218	89	4,594	3,226	89	51	17	12	56
Public and community services	2,550	2,429	93	28	2,541	2,072	28	19	2	3	14
Total commercial	**82,676**	**78,598**	**2,325**	**1,753**	**80,326**	**47,417**	**1,753**	**1,050**	**110**	**81**	**754**
Private individuals – housing loans	141,448	139,232	763	1,453	141,448	130,736	1,453	46	19	3	659
Private individuals – other	30,968	30,314	425	229	30,587	19,753	229	85	51	49	265
Total public – activity in Israel	**255,092**	**248,144**	**3,513**	**3,435**	**252,361**	**197,906**	**3,435**	**1,181**	**180**	**133**	**1,678**
Banks in Israel	731	731	–	–	130	94	–	–	–	–	–
Government of Israel	6,415	6,415	–	–	1	1	–	–	–	–	–
Total activity in Israel	**262,238**	**255,290**	**3,513**	**3,435**	**252,492**	**198,001**	**3,435**	**1,181**	**180**	**133**	**1,678**
Borrower activity overseas											
Total public – activity overseas	5,580	5,486	62	32	5,457	4,436	32	2	(2)	–	40
Overseas banks	8,164	8,164	–	–	6,900	6,825	–	–	(3)	–	1
Overseas governments	2,647	2,647	–	–	619	619	–	–	–	–	–
Total activity overseas	**16,391**	**16,297**	**62**	**32**	**12,976**	**11,880**	**32**	**2**	**(5)**	**–**	**41**
Total	**278,629**	**271,587**	**3,575**	**3,467**	**265,468**	**209,881**	**3,467**	**1,183**	**175**	**133**	**1,719**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[(2)] – 209,881; debentures – 8,690; securities borrowed or acquired in conjunction with resale agreements – 59; Assets with respect to derivatives – 2,117; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 57,882.
(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 1,836 million and off-balance sheet credit risk amounting to NIS 1,703 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,062 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 derivatives – 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	June 30, 2020			June 30, 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	11,216	585	11,801	9,660	807	10,467	10,030	556	10,586
France	1,474	2,145	3,619	1,359	2,104	3,463	1,418	2,226	3,644
Germany	82	2,720	2,802	232	2,681	2,913	132	2,922	3,054
UK	1,753	736	2,489	2,140	1,971	4,111	2,041	1,115	3,156
Other	2,298	1,216	3,514	2,435	1,466	3,901	2,415	1,000	3,415
Total exposure to foreign countries	**16,823**	**7,402**	**24,225**	**15,826**	**9,029**	**24,855**	**16,036**	**7,819**	**23,855**
Of which: Total exposure to Greece, Portugal, Spain, Italy	49	30	79	45	49	94	42	33	75
Of which: Total exposure to LDC countries	435	85	520	452	101	553	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 5,573 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 June 30, 2019: NIS 5,442 million; as of December 31, 2019: NIS 5,842 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 June 30, 2020, June 30, 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

Bank 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)]	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	After offset of deposits with respect to master netting agreements[(5)]
					June 30, 2020
AAA to AA-	779	740	5,329	6,108	6,069
A+ to A-	129	119	338	467	457
BBB+ to BBB-	20	20	5	25	25
BB+ to B-	-	-	26	26	26
Lower than B-	-	-	-	-	-
Unrated	25	25	-	25	25
Total credit exposure to foreign financial institutions	953	904	5,698	6,651	6,602
					June 30, 2019
AAA to AA-	875	826	5,204	6,079	6,030
A+ to A-	56	47	260	316	307
BBB+ to BBB-	38	29	7	45	36
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	6	6	–	6	6
Total credit exposure to foreign financial institutions	**975**	**908**	**5,497**	**6,472**	**6,405**
					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 June 30, 2020, June 30, 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 derivative instruments.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,573 million as of June 30, 2020 (as of June 30, 2019: NIS 5,442 million; as of December 31, 2019: NIS 5,842 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 derivative instruments 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. Due to the on-going uncertainty, the Bank increased the risk level in this portfolio from Low to Low-Medium. Nevertheless, 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 June 2020) was 53.0% (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

Due to the Corona Virus outbreak, the Bank is preparing to provide a response with regard to mortgage execution and management. Activities were implemented with due consideration to directives of the Bank of Israel (including relief provided for), so as to support and assist our clients during the crisis, while monitoring risk and adjusting credit policy.

The Bank closely monitors the developments and implications of the Corona Virus outbreak on its clients, with attention paid to factors that may affect the risk level in the mortgage portfolio. Criteria for loan approval have been adapted to accommodate clients on furlough, taking into account their pre-crisis income, in conformity with Bank of Israel directives. In order to assist clients with a loan at the Bank, the Bank has allowed clients to receive a full or partial repayments delay, in conformity with updates to the Bank of Israel outline (clients who have already delayed repayments – a further extension through December 31, 2020; clients who have yet to delay repayments – delay of up to 6 months). The Bank closely monitors this activity with regard to the following: Delayed amount, number of applications, repayments delay period, borrower profile, LTV ratio and so forth.

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

	Loans granted (NIS in millions)		
		Six months	Rate of change
	2,020	**2,019**	**In %**
Mortgages issued (for housing and any purpose)			
From the Bank's funds	12,751	11,134	14.5
From funds of the Finance Ministry			
Directed loans	186	185	0.5
Standing loans and grants	62	46	34.8
Total new loans	**12,999**	**11,365**	**14.4**
Refinanced loans	2,374	1,332	78.2
Total loans originated	**15,373**	**12,697**	**21.1**
Number of borrowers (includes refinanced loans)	24,431	21,623	13.0

Below are details of various risk attributes of the housing loan portfolio[1] as of June 30, 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%	2,245	10,294	11,679	27,866	20,589	7,680	80,353
	50%-35%	280	757	1,067	3,751	5,142	1,672	12,669
	80%-50%	–	1	–	9	1,055	574	1,639
	Over 80%	–	–	1	–	85	86	172
75%-60%	Up to 35%	1,485	6,452	5,923	13,807	9,895	1,940	39,502
	50%-35%	164	430	436	1,539	1,750	504	4,823
	80%-50%	–	–	–	5	260	155	420
	Over 80%	–	–	–	–	7	21	28
Over 75%	Up to 35%	19	101	111	211	589	984	2,015
	50%-35%	–	7	3	18	134	303	465
	80%-50%	–	–	–	–	10	99	109
	Over 80%	–	–	–	–	–	18	18
Total		**4,193**	**18,042**	**19,220**	**47,206**	**39,516**	**14,036**	**142,213**
Of which:								
Loans granted with original amount over NIS 2 million		377	1,251	1,324	2,769	1,843	403	7,967
Percentage of total housing loans		9.0%	6.9%	6.9%	5.9%	4.7%	2.9%	5.6%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,302	5,404	5,695	13,133	11,844	5,824	43,202
CPI-linked[3]		2	12	42	55	1,352	2,747	4,210
In foreign currency[3]		97	352	633	1,242	1,172	506	4,002
Total		**1,401**	**5,768**	**6,370**	**14,430**	**14,368**	**9,077**	**51,414**
Non-linked loans at prime lending rate, as percentage of total housing loans		31.1%	30.0%	29.6%	27.8%	30.0%	41.5%	30.4%
CPI-linked loans bearing variable interest as percentage of total housing loans		–	0.1%	0.2%	0.1%	3.4%	19.6%	3.0%
Loans with LTV over 75% as percentage of total housing loans		0.5%	0.6%	0.6%	0.5%	1.9%	10.0%	1.8%

(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 June 30, 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 June 30, 2020 was 53.0%, compared to 52.5% on June 30, 2019 and to 52.7% on December 31, 2019. Out of the total loan portfolio of the Bank, amounting to NIS 142.2 million, some 98.2% 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 June 30, 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%. For loans originated one to 5 years ago – by 6.3%; for loans originated over 5 years ago – by 19.5%; for all loans in total – by 10.9%.

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 second 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 25.7%. Some 85.7% 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%). Some 12.6% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.2%). Some 1.5% 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 92.1%).

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 12.4 billion, or only 8.7% 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 8 billion on June 30, 2020, or only 5.6% of the Bank's housing loan portfolio.

Provision by extent of arrears

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 arrearsBelow 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 June 30, 2020 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears(2)	Total
	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		
Amount in arrears	8	26	17	18	192	253	35	296
Of which: Balance of provision for interest(3)	–	–	–	1	106	107	7	114
Recorded debt balance	551	867	234	128	135	1,364	71	1,986
Balance of provision for credit losses (4)	–	–	32	56	91	179	38	217
Debt balance, net	**551**	**867**	**202**	**72**	**44**	**1,185**	**33**	**1,769**

(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.
During the crisis period, changes and relief measures were approved for operating procedures, especially with regard to online banking, suitable for operations during emergency. In May, most of the relief measures were eliminated upon return to normal operation.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".
In March, as part of addressing the Corona Virus crisis, the Bank 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: Splitting Bank units in order to maintain operating continuity of critical services and some employees transitioned to working remotely, using the Bank's technology infrastructure.
Since April, the Bank continued to operate "under the Corona Virus shadow" while maintaining business and operational continuity. The Bank is preparing for a gradual return to routine operations in multiple ways, including continued effort to split units, transition to working in capsules at headquarters and branches and, if needed, using the infrastructure for working remotely. The Bank regularly provides detailed work instructions with regard to maintaining social distancing and proper hygiene.
In the second quarter, the Bank expanded the business continuity program and made adjustments for facing the virus through, *inter alia*, setting operating procedures and providing the means required for Bank employees and clients.
In the second quarter, the Bank gradually increased the number of branches open to the public, up to return to routine operation in conformity with directives of the Supervisor of Banks. As morbidity increased and restrictions in the market were expanded, the Bank further prepared by, *inter alia*, setting up an emergency store for inventory of consumables, protective equipment and disinfectant, and making progress on providing technology solutions for conducting meetings and discussions remotely. The Bank continues to implement the exercise plan, including exercise of the disaster recovery site, conducted in June 2020.
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 second quarter of 2020, the risk level 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 operates 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, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak. 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, 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.

Moreover, in the fourth quarter of 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 the first half of 2020 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 second quarter of 2020, legal risk remained Low-Medium, similar to the estimate at the end of 2019 and in the first quarter of 2020.

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 second quarter of 2020 remained at Low-Medium, see explanation below.

Due to the Corona Virus outbreak in Israel, the second quarter of 2020 saw more moderation and a slight decrease in zero coupon NIS interest rate curves, across the entire NIS and CPI-linked curve. 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.

Risk values measured in the normal course of business and under stress scenarios were slightly higher compared to the first quarter of this year, primarily due to downward revision of early mortgage repayment rates, and range at levels lower than the specified risk appetite.
Below is the VaR for the Bank Group (NIS in millions):

	First half of 2020		All of
	2020	**2019**	**2019**
At end of period	1,055	626	484
Maximum value during period	(JUN) 1,055	(JUN) 626	(JUN) 626
Minimum value during period	(JAN) 443	(MAR) 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):

						June 30, 2020
						Change in fair value
	Israeli currency		**Foreign currency**			
	Non-linked	**Linked to CPI**	**Dollar**	**EUR**	**Other**	**Total**
2% increase	(332)	(1,463)	327	57	15	(1,396)
Decrease of 2%	151	1,362	(337)	(32)	(17)	1,127
						June 30, 2019
2% increase	451	(1,362)	174	50	17	(670)
Decrease of 2%	(1,516)	889	(182)	(18)	(17)	(844)
						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, under the lower interest rate scenario, decreased.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value of financial instruments of the Bank and its subsidiaries**Net adjusted fair value(1) of financial instruments of the Bank and its subsidiaries thereof:**

	As of June 30, 2020			As of June 30, 2019			As of December 31, 2019		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Net adjusted fair value(1)	11,058	(5)	11,053	14,095	(343)	13,752	13,202	295	13,497
Of which: Banking portfolio	(15,772)	25,466	9,694	(3,346)	16,014	12,668	(2,411)	14,562	12,151

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

	As of June 30, 2020			As of June 30, 2019			As of December 31, 2019		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes									
Concurrent 1% increase	(350)	207	(143)	552	127	679	148	211	359
Of which: Banking portfolio	(355)	215	(140)	528	160	688	141	233	374
Concurrent 1% decrease	(93)	(212)	(305)	(501)	(133)	(634)	(715)	(200)	(915)
Of which: Banking portfolio	(88)	(224)	(312)	(483)	(165)	(648)	(709)	(242)	(951)
Non-concurrent changes									
Steeper(3)	(899)	(6)	(905)	(102)	24	(78)	(304)	(60)	(364)
Shallower(4)	737	64	801	371	18	389	35	111	146
Short-term interest increase	43	151	194	479	93	572	347	180	527
Short-term interest decrease	(80)	(156)	(236)	(461)	(94)	(555)	(545)	(183)	(728)

(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.
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 388 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:Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues(1):

	As of June 30, 2020			As of June 30, 2019			As of December 31, 2019		
	Interest revenues	Non-interest financing revenues(3)	Total	Interest revenues	Non-interest financing revenues(3)	Total	Interest revenues	Non-interest financing revenues(3)	Total
Concurrent changes(2)									
Concurrent 1% increase	930	127	1,057	570	279	849	667	246	913
Of which: Banking portfolio	931	117	1,048	684	226	910	668	168	836
Concurrent 1% decrease	157	(129)	28	(86)	(280)	(366)	(346)	(243)	(589)
Of which: Banking portfolio	156	(119)	37	(188)	(226)	(413)	(347)	(177)	(524)

(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

Sensitivity analysis of Bank Group capital to changes in major exchange rates and in the CPIBelow is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of June 30, 2020, capital increase (erosion) (NIS in millions):

				Scenarios	Historical stress scenario(1)	
	10% increase	5% increase	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI(2)	1,678.5	839.2	(880.3)	(1,760.6)	175.7	(158.0)
Dollar	50.0	23.5	(12.7)	(11.7)	17.0	(11.9)
Pound Sterling	0.1	–	–	0.1	–	–
Yen	2.2	0.8	–	1.0	0.9	0.1
EUR	7.3	1.5	1.5	2.8	0.5	1.6
Swiss Franc	0.1	–	–	–	0.2	–

(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 503.5 million and NIS (528.2) million, respectively.

The Corona Virus crisis resulted in actual inflation being lower than anticipated. 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 half 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 raised its state of alert for liquidity, from Elevated to Yellow (alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods), 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 returned down to Elevated in mid-May, with resumption of routine operations.

The sharp declines in financial markets resulted in households selling securities and in heavy redemptions, primarily in the mutual fund market. During this period and in conjunction with risk management, the Bank took action to improve its liquidity ratios, along with a 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 first half, the Bank continued diversifying its financing sources and reducing concentration risk. In the second 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 second quarter of 2020 was 122%. As noted above, in this period there were no recorded deviations from these restrictions.
As of June 30, 2020, the balance of the three largest depositor groups at the Bank Group amounted to NIS 10.7 billion.
Soliciting sources and Bank liquidity status – In the first half 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 231.8 billion on June 30, 2020, an increase by 9.9%.

In the non-linked segment, total deposits from the public amounted to NIS 175.9 billion, an increase by 10.7% compared to end of 2019. In the CPI-linked sector, deposits from the public amounted to NIS 14.3 billion, a decrease by 0.1% compared to end of 2019, and in the foreign currency sector – to NIS 41.5 billion, an increase by 10.3% 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 half 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 delivery and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators in the wake of the Corona Virus pandemic. The Bank also applies regular controls, in order to monitor compliance risk that may materialize during this period.

The Bank has internal enforcement programs for securities and for anti-trust law.

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 to the Bank's overseas affiliates, in activity with foreign-resident clients.
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 half of 2020 and is defined as low-medium. The Bank manages this risk 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 half of 2020 and is defined as low-medium. This was due to continued intensive training and deployment activity, along with risk-focused controls, improvement of documents and classifications 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 further down the road, in conformity with economic developments.

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.

Provision for credit losses

Sensitivity of provisions for credit losses to changes in economic conditions is due to a significant number of connections and mutual effects: Effect on certain clients who cannot meet their obligations, and consequently subject to a specific provision; effect on certain clients who are facing difficulties that require classification as inferior or under special supervision, and consequently the group-based provision with respect there to has increased; effect on the additional qualitative component of the group-based provision, through parameters of growth and unemployment that are part of the model; additional effect on the additional qualitative component, through other parameters affected by unemployment and growth, such as the number of Watchlists and average rating of clients.

The Bank has prepared scenarios for the effect of future changes in the state of the economy and in evolution of the Corona Virus pandemic on Bank activity, including the provision for credit losses. In general, these stress scenarios, assuming, *inter alia*, negative growth of -20% in 2020 and an unemployment rate of 15% at end of 2020, a 3% decrease in housing prices, a 15.6% devaluation of the NIS vs. the USD and a one-notch decrease in the credit rating of the State of Israel (from AA- to A+), show that the provision for credit losses for 2020 under the pessimistic stress scenario may reach NIS 1.8 billion, an annual provision rate of 0.87% of total loans, compared to 0.57% on the financial statements for the first half of 2020. However, under a moderate scenario, assuming that the economy would resume growth in the second half of this year, with negative growth of -5%, unemployment down to no more than 8% and provisions made by the Bank in the first half of 2020, including provisions with respect to future credit losses, would indeed cover all credit losses due to the Corona Virus crisis, the provision rate in the second half of 2020 may return to the average for 2019. Under such scenario, the provision for credit losses in 2020 would amount to NIS 0.8 billion, reflecting an annual provision rate of 0.39% of total loans.

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 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 layout of the financial statements, made in 2019, in the first half 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 June 30, 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 June 30, 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 second 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.

Moshe Vidman Chairman of the Board of Directors	**Eldad Fresher** President & CEO

Approval date:
Ramat Gan
August 17, 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 June 30, 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

August 17, 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 June 30, 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

August 17, 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 June 30, 2020, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the six-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles 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 financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.01% of total consolidated assets as of June 30, 2020, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.97% and 8.68% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-month and three-month period then ended. The condensed financial information for the interim periods 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, August 17, 2020

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Mizrahi-Tefahot Bank

Condensed Financial Statements as of June 30, 2020

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2020	**2019**	**2020**	**2019**	**2019**
	Note		**(unaudited)**		**(unaudited)**	**(audited)**
Interest revenues	2	1,740	2,647	3,426	4,333	7,711
Interest expenses	2	417	1,104	756	1,559	2,371
Interest revenues, net		1,323	1,543	2,670	2,774	5,340
Expenses with respect to credit losses	6,13	270	99	615	175	364
Interest revenues, net after expenses with respect to credit losses		**1,053**	**1,444**	**2,055**	**2,599**	**4,976**
Non-interest revenues						
Non-interest financing revenues	3	76	89	140	146	357
Commissions		376	373	800	756	1,535
Other revenues		23	22	128	48	74
Total non-interest revenues		**475**	**484**	**1,068**	**950**	**1,966**
Operating and other expenses						
Payroll and associated expenses		596	648	1,240	1,284	2,562
Maintenance and depreciation of buildings and equipment		208	194	413	385	770
Other expenses		146	169	314	328	656
Total operating and other expenses		**950**	**1,011**	**1,967**	**1,997**	**3,988**
Pre-tax profit		578	917	1,156	1,552	2,954
Provision for taxes on profit		196	318	396	531	1,029
After-tax profit		**382**	**599**	**760**	**1,021**	**1,925**
Share of profits of associated companies, after tax effect		–	–	–	–	–
Net profit:						
Before attribution to non-controlling interests		382	599	760	1,021	1,925
Attributable to non-controlling interests		(22)	(23)	(43)	(41)	(83)
Attributable to shareholders of the Bank		**360**	**576**	**717**	**980**	**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, August 17, 2020

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2020	**2019**	**2020**	**2019**	**2019**
		(unaudited)			**(audited)**
Diluted earnings per share[1] (in NIS)					
Basic earnings					
Net profit attributable to shareholders of the Bank	**1.53**	**2.46**	**3.05**	**4.19**	**7.86**
Weighted average number of ordinary shares used to calculate basic earnings (thousand of shares)	**235,067**	**234,378**	**235,036**	**233,970**	**234,268**
Diluted earnings					
Net profit attributable to shareholders of the Bank	**1.53**	**2.45**	**3.04**	**4.17**	**7.83**
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	**235,203**	**235,369**	**235,645**	**234,960**	**235,124**

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2020	**2019**	**2020**	**2019**	**2019**
	Note	**(unaudited)**		**(unaudited)**		**(audited)**
Net profit:						
Before attribution to non-controlling interests		382	599	760	1,021	1,925
Attributable to non-controlling interests		(22)	(23)	(43)	(41)	(83)
Net profit attributable to shareholders of the Bank		**360**	**576**	**717**	**980**	**1,842**
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net		64	37	(27)	128	144
Adjustments from translation of financial statements of investments in associated companies(1)		–	–	–	–	–
Net gains (losses) with respect to cash flows hedging		(15)	2	17	1	6
Adjustments of liabilities with respect to employees' benefits(2)		(182)	–	52	(40)	(152)
Total other comprehensive income (loss), before tax		**(133)**	**39**	**42**	**89**	**(2)**
Related tax effect		45	(13)	(14)	(30)	1
Other comprehensive income (loss) after taxes(3)						
Other comprehensive income (loss), before attribution to non-controlling interests		(88)	26	28	59	(1)
Less other comprehensive income (loss) attributed to non-controlling interests		(8)	–	2	(3)	(15)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(80)**	**26**	**26**	**62**	**14**
Comprehensive income:						
Before attribution to non-controlling interests		294	625	788	1,080	1,924
Attributable to non-controlling interests		(14)	(23)	(45)	(38)	(68)
Comprehensive income attributable to shareholders of the Bank		**280**	**602**	**743**	**1,042**	**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)

	Note	As of June 30, 2020	As of June 30, 2019	As of December 31, 2019
			(unaudited)	(audited)
Assets				
Cash and deposits with banks		61,532	48,700	51,672
Securities[(1)(2)]	5	8,440	8,816	10,113
Securities loaned or purchased in resale agreements		51	59	120
Loans to the public	6,13	216,538	202,342	206,401
Provision for credit losses	6,13	(2,088)	(1,614)	(1,693)
Loans to the public, net	6,13	214,450	200,728	204,708
Loans to Governments		629	620	656
Investments in associated companies		30	32	32
Buildings and equipment		1,433	1,375	1,457
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	2,200	2,117	2,578
Other assets		2,708	1,689	1,821
Total assets		**291,560**	**264,223**	**273,244**
Liabilities and Equity				
Deposits from the public	7	231,784	205,188	210,984
Deposits from banks		946	554	714
Deposits from the Government		34	36	29
Debentures and subordinated notes		29,689	31,596	33,460
Liabilities with respect to derivative instruments	11	2,898	2,276	2,686
Other liabilities[(3)]		8,739	8,091	8,566
Total liabilities		**274,090**	**247,741**	**256,439**
Shareholders' equity attributable to shareholders of the Bank		16,653	15,740	16,033
Non-controlling interests		817	742	772
Total equity		**17,470**	**16,482**	**16,805**
Total liabilities and equity		**291,560**	**264,223**	**273,244**

(1) Of which: NIS 4,404 million at fair value on consolidated basis (June 30, 2019 – NIS 6,058 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 169 million (on June 30, 2019 – NIS 104 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)[3]	Retained earnings[4]	Total Shareholders' equity	Non-controlling interests	Total equity
	For the three months ended June 30, 2020 (unaudited)							
Balance as of March 31, 2020	2,235	67	2,302	(226)	14,295	16,371	803	17,174
Net profit for the period	–	–	–	–	360	360	22	382
Benefit from share-based payment transactions	–	2	2	–	–	2	–	2
Realization of share-based payment transactions[2]	3	(3)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(80)	–	(80)	(8)	(88)
Balance as of June 30, 2020	**2,238**	**66**	**2,304**	**(306)**	**14,655**	**16,653**	**817**	**17,470**
	For the three months ended June 30, 2019 (unaudited)							
Balance as of March 31, 2019	2,206	39	2,245	(310)	13,186	15,121	724	15,845
Net profit for the period	–	–	–	–	576	576	23	599
Benefit from share-based payment transactions	–	17	17	–	–	17	–	17
Realization of share-based payment transactions[2]	12	(12)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	26	–	26	–	26
Balance as of June 30, 2019	**2,218**	**44**	**2,262**	**(284)**	**13,762**	**15,740**	**742**	**16,482**

(1) Share premium generated prior to March 31, 1986.

(2) In the second quarter of 2020, 152,505 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan, and issued 17,840 ordinary NIS 0.1 par value shares to the Bank President & CEO each. In the second quarter of 2019, 549,888 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan, and issued 85,880 ordinary NIS 0.1 par value shares to the Bank President & CEO each.

(3) For details see Note 4 – Cumulative Other Comprehensive Income.

(4) For more information about various limitations on distributions of dividends, see Note 24 to the 2019 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 interests	Total equity
	For the six months ended June 30, 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	–	–	–	–	717	717	43	760
Dividends paid[(5)]	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	2	2	–	–	2	–	2
Realization of share-based payment transactions[(6)]	6	(6)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	26	–	26	2	28
Balance as of June 30, 2020	**2,238**	**66**	**2,304**	**(306)**	**14,655**	**16,653**	**817**	**17,470**
	For the six months ended June 30, 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	–	–	–	–	980	980	41	1,021
Benefit from share-based payment transactions	–	17	17	–	–	17	–	17
Realization of share-based payment transactions[(6)]	21	(21)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	62	–	62	(3)	59
Balance as of June 30, 2019	**2,218**	**44**	**2,262**	**(284)**	**13,762**	**15,740**	**742**	**16,482**
	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 half of 2020, 251,008 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 17,840 ordinary shares of NIS 0.1 par value each. In the first half of 2019, 995,225 ordinary NIS 0.1 par value shares each were issued 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. 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	**2019**	**2020**	**2019**	**2019**
		(unaudited)		**(unaudited)**	**(audited)**
Cash flows provided by current operations					
Net profit	382	599	760	1,021	1,925
Adjustments					
Depreciation of buildings and equipment (including impairment)	69	61	136	123	245
Expenses with respect to credit losses	270	99	615	175	364
Gain from sale of securities available for sale	(40)	(1)	(78)	(10)	(35)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(13)	(1)	(33)	(4)	(11)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	5	(16)	19	(16)	(47)
Gain from sale of buildings and equipment	(4)	(10)	(17)	(26)	(26)
Impairment of shares not held for trading	–	–	–	–	6
Expenses arising from share-based payment transactions	2	17	2	17	57
Deferred taxes, net	77	27	22	10	79
Change in employees' provisions and liabilities	17	21	23	23	57
Adjustments with respect to exchange rate differentials	214	47	106	143	232
Accrual differences included with investment and financing operations	(85)	253	(143)	471	566
Net change in current assets					
Assets with respect to derivative instruments	2,154	226	395	1,124	668
Securities held for trading	469	99	468	(121)	(469)
Other assets, net	(124)	(86)	(903)	92	(67)
Net change in current liabilities					
Liabilities with respect to derivative instruments	(1,283)	(251)	212	(1,385)	(975)
Other liabilities	(415)	(418)	234	(38)	274
Net cash provided by current operations	**1,695**	**666**	**1,818**	**1,599**	**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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	(unaudited)		(unaudited)		(audited)
Cash flows provided by investment activities					
Net change in deposits with banks	272	(385)	1,156	150	(1,643)
Net change in loans to the public	(4,530)	(4,468)	(10,096)	(6,714)	(10,480)
Net change in loans to Governments	202	20	27	10	12
Net change in securities loaned or acquired in resale agreements	(15)	(17)	69	(33)	(94)
Acquisition of debentures held to maturity	(403)	(300)	(920)	(300)	(1,662)
Proceeds from redemption of securities held to maturity	41	799	870	1,422	1,452
Acquisition of securities available for sale	(1,101)	(2,393)	(1,901)	(2,840)	(5,517)
Proceeds from sale of securities available for sale	1,061	2,054	2,934	2,716	3,517
Proceeds from redemption of securities available for sale	301	37	301	1,172	3,265
Proceeds from sale of loan portfolios	40	42	40	577	577
Purchase of loan portfolios – public	–	(88)	(301)	(379)	(782)
Purchase of loan portfolios – Government	–	–	–	–	(38)
Acquisition of buildings and equipment	(65)	(63)	(124)	(98)	(300)
Proceeds from sale of buildings and equipment	6	29	28	50	57
Proceeds from realized investment in associated companies	–	–	2	–	–
Net cash provided by investment activities	**(4,191)**	**(4,733)**	**(7,915)**	**(4,267)**	**(11,636)**
Cash flows provided by financing operations					
Net change in deposits from the public	8,595	411	20,800	5,696	11,492
Net change in deposits from banks	22	(65)	232	(71)	89
Net change in deposits from Government	(35)	(7)	5	(6)	(13)
Issuance of debentures and subordinated notes	1,610	3,700	1,610	3,700	6,634
Redemption of debentures and subordinated notes	(2,063)	(1)	(5,252)	(2,815)	(3,744)
Dividends paid to shareholders	–	–	(176)	–	(561)
Dividends paid to external shareholders in subsidiaries	–	(5)	–	(5)	(5)
Net cash provided by financing operations	**8,129**	**4,033**	**17,219**	**6,499**	**13,892**
Increase in cash	5,633	(34)	11,122	3,831	5,099
Cash balance at beginning of the period	55,045	48,350	49,448	44,581	44,581
Effect of changes in exchange rate on cash balances	(214)	(47)	(106)	(143)	(232)
Cash balance at end of the period	**60,464**	**48,269**	**60,464**	**48,269**	**49,448**
Interest and taxes paid / received					
Interest received	1,788	2,155	4,002	4,400	6,872
Interest paid	428	791	949	1,289	2,369
Dividends received	–	1	2	17	17
Income taxes received	13	28	62	178	178
Income taxes paid	277	337	556	571	1,135
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	4	2	4	3	–
Sales of buildings and equipment	–	(5)	(1)	(10)	5

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On August 17, 2020, the Bank Board of Directors authorized publication of these condensed financial statements as of June 30, 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. 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 C.3. below.

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 f 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 two-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 provisions 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 provisions 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.

Note 1 – Reporting Principles and Accounting Policies – continued

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.
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.

Pursuant to the Supervisor of Banks' directive dated June 16, 2020, the Bank continues to operate in conformity with the aforementioned guidance. The Bank is also required to expand disclosure in the Board of Directors' report regarding, inter alia, the connection between changes to the provision for credit losses and other credit quality benchmarks and internal assumptions made by the Bank, as well as with regard to debt whose terms and conditions were changed in conjunction with addressing the Corona Virus crisis.
The Bank applies the relief measures provided in the circular, and their effect is included in the financial statements as of June 30, 2020.

Note 1 – Reporting Principles and Accounting Policies – continued

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.
Updated standard with regard to changes to disclosure requirements of fair value measurement ASU 2018-13	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	The following requirements have been eliminated: Presentation of amounts and reasons for transfer between Level 1 and Level 2 of the fair value ranking; disclosure of information on bank policy on determining when such transfers are deemed to have occurred; providing a verbal description of sensitivity to changes in unobserved data for repeated fair value measurements classified as Level 3 of the fair value ranking; required presentation of changes to Other Comprehensive Income unrealized in the period for assets held at end of the period.	There is no impact to the financial statements, other than a change to presentation in the Note on balances and estimates of fair value of financial instruments.

Note 1 – Reporting Principles and Accounting Policies – continued

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

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 discontinued use of LIBOR.
Updated standard regarding 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	(unaudited)		(unaudited)		(audited)
A. Interest revenues[1]					
From loans to the public	1,698	2,541	3,299	4,116	7,293
From loans to Governments	15	8	22	17	33
From deposits with the Bank of Israel and from cash	14	52	58	110	203
From deposits with banks	3	4	4	10	16
From securities loaned or acquired in resale agreements[2]	–	–	–	–	–
From debentures	10	42	43	80	166
Total interest revenues	**1,740**	**2,647**	**3,426**	**4,333**	**7,711**
B. Interest expenses					
On deposits from the public	329	675	641	1,056	1,787
On deposits from governments	–	–	–	–	1
On deposits from banks	2	4	4	6	8
On debentures and subordinated notes	85	423	110	494	573
On other liabilities	1	2	1	3	2
Total interest expenses	**417**	**1,104**	**756**	**1,559**	**2,371**
Total interest revenues, net	**1,323**	**1,543**	**2,670**	**2,774**	**5,340**
C. Details of net effect of hedging financial derivative instruments on interest revenues[3]	(4)	(28)	17	(33)	22
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	1	18	7	27	35
Available for sale	8	22	33	50	130
Held for trading	1	2	3	3	1
Total included under interest revenues	**10**	**42**	**43**	**80**	**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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	(unaudited)		(unaudited)		(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading operations					
1. From activity in derivatives					
Net revenues (expenses) with respect to ALM derivatives[1]	(234)	(291)	548	(723)	(1,151)
Total from activity in derivatives	**(234)**	**(291)**	**548**	**(723)**	**(1,151)**
2. From investment in debentures					
Gains from sale of debentures available for sale[2]	40	1	78	10	35
Total from investment in debentures	**40**	**1**	**78**	**10**	**35**
3. Exchange rate differences, net	**278**	**322**	**(520)**	**719**	**1,267**
4. Gains from investment in shares					
Gains from sale of shares not held for trading	–	–	–	–	2
Provision for impairment of shares not held for trading	–	–	–	–	(6)
Dividends from shares not held for trading	–	1	2	17	17
Unrealized gains / losses[4]	(5)	16	(19)	16	45
Total from investment in shares	**(5)**	**17**	**(17)**	**33**	**58**
5. Net gains with respect to loans sold	**–**	**–**	**–**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**79**	**49**	**89**	**39**	**209**
B. Non-interest financing revenues (expenses) with respect to trading operations[3]					
Net revenues with respect to other derivative instruments	(16)	39	18	103	137
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	5	1	29	3	13
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	8	–	4	1	(2)
Total from trading operations[5]	**(3)**	**40**	**51**	**107**	**148**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	(147)	23	(30)	42	59
Foreign currency exposure	144	20	81	65	92
Exposure to shares	–	(3)	–	–	(3)
Exposure to commodities and others	–	–	–	–	–
Total	**(3)**	**40**	**51**	**107**	**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 interest						
	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 June 30, 2020						
	(unaudited)						
Balance as of March 31, 2020	(23)	(1)	29	(254)	(249)	(23)	(226)
Net change in the period	41	–	(10)	(119)	(88)	(8)	(80)
Balance as of June 30, 2020	**18**	**(1)**	**19**	**(373)**	**(337)**	**(31)**	**(306)**
	For the three months ended June 30, 2019						
	(unaudited)						
Balance as of March 31, 2019	2	(1)	3	(335)	(331)	(21)	(310)
Net change in the period	24	–	2	–	26	–	26
Balance as of June 30, 2019	**26**	**(1)**	**5**	**(335)**	**(305)**	**(21)**	**(284)**

	For the six months ended June 30, 2020						
	(unaudited)						
Balance as of December 31, 2019	36	(1)	8	(408)	(365)	(33)	(332)
Net change in the period	(18)	–	11	35	28	2	26
Balance as of June 30, 2020	**18**	**(1)**	**19**	**(373)**	**(337)**	**(31)**	**(306)**
	For the six months ended June 30, 2019						
	(unaudited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	84	–	1	(26)	59	(3)	62
Balance as of June 30, 2019	**26**	**(1)**	**5**	**(335)**	**(305)**	**(21)**	**(284)**

	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 June 30					
	2020			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(unaudited)					
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	104	(37)	67	38	(13)	25
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(40)	14	(26)	(1)	–	(1)
Net change in the period	**64**	**(23)**	**41**	**37**	**(13)**	**24**
Translation adjustments						
Adjustments from translation of financial statements(2)	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges						
Net losses from cash flow hedges	(15)	5	(10)	2	–	2
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	–	–	–	–	–	–
Net change in the period	**(15)**	**5**	**(10)**	**2**	**–**	**2**
Employees' benefits						
Net actuarial gain (loss) for the period(4)	(191)	66	(125)	(8)	3	(5)
Net losses reclassified to the statement of profit and loss	9	(3)	6	8	(3)	5
Net change in the period	**(182)**	**63**	**(119)**	**–**	**–**	**–**
Total net change in the period	**(133)**	**45**	**(88)**	**39**	**(13)**	**26**
Total net change in the period attributable to non-controlling interests	**(12)**	**4**	**(8)**	**–**	**–**	**–**
Total net change in the period attributable to shareholders of the Bank	**(121)**	**41**	**(80)**	**39**	**(13)**	**26**

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

Reported amounts (NIS in millions)

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

	For the six months ended June 30,						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	51	(18)	33	138	(47)	91	179	(62)	117
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[1]	(78)	27	(51)	(10)	3	(7)	(35)	12	(23)
Net change in the period	**(27)**	**9**	**(18)**	**128**	**(44)**	**84**	**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	17	(6)	11	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	**17**	**(6)**	**11**	**1**	**–**	**1**	**6**	**(2)**	**4**
Employees' benefits									
Net actuarial gain (loss) for the period[4]	33	(11)	22	(58)	20	(38)	(188)	65	(123)
Net losses reclassified to the statement of profit and loss	19	(6)	13	18	(6)	12	36	(12)	24
Net change in the period	**52**	**(17)**	**35**	**(40)**	**14**	**(26)**	**(152)**	**53**	**(99)**
Total net change in the period	**42**	**(14)**	**28**	**89**	**(30)**	**59**	**(2)**	**1**	**(1)**
Total net change in the period attributable to non-controlling interests	**3**	**(1)**	**2**	**(4)**	**1**	**(3)**	**(24)**	**9**	**(15)**
Total net change in the period attributable to shareholders of the Bank	**39**	**(13)**	**26**	**93**	**(31)**	**62**	**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

June 30, 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	3,564	3,564	69	–	3,633
Of financial institutions in Israel	388	388	4	–	392
Of others in Israel	33	33	–	–	33
Total debentures held to maturity	**3,985**	**3,985**	**73**	**–**	**4,058**
	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)	2,710	2,685	36	(11)	2,710
Of foreign governments (2)(3)	1,169	1,165	4	–	1,169
Of foreign financial institutions	110	111	–	(1)	110
Total debentures available for sale	**3,989**	**3,961**	**(4)40**	**(4)(12)**	**3,989**
	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	**133**	**106**	**(5)27**	**–**	**133**
Of which: Shares for which no fair value is available(6)	51	51	–	–	51
Total securities not held for trading	**8,107**	**8,052**	**140**	**(12)**	**8,180**
	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	333	329	4	–	333
Total debentures held for trading	**333**	**329**	**(5)4**	**–**	**333**
Total securities	**8,440**	**8,381**	**144**	**(12)**	**8,513**

(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 525 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 entity which issued the security.

Note 5 – Securities – Continued

June 30, 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	2,701	2,701	42	–	2,743
Total debentures held to maturity	**2,701**	**2,701**	**42**	**–**	**2,743**
	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]	3,241	3,197	49	(5)	3,241
Of foreign governments [2][3]	2,028	2,037	–	(9)	2,028
Of foreign financial institutions[4]	307	303	4	–	307
Total debentures available for sale	**5,576**	**5,537**	**53[5]**	**(14)[5]**	**5,576**
	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	**126**	**110**	**[6]16**	**–**	**126**
Of which: Shares for which no fair value is available[7]	57	57	–	–	57
Total securities not held for trading	**8,403**	**8,348**	**111**	**(14)**	**8,445**
	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	413	412	1	–	413
Total debentures held for trading	**413**	**412**	**[6]1**	**–**	**413**
Total securities	**8,816**	**8,760**	**112**	**(14)**	**8,858**

(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 545 million and securities provided as collateral to lenders, amounting to NIS 214 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 entity 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 – Gains**	**Cumulative other comprehensive income – Losses**	**Fair value[1]**
(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 residence of the entity which issued the security.

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 40%-20%	Total	Fair value(1)	Unrealized losses 20%-0%	Unrealized losses 40%-20%	Total
	As of June 30, 2020 (unaudited)							
Debentures held to maturity								
of Government of Israel	(4)71	(3)-	–	–	–	–	–	–
Total – debentures held to maturity	**71**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	565	10	–	10	10	1	–	1
Of foreign governments(2)	–	–	–	–	–	–	–	–
Of foreign financial institutions	110	1	–	1	–	–	–	–
Total debentures available for sale	**675**	**11**	**–**	**11**	**10**	**1**	**–**	**1**
	As of June 30, 2019 (unaudited)							
Debentures available for sale								
of Government of Israel	560	4	–	4	10	1	–	1
Of foreign governments(2)	193	1	–	1	1,004	8	–	8
Total debentures available for sale	**753**	**5**	**–**	**5**	**1,014**	**9**	**–**	**9**
	As of December 31, 2019 (audited)							
Debentures available for sale								
of Government of Israel	124	(3)-	–	–	10	1	–	1
Of foreign governments(2)	14	(3)-	–	–	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) Balance lower than NIS 1 million.
(4) Amortized cost.

(6) Asset-backed and mortgage-backed securities

As of June 30, 2020, June 30, 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

	June 30, 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	47,087	68	637	47,792	10,453	58,245
reviewed on group basis	9,358	140,547	18,841	168,746	–	168,746
Of which: By extent of arrears	1,817	140,547	–	142,364	–	142,364
Total debts	**56,445**	**[2]140,615**	**19,478**	**216,538**	**10,453**	**226,991**
Of which:						
Impaired debts under restructuring	338	–	67	405	–	405
Other impaired debts	894	68	23	985	–	985
Total impaired debts	**1,232**	**68**	**90**	**1,390**	**–**	**1,390**
Debts in arrears 90 days or longer	42	1,432	27	1,501	–	1,501
Other problematic debts	884	–	113	997	–	997
Total problematic debts	**2,158**	**1,500**	**230**	**3,888**	**–**	**3,888**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	880	2	31	913	2	915
reviewed on group basis	127	781	267	1,175	–	1,175
Of which: Provision by extent of arrears[3]	7	781	–	788	–	788
Total provision for credit losses	**1,007**	**783**	**298**	**2,088**	**2**	**2,090**
Of which: With respect to impaired debts	**279**	**2**	**23**	**304**	**–**	**304**

	June 30, 2019 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	42,290	46	776	43,112	7,539	50,651
reviewed on group basis	8,933	131,029	19,268	159,230	–	159,230
Of which: By extent of arrears	1,662	131,029	–	132,691	–	132,691
Total debts	**51,223**	**[2]131,075**	**20,044**	**202,342**	**7,539**	**209,881**
Of which:						
Impaired debts under restructuring	303	–	63	366	–	366
Other impaired debts	686	46	22	754	–	754
Total impaired debts	**989**	**46**	**85**	**1,120**	**–**	**1,120**
Debts in arrears 90 days or longer	36	1,407	20	1,463	–	1,463
Other problematic debts	654	–	120	774	–	774
Total problematic debts	**1,679**	**1,453**	**225**	**3,357**	**–**	**3,357**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	587	2	30	619	1	620
reviewed on group basis	112	658	225	995	–	995
Of which: Provision by extent of arrears[3]	6	658	–	664	–	664
Total provision for credit losses	**699**	**660**	**255**	**1,614**	**1**	**1,615**
Of which: With respect to impaired debts	**161**	**2**	**21**	**184**	**–**	**184**

(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 8,315 million (as of June 30, 2019 – NIS 7,365 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 June 30, 2019 – NIS 18 million), and assessed on group basis, amounting to NIS 569 million (as of June 30, 2019 – NIS 459 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 1.D.6 to the financial statements as of December 31, 2019.

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 June 30, 2020 (unaudited)					
	Provision for credit losses					
	Loans to the public				Banks and govern-ments	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,041	731	293	2,065	3	2,068
Expenses with respect to credit losses	173	53	45	271	(1)	270
Accounting write-offs[(1)]	(92)	(2)	(41)	(135)	–	(135)
Collection of debts written off for accounting purposes in previous years[(1)]	38	1	17	56	–	56
Net accounting write-offs	(54)	(1)	(24)	(79)	–	(79)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**
	For the three months ended June 30, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	651	265	1,682	2	1,684
Expenses with respect to credit losses	65	11	24	100	(1)	99
Accounting write-offs[(1)]	(59)	(2)	(39)	(100)	–	(100)
Collection of debts written off for accounting purposes in previous years[(1)]	21	–	15	36	–	36
Net accounting write-offs	(38)	(2)	(24)	(64)	–	(64)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**
	For the six months ended June 30, 2020 (unaudited)					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	412	118	84	614	1	615
Accounting write-offs[(1)]	(175)	(10)	(76)	(261)	–	(261)
Collection of debts written off for accounting purposes in previous years[(1)]	58	1	33	92	–	92
Net accounting write-offs	(117)	(9)	(43)	(169)	–	(169)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**
	For the six months ended June 30, 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	108	19	51	178	(3)	175
Accounting write-offs[(1)]	(125)	(4)	(81)	(210)	–	(210)
Collection of debts written off for accounting purposes in previous years[(1)]	44	1	32	77	–	77
Net accounting write-offs	(81)	(3)	(49)	(133)	–	(133)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**

(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

	June 30,		December 31,
	2020	2019	2019
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	63,670	51,052	52,930
Interest-bearing	30,508	24,606	28,977
Total on-call	**94,178**	**75,658**	**81,907**
Term deposits	132,759	124,770	125,153
Total deposits in Israel(1)	**226,937**	**200,428**	**207,060**
Outside of Israel			
On-call			
Non interest-bearing	651	408	529
Interest-bearing	3	4	3
Total on-call	**654**	**412**	**532**
Term deposits	4,193	4,348	3,392
Total deposits overseas	**4,847**	**4,760**	**3,924**
Total deposits from the public	**231,784**	**205,188**	**210,984**
(1) Includes:			
Deposits from individuals	**112,331**	**99,096**	**100,915**
Deposits from institutional investors	**42,179**	**41,731**	**45,330**
Deposits from corporations and others	**72,427**	**59,601**	**60,815**

B. Deposits from the public by size

	June 30,		December 31,
	2,020	2,019	2,019
		(unaudited)	(audited)
Maximum deposit			
Up to 1	78,419	72,114	72,152
Over 1 to 10	57,925	48,962	50,875
Over 10 to 100	33,201	28,735	29,582
Over 100 to 500	26,333	20,297	22,193
Above 500	35,906	35,080	36,182
Total	**231,784**	**205,188**	**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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
		(unaudited)		(unaudited)	(audited)
Under payroll and associated expenses					
Cost of service(1)	16	12	33	24	51
Under other expenses					
Cost of interest(2)	9	11	18	23	47
Expected return on plan assets(3)	(1)	(1)	(2)	(2)	(4)
Deduction of non-allowed amounts:			–		
Net actuarial loss(4)	9	8	19	18	36
Total under other expenses	17	18	35	39	79
Total benefit cost, net	**33**	**30**	**68**	**63**	**130**
Total expense with respect to defined-contribution pension	38	37	76	73	146
Total expenses recognized in profit and loss	**71**	**67**	**144**	**136**	**276**

	Forecast	Actual deposits				
	For(5)	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2,020	2,020	2,019	2,020	2,019	2,019
			(unaudited)		(unaudited)	(audited)
Deposits	3.2	1.9	1.8	3.4	3.4	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 June 30,	As of June 30,	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	17,033	16,220	16,520
Tier I capital	17,033	16,220	16,520
Tier II capital	5,966	5,783	6,090
Total capital	**22,999**	**22,003**	**22,610**
B. Weighted risk asset balances			
Credit risk	158,555	146,566	150,878
Market risks	1,616	2,214	1,791
Operational risk	10,821	9,846	10,189
Total weighted risk asset balances[(1)]	**170,992**	**158,626**	**162,858**
C. Ratio of capital to risk components			
		In %	
Ratio of Tier I capital to risk components	9.96	10.23	10.14
Ratio of Tier I capital to risk components	9.96	10.23	10.14
Ratio of total capital to risk components	13.45	13.87	13.88
Minimum Tier I capital ratio required by Supervisor of Banks[(2)]	8.79	9.83	9.83
Total minimum capital ratio required by the Supervisor of Banks[(2)]	12.29	13.33	13.33
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	9.38	9.73	9.51
Ratio of Tier I capital to risk components	9.38	9.73	9.51
Ratio of total capital to risk components	12.86	13.69	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 82 million was deducted due to adjustments with respect to the streamlining plan (June 30, 2019: NIS 159 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, excluding housing loans extended during the Corona Virus crisis,in conformity with the Interim Directive. .

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 June 30,		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	17,470	16,482	16,805
Differences between shareholders' equity and Tier I capital	(400)	(306)	(315)
Total Tier I capital before supervisory adjustments and deductions	**17,070**	**16,176**	**16,490**
Supervisory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Supervisory adjustments and other deductions	(27)	(12)	(14)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	(114)	(99)	(101)
Total adjustments with respect to the streamlining program[(1)]	77	143	131
Total Tier I capital after supervisory adjustments and deductions	**17,033**	**16,220**	**16,520**
B. Tier II capital			
Tier II capital: Instruments, before deductions	4,031	4,256	4,544
Tier II capital: Provisions, before deductions	1,935	1,527	1,546
Total Tier II capital, before deductions	**5,966**	**5,783**	**6,090**
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	**5,966**	**5,783**	**6,090**
Total capital	**22,999**	**22,003**	**22,610**

4. Effect of adjustments to streamlining plan on Tier I capital ratio:

	As of June 30,		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 adjustments with respect to the streamlining plan	9.91	10.12	10.05
Effect of adjustments with respect to the streamlining plan	0.05	0.11	0.09
Ratio of Tier I capital to risk components	9.96	10.23	10.14

(1) Of which, NIS 71 million with respect to streamlining program concerning employees and NIS 6 million with respect to streamlining program concerning real estate (on June 30, 2019: NIS 105 million with respect to streamlining program concerning employees and NIS 38 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).

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 June 30,		As of December 31,
	2020	**2019**	**2019**
	(unaudited)		(audited)
	In %		
1. Consolidated data			
Liquidity coverage ratio(1)	122	118	121
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio(1)	123	118	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)	285	283	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 June 30,		As of December 31,
	2020	**2019**	**2019**
	(unaudited)		(audited)
1. Consolidated data			
Tier I capital(1)	17,033	16,220	16,520
Total exposure	317,759	285,858	297,779
			In %
Leverage ratio	5.36	5.67	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	5.13	5.45	5.56
Minimum leverage ratio required by the Supervisor of Banks(2)	4.70	4.70	4.70

(1) For 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. 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 June 30, 2020, would be at least 8.79%, and the total capital ratio would be at least 12.29% (with additional safety margins as appropriate).

E. 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 201-222 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

		June 30,		December 31,
		2020	2019	2020
		(unaudited)		(audited)
1.	Computerization and software service contracts	356	328	366
2.	Acquisition and renovation of buildings	23	17	17
3.	Long-term rental and lease contracts – rent for buildings, equipment and vehicles[(1)(2)(3)]:			
	First year	210	175	208
	Second year	201	215	197
	Third year	191	203	187
	Fourth year	185	193	182
	Fifth year	180	187	174
	Sixth year and thereafter	1,549	1,669	1,510
	Total rent for buildings and equipment	**2,516**	**2,642**	**2,458**

4. Credit sales operations

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2020	2019	2020	2019	2019
	(unaudited)		(unaudited)		(audited)
Carrying amount of credit sold	40	–	40	571	571
Consideration received in cash	40	–	40	577	577
Consideration received in securities	–	–	–	–	–
Total consideration	40	–	40	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. With regard to application of the standard re leases (ASC 842), the expected lease term is the definitive lease term (unless exercise of any potential extension is highly likely), or 15 years after the most recent refurbishment, whichever is longer.

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 May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

      The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at the expense of these clients.

      The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

      On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a petition with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court for consolidation of the hearing of this lawsuit with the five other motions; the Bank filed its response on July 10, 2017; on July 20, 2017 the Court rejected the motion to consolidate all of these lawsuits. As directed by the Supreme Court, a motion was filed to consolidate the hearing of the motions for approval to the District Court. On January 21, 2018 the motion for consolidation was heard. On April 17, 2018, a resolution was handed down combining the hearing of this motion with 5 other motions filed against 5 other banks. Consequently, a pre-trial hearing of all these motions is scheduled for December 19, 2018. At this hearing, the Court discussed a motion by the Bank to erase sections from the plaintiff's response, as well as a motion by the plaintiff to erase the Bank's response to the motion for approval, citing alleged breach of a prior resolution with regard to document discovery. On November 28, 2019, the Court handed down a ruling on the pre-trial motions, rejecting the motion by the plaintiff to erase the Bank's response. The plaintiff has filed a motion to appeal with the Supreme Court the ruling rejecting their discovery motion, and a resolution on this matter is still pending. As ruled by the Court, on May 17, 2020 the Bank filed its response to the plaintiff's response to the Bank's response to the motion for approval. The hearing scheduled for August 5, 2020 was canceled and has yet to be rescheduled.

   B) 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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 process was extended and has yet to be concluded.

C) 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. On March 16, 2020, the plaintiff filed a motion for document discovery and the Bank is due to file its response. A pre-trial hearing scheduled for May 20, 2020 was re-scheduled for September 15, 2020.

D) 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.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

E) 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. On June 21, 2020, the Court handed down its ruling rejecting the motion out of hand with expenses charged to the plaintiffs. On July 7, 2020, the Bank attorney received an appeal of this verdict, filed by the plaintiffs.

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 approval of class action status, with no estimated amount, filed at the Lod District Court, with regard to credit extended by the Bank using the Tefahot Card in conjunction with "General-purpose loan". The motion alleges that the Bank splits the credit facility backed by a lien on the apartment, between the Tefahot Card as a general-purpose loan, and housing loans, rather than providing all of the credit as a "housing loan", at terms and conditions as set forth in the Supervisor of Bank's directives, allegedly in violation of the statute and while bypassing the Supervisor of Bank's directives with regard to housing loans, and with the client being un-aware of this splitting action and its implications, and while hiding material facts, such as absence of life insurance in the loan component of the Tefahot credit card, charging of a different interest rate and monthly charge for holding the card.

The plaintiff claims they are unable to quantify the damage to the class, setting their own personal claim at NIS 112,373.

b) 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. The Bank is due to file its response to the motion by September 15, 2020.

Note 10 – Contingent Liabilities and Special Commitments – continued

c) In May 2020, a motion for approval of class action status was filed with the Tel Aviv District Court, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank clients, allegedly in breach of provisions of the Privacy Protection Act, 1981 and other statutes, without providing required disclosure to Bank clients and without obtaining their consent.
The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its clients when transacting on Bank web sites and apps, in order to conduct advertising campaigns, while these corporations process the information provided about the clients for their own needs, with no disclosure provided with regard to the purposes for which such information is being gathered and what information exactly is being gathered, other than a "legal disclaimer" on the Bank website which, the plaintiff alleges, is deficient and may not be regarded as consent. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its clients to third parties, including the "legal disclaimer", constitute unfair conditions in a uniform contract.
The plaintiff claims they are unable to quantify the damage incurred by the class; the Bank is required to file its response to the motion by September 24, 2020.

d) 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.
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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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 ruled by the Court, in case of circumstances or developments which would warrant this in the Bank's opinion, the Bank would reconsider such 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. On August 6, 2020, the Court ordered the parties to inform the Court, no later than September 6, 2020, where they stand with regard to finalizing the settlement agreement.
A hearing is scheduled for September 8, 2020.

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. On April 26, the appellant filed a motion to schedule a hearing as soon as possible; such hearing was scheduled for June 8, 2020. On June 18, 2020, a verdict was handed down, denying the appeal after the appellant accepted the Supreme Court's recommendation to withdraw their appeal.
See also section 4) below for recommendations of an independent committee appointed pursuant to an agreement signed with the US Department of Justice in 2019, to conclude the investigation of Bank Group business with its US clients.

Note 10 – Contingent Liabilities and Special Commitments – continued

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 evaluation 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 has adopted most of these recommendations with slight changes.

Note 10 – Contingent Liabilities and Special Commitments – continued

C. Guarantees by maturity date

The Bank provides a wide range of guarantees and indemnification to its clients, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

The following are guarantees issued by the Bank, by maturity date:

	As of June 30, 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	2,359	369	45	150	2,923
Guarantees to home buyers	8,064	2,612	11	107	10,794
Guarantees and other commitments	4,502	799	151	3,427	8,879
Commitments to issue guarantees	2,859	6,024	235	236	9,354
Total guarantees	**17,784**	**9,804**	**442**	**3,920**	**31,950**

	As of June 30, 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	1,908	333	39	162	2,442
Guarantees to home buyers	9,067	2,057	18	–	11,142
Guarantees and other commitments	4,072	989	70	2,751	7,882
Commitments to issue guarantees	3,171	4,001	635	–	7,807
Total guarantees	**18,218**	**7,380**	**762**	**2,913**	**29,273**

	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	2,202	460	36	200	2,898
Guarantees to home buyers	8,533	2,050	56	33	10,672
Guarantees and other commitments	3,588	575	138	4,312	8,613
Commitments to issue guarantees	3,058	5,287	1,317	331	9,993
Total guarantees	**17,381**	**8,372**	**1,547**	**4,876**	**32,176**

Note 11 – Derivatives and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

	June 30, 2020 (unaudited)			June 30, 2019 (unaudited)		
	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	1,229	100	1,329	1,787	300	2,087
Options written	–	79	79	18	–	18
Options purchased	–	79	79	1,284	235	1,519
Swaps(1)	6,786	28,051	34,837	8,660	27,477	36,137
Total(2)	**8,015**	**28,309**	**36,324**	**11,749**	**28,012**	**39,761**
Of which: Hedging derivatives(3)	**3,858**	**–**	**3,858**	**3,681**	**–**	**3,681**
Currency contracts						
Forward contracts(4)(6)	73,021	59,903	132,924	54,799	52,909	107,708
Options written	–	17,041	17,041	–	17,908	17,908
Options purchased	–	16,017	16,017	2	15,631	15,633
Swaps	1,166	1,722	2,888	3,439	2,639	6,078
Total	**74,187**	**94,683**	**168,870**	**58,240**	**89,087**	**147,327**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	–	6,824	6,824	104	9,922	10,026
Options purchased(5)	–	6,854	6,854	–	9,955	9,955
Swaps	–	2,977	2,977	–	2,099	2,099
Total	**–**	**16,655**	**16,655**	**104**	**21,976**	**22,080**
Commodities and other contracts						
Forward contracts	–	1	1	8	23	31
Options written	–	7,518	7,518	–	10,861	10,861
Options purchased	–	7,518	7,518	–	10,861	10,861
Total	**–**	**15,037**	**15,037**	**8**	**21,745**	**21,753**
Credit contracts						
Bank is guarantor	277	–	277	285	–	285
Bank is beneficiary	144	–	144	529	–	529
Total	**421**	**–**	**421**	**814**	**–**	**814**
Total stated amount	**82,623**	**154,684**	**237,307**	**70,915**	**160,820**	**231,735**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 24,525 million (as of June 30, 2019: NIS 25,569 million).
(2) Of which: NIS/CPI swaps amounting to NIS 8,510 million (as of June 30, 2019: NIS 8,501 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 5,223 million (as of June 30, 2019: NIS 6,522 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 6,824 million (as of June 30, 2019: NIS 9,922 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

	As of December 31, 2019 (audited)		
	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

	June 30, 2020 (unaudited)					
	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. Gross fair value of derivative instruments						
Interest contracts	220	537	757	254	650	904
Of which: Hedging derivatives	75	–	75	98	–	98
Currency contracts(1)	192	898	1,090	541	1,056	1,597
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	356	356	17	377	394
Commodities and other contracts	–	–	–	–	–	–
Credit contracts	6	–	6	19	–	19
Total assets / liabilities with respect to derivatives, gross(2)	**418**	**1,791**	**2,209**	**831**	**2,083**	**2,914**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivatives	**418**	**1,791**	**2,209**	**831**	**2,083**	**2,914**
Of which: Carrying amount with respect to derivatives not subject to a master netting agreement or to similar agreements	334	336	670	335	575	910

	June 30, 2019 (unaudited)					
	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. Gross fair value of derivative instruments						
Interest contracts	189	478	667	314	553	867
Of which: Hedging derivatives	–	–	–	97	–	97
Currency contracts(1)	341	873	1,214	397	790	1,187
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	235	235	1	216	217
Commodities and other contracts	–	2	2	–	2	2
Credit contracts	4	–	4	4	–	4
Total assets / liabilities with respect to derivatives, gross(2)	**534**	**1,588**	**2,122**	**716**	**1,561**	**2,277**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivatives	**534**	**1,588**	**2,122**	**716**	**1,561**	**2,277**
Of which: Carrying amount with respect to derivatives not subject to a master netting agreement or to similar agreements	91	473	564	252	523	775

(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 9 million (as of June 30, 2019: NIS 5 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 16 million (as of June 30, 2019: NIS 1 million).

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis – continued

	As of December 31, 2019 (audited)					
	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. Gross fair value of derivative instruments						
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 on 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 June 30, 2020			For the six months ended June 30, 2020		
	(unaudited)			(unaudited)		
	Amounts recognized in Other Compre-hensive Income (loss) from derivatives	Interest revenues (expenses)	Total	Amounts recognized in Other Compre-hensive Income (loss) from derivatives	Interest revenues (expenses)	Total
Interest contracts						
Derivatives used to hedge cash flows[(1)]	(10)	12	**2**	11	41	**52**
Derivatives used to hedge fair value[(2)]	8	(2)	**6**	(4)	(9)	**(13)**
Total	**(2)**	**10**	**8**	**7**	**32**	**39**

(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

	June 30, 2020 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives	**54**	**1,110**	**22**	**–**	**1,023**	**2,209**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(979)	–	–	(191)	(1)(1,170)
Mitigation of credit risk with respect to cash collateral received	–	(82)	–	–	(31)	(113)
Net amount of assets with respect to derivatives	**54**	**49**	**22**	–	**801**	**926**
Off-balance sheet credit risk on derivatives(2)	136	981	229	–	1,095	2,441
Mitigation of off-balance sheet credit risk	–	(576)	–	–	(233)	(809)
Net off-balance sheet credit risk with respect to derivatives	**136**	**405**	**229**	**–**	**862**	**1,632**
Total credit risk on derivatives	**190**	**454**	**251**	**–**	**1,663**	**2,558**
Carrying amount of liabilities with respect to derivatives	**53**	**1,497**	**22**	**8**	**1,334**	**2,914**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(979)	–	–	(191)	(1,170)
Pledged cash collateral	–	(384)	–	–	(47)	(431)
Net amount of liabilities with respect to derivatives	**53**	**134**	**22**	**8**	**1,096**	**1,313**

	June 30, 2019 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives	**41**	**1,070**	**50**	**–**	**961**	**2,122**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(841)	–	–	(125)	(1)(966)
Mitigation of credit risk with respect to cash collateral received	–	(122)	–	–	(215)	(337)
Net amount of assets with respect to derivatives	**41**	**107**	**50**	–	**621**	**819**
Off-balance sheet credit risk on derivatives(2)	209	967	119	–	604	1,899
Mitigation of off-balance sheet credit risk	–	(453)	–	–	(261)	(714)
Net off-balance sheet credit risk with respect to derivatives	**209**	**514**	**119**	**–**	**343**	**1,185**
Total credit risk on derivatives	**250**	**621**	**169**	–	**964**	**2,004**
Carrying amount of liabilities with respect to derivatives	**47**	**1,230**	**50**	**–**	**950**	**2,277**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(841)	–	–	(125)	(966)
Pledged cash collateral	–	(309)	–	–	–	(309)
Net amount of liabilities with respect to derivatives	**47**	**80**	**50**	–	**825**	**1,002**

(1) This balance consists entirely of derivatives subject to offset agreements.
(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments 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 derivative instruments of the borrower.

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 – continued

	As of December 31, 2019 (audited)					
	Stock exchan-ges	Banks	Dealers/ Brokers	Govern-ments 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 derivative instruments (including with respect to derivative instruments 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 derivative instruments of the borrower.

In the three-month period ended June 30, 2020, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 2 million. In the six-month period ended June 30, 2020, the Bank recognized expenses from increase in provision for credit losses amounting to NIS 13 million (in the three-month and six-month periods in 2019, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 6 million and NIS 5 million, respectively).

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

d) Maturity dates – stated amounts: Balances at end of period – Consolidated

	Up to three months	3 months to 1 year	1-5 years	Over five years	Total
	June 30, 2020 (unaudited)				
Interest contracts:					
NIS – CPI	1,205	2,947	3,124	1,234	8,510
Other	5,622	5,926	10,428	5,838	27,814
Currency contracts	105,177	59,554	3,781	358	168,870
Contracts for shares	13,792	2,264	599	–	16,655
Commodities and other contracts	12,175	2,862	321	100	15,458
Total	**137,971**	**73,553**	**18,253**	**7,530**	**237,307**
	June 30, 2019 (unaudited)				
Total	**129,855**	**66,749**	**26,118**	**9,013**	**231,735**
	As of December 31, 2019 (audited)				
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 six months ended June 30, 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	1,658	489	19	2,147	1	567
Interest expenses from externals	–	223	–	223	79	51
Interest revenues, net from externals	1,658	266	19	1,924	(78)	516
Interest revenues, net – inter-segment	(735)	388	(3)	(347)	119	59
Total interest revenues (expenses), net	**923**	**654**	**16**	**1,577**	**41**	**575**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	75	282	69	357	88	203
Total non-interest revenues	**75**	**282**	**69**	**357**	**88**	**203**
Total revenues	**998**	**936**	**85**	**1,934**	**129**	**778**
Expenses with respect to credit losses	118	84	–	202	–	155
Operating and other expenses to externals	320	865	30	1,185	36	399
Operating and other expenses – inter-segment	–	(67)	(6)	(67)	4	(37)
Total operating and other expenses	**320**	**798**	**24**	**1,118**	**40**	**362**
Pre-tax profit (loss)	560	54	61	614	89	261
Provision (reduced provision) for taxes on profit	192	18	21	210	30	89
After-tax profit (loss)	**368**	**36**	**40**	**404**	**59**	**172**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	368	36	40	404	59	172
Net profit attributed to non-controlling interests	–	(24)	(2)	(24)	–	(2)
Net profit (loss) attributable to shareholders of the banking corporation	**368**	**12**	**38**	**380**	**59**	**170**
Average balance of assets	137,907	20,659	3,002	158,566	181	21,781
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	137,907	20,659	3,002	158,566	181	21,781
Balance of loans to the public at end of reported period	140,388	21,062	3,535	161,450	129	23,079
Balance of impaired debts	68	90	–	158	–	649
Balance of debt in arrears 90 days or longer	1,432	27	–	1,459	–	50
Average balance of liabilities	–	94,756	3,002	94,756	15,365	29,825
Of which: Average balance of deposits from the public	–	91,754	–	91,754	15,365	29,825
Balance of deposits from the public at end of reported period	–	96,329	–	96,329	16,002	33,539
Average balance of risk assets (1)	79,719	19,655	3,236	99,374	26	21,050
Balance of risk assets at end of reported period(1)	81,371	19,399	3,142	100,770	26	21,832
Average balance of assets under management(2)	9,477	39,319	–	48,796	3,067	27,688
Breakdown of interest revenues, net:						
Margin from credit granting operations	872	419	16	1,291	–	498
Margin from activities of receiving deposits	–	236	–	236	41	64
Other	51	(1)	–	50	–	13
Total interest revenues, net	**923**	**654**	**16**	**1,577**	**41**	**575**

(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	
154	274	18	125	3,286	140	3,426
27	102	117	129	728	28	756
127	172	(99)	(4)	2,558	112	2,670
20	94	154	(82)	17	(17)	–
147	**266**	**55**	**(86)**	**2,575**	**95**	**2,670**
–	–	–	140	140	–	140
43	65	27	132	915	13	928
43	**65**	**27**	**272**	**1,055**	**13**	**1,068**
190	**331**	**82**	**186**	**3,630**	**108**	**3,738**
79	161	6	1	604	11	615
30	53	34	193	1,930	37	1,967
29	41	28	2	–	–	–
59	**94**	**62**	**195**	**1,930**	**37**	**1,967**
52	76	14	(10)	1,096	60	1,156
18	26	5	(3)	375	21	396
34	**50**	**9**	**(7)**	**721**	**39**	**760**
–	–	–	–	–	–	–
34	50	9	(7)	721	39	760
–	–	–	(17)	(43)	–	(43)
34	**50**	**9**	**(24)**	**678**	**39**	**717**
7,556	17,385	1,204	59,078	265,751	14,814	280,565
–	–	–	31	31	–	31
7,556	17,385	1,204	–	206,673	3,236	209,909
7,413	18,417	2,240	–	212,728	3,810	216,538
149	311	123	–	1,390	–	1,390
–	(8)	–	–	1,501	–	1,501
9,398	27,275	42,558	29,798	248,975	14,138	263,113
9,398	27,275	42,558	–	216,175	4,649	220,824
10,193	28,695	42,179	–	226,937	4,847	231,784
8,435	24,838	2,463	6,974	163,160	4,457	167,617
8,380	25,798	2,478	7,114	166,398	4,594	170,992
3,365	19,606	358,482	2,465	463,469	–	463,469
124	221	14	–	2,148	53	2,201
18	33	40	–	432	4	436
5	12	1	(86)	(5)	38	33
147	**266**	**55**	**(86)**	**2,575**	**95**	**2,670**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the six months ended June 30, 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	2,495	494	18	2,989	1	571
Interest expenses from externals	–	353	–	353	99	65
Interest revenues, net from externals	2,495	141	18	2,636	(98)	506
Interest revenues, net – inter-segment	(1,677)	531	(3)	(1,146)	142	61
Total interest revenues, net	**818**	**672**	**15**	**1,490**	**44**	**567**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	77	255	98	332	5	192
Total non-interest revenues	**77**	**255**	**98**	**332**	**5**	**192**
Total revenues	**895**	**927**	**113**	**1,822**	**49**	**759**
Expenses (reduction of expenses) with respect to credit losses	19	51	–	70	–	66
Operating and other expenses to externals	324	880	31	1,204	44	407
Operating and other expenses – inter-segment	–	(67)	(6)	(67)	4	(37)
Total operating and other expenses	**324**	**813**	**25**	**1,137**	**48**	**370**
Pre-tax profit	552	63	88	615	1	323
Provision for taxes on profit	189	22	30	211	–	111
After-tax profit	**363**	**41**	**58**	**404**	**1**	**212**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	363	41	58	404	1	212
Net profit attributed to non-controlling interests	–	(21)	(2)	(21)	–	(2)
Net profit attributable to shareholders of the banking corporation	**363**	**20**	**56**	**383**	**1**	**210**
Average balance of assets	128,560	20,433	3,188	148,993	80	19,906
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	128,560	20,433	3,188	148,993	80	19,906
Balance of loans to the public at end of reported period	130,800	21,315	3,812	152,115	105	20,408
Balance of impaired debts	46	85	–	131	–	502
Balance of debt in arrears 90 days or longer	1,407	20	–	1,427	–	36
Average balance of liabilities	–	86,722	3,188	86,722	13,641	24,428
Of which: Average balance of deposits from the public	–	83,534	–	83,534	13,641	24,428
Balance of deposits from the public at end of reported period	–	84,917	–	84,917	14,179	25,357
Average balance of risk assets (1)	73,261	18,734	3,260	91,995	28	19,140
Balance of risk assets at end of reported period(1)	75,119	18,684	3,268	93,803	28	19,253
Average balance of assets under management(2)	10,007	41,781	–	51,788	2,776	29,111
Breakdown of interest revenues, net:						
Margin from credit granting operations	783	411	15	1,194	–	480
Margin from activities of receiving deposits	–	260	–	260	44	73
Other	35	1	–	36	–	14
Total interest revenues, net	**818**	**672**	**15**	**1,490**	**44**	**567**

(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	
149	289	14	101	4,114	219	4,333
32	152	285	517	1,503	56	1,559
117	137	(271)	(416)	2,611	163	2,774
26	126	333	511	53	(53)	–
143	**263**	**62**	**95**	**2,664**	**110**	**2,774**
–	–	–	142	142	4	146
43	70	18	132	792	12	804
43	**70**	**18**	**274**	**934**	**16**	**950**
186	**333**	**80**	**369**	**3,598**	**126**	**3,724**
16	28	(3)	(3)	174	1	175
33	56	32	182	1,958	39	1,997
29	42	27	2	–	–	–
62	**98**	**59**	**184**	**1,958**	**39**	**1,997**
108	207	24	188	1,466	86	1,552
37	71	8	64	502	29	531
71	**136**	**16**	**124**	**964**	**57**	**1,021**
–	–	–	–	–	–	–
71	136	16	124	964	57	1,021
–	–	–	(18)	(41)	–	(41)
71	**136**	**16**	**106**	**923**	**57**	**980**
6,933	17,048	1,122	51,064	245,146	11,886	257,032
–	–	–	32	32	–	32
6,933	17,048	1,122	–	194,082	3,477	197,559
7,307	17,307	1,104	–	198,346	3,996	202,342
98	233	156	–	1,120	–	1,120
–	–	–	–	1,463	–	1,463
8,300	27,364	39,255	29,937	229,647	11,431	241,078
8,300	27,364	39,255	–	196,522	5,270	201,792
8,301	25,943	41,731	–	200,428	4,760	205,188
7,977	22,645	2,280	6,579	150,644	4,213	154,857
8,464	24,079	1,650	7,296	154,573	4,053	158,626
6,576	27,727	305,664	13,953	437,595	–	437,595
115	217	9	–	2,015	57	2,072
24	36	52	–	489	6	495
4	10	1	95	160	47	207
143	**263**	**62**	**95**	**2,664**	**110**	**2,774**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended June 30, 2020 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
			Of which:			
	Housing loans	Others	Credit cards	Total		
Interest revenues from externals	899	245	10	1,144	–	272
Interest expenses from externals	–	119	–	119	39	25
Interest revenues, net from externals	899	126	10	1,025	(39)	247
Interest revenues, net – inter-segment	(435)	191	(1)	(244)	58	30
Total interest revenues (expenses), net	**464**	**317**	**9**	**781**	**19**	**277**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	37	135	30	172	2	99
Total non-interest revenues	**37**	**135**	**30**	**172**	**2**	**99**
Total revenues	**501**	**452**	**39**	**953**	**21**	**376**
Expenses (reduction of expenses) with respect to credit losses	53	44	–	97	1	83
Operating and other expenses to externals	154	418	15	572	14	194
Operating and other expenses – inter-segment	–	(34)	(3)	(34)	2	(19)
Total operating and other expenses	**154**	**384**	**12**	**538**	**16**	**175**
Pre-tax profit (loss)	294	24	27	318	4	118
Provision for taxes on profit	100	8	9	108	1	40
After-tax profit (loss)	**194**	**16**	**18**	**210**	**3**	**78**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	194	16	18	210	3	78
Net profit attributed to non-controlling interests	–	(12)	(1)	(12)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**194**	**4**	**17**	**198**	**3**	**77**
Average balance of assets	139,364	20,183	2,864	159,547	149	22,121
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	139,364	20,183	2,864	159,547	149	22,121
Balance of loans to the public at end of reported period	140,388	21,062	3,535	161,450	129	23,079
Balance of impaired debts	68	90	–	158	–	649
Balance of debt in arrears 90 days or longer	1,432	27	–	1,459	–	50
Average balance of liabilities	–	98,374	2,864	98,374	15,731	31,721
Of which: Average balance of deposits from the public	–	95,510	–	95,510	15,731	31,721
Balance of deposits from the public at end of reported period	–	96,329	–	96,329	16,002	33,539
Average balance of risk assets (1)	80,483	19,609	3,142	100,092	26	21,450
Balance of risk assets at end of reported period(1)	81,371	19,399	3,142	100,770	26	21,832
Average balance of assets under management(2)	8,830	38,220	–	47,050	2,862	27,160
Breakdown of interest revenues, net:						
Margin from credit granting operations	438	205	9	643	–	242
Margin from activities of receiving deposits	–	113	–	113	19	29
Other	26	(1)	–	25	–	6
Total interest revenues, net	**464**	**317**	**9**	**781**	**19**	**277**

(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**	
79	130	10	45	1,680	60	1,740
14	49	58	103	407	10	417
65	81	(48)	(58)	1,273	50	1,323
6	51	74	25	–	–	–
71	**132**	**26**	**(33)**	**1,273**	**50**	**1,323**
–	–	–	76	76	–	76
21	31	11	55	391	8	399
21	**31**	**11**	**131**	**467**	**8**	**475**
92	**163**	**37**	**98**	**1,740**	**58**	**1,798**
7	74	4	(1)	265	5	270
13	25	16	99	933	17	950
15	20	15	1	–	–	–
28	**45**	**31**	**100**	**933**	**17**	**950**
57	44	2	(1)	542	36	578
19	15	1	–	184	12	196
38	**29**	**1**	**(1)**	**358**	**24**	**382**
–	–	–	–	–	–	–
38	29	1	(1)	358	24	382
–	–	–	(9)	(22)	–	(22)
38	**29**	**1**	**(10)**	**336**	**24**	**360**
7,701	18,174	1,186	60,216	269,094	17,176	286,270
–	–	–	31	31	–	31
7,701	18,174	1,186	–	208,878	3,339	212,217
7,413	18,417	2,240	–	212,728	3,810	216,538
149	311	123	–	1,390	–	1,390
–	(8)	–	–	1,501	–	1,501
9,838	29,492	39,707	27,269	252,132	16,319	268,451
9,838	29,492	39,707	–	221,999	4,753	226,752
10,193	28,695	42,179	–	226,937	4,847	231,784
8,459	25,341	2,789	7,269	165,426	4,570	169,996
8,380	25,798	2,478	7,114	166,398	4,594	170,992
3,256	18,382	338,106	2,572	439,388	–	439,388
61	111	8	–	1,065	28	1,093
8	15	18	–	202	1	203
2	6	–	(33)	6	21	27
71	**132**	**26**	**(33)**	**1,273**	**50**	**1,323**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the three months ended June 30, 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	1,720	259	9	1,979	1	292
Interest expenses from externals	–	239	–	239	61	41
Interest revenues, net from externals	1,720	20	9	1,740	(60)	251
Interest revenues, net – inter-segment	(1,305)	317	(2)	(988)	82	36
Total interest revenues, net	**415**	**337**	**7**	**752**	**22**	**287**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	39	128	63	167	3	96
Total non-interest revenues	**39**	**128**	**63**	**167**	**3**	**96**
Total revenues	**454**	**465**	**70**	**919**	**25**	**383**
Expenses (reduction of expenses) with respect to credit losses	11	24	–	35	–	29
Operating and other expenses to externals	164	447	16	611	22	206
Operating and other expenses – inter-segment	–	(35)	(3)	(35)	2	(19)
Total operating and other expenses	**164**	**412**	**13**	**576**	**24**	**187**
Pre-tax profit	279	29	57	308	1	167
Provision for taxes on profit	97	10	20	107	–	58
After-tax profit	**182**	**19**	**37**	**201**	**1**	**109**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	182	19	37	201	1	109
Net profit attributed to non-controlling interests	–	(11)	(1)	(11)	–	(1)
Net profit attributable to shareholders of the banking corporation	**182**	**8**	**36**	**190**	**1**	**108**
Average balance of assets	129,504	20,527	3,244	150,031	87	20,160
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	129,504	20,527	3,244	150,031	87	20,160
Balance of loans to the public at end of reported period	130,800	21,315	3,812	152,115	105	20,408
Balance of impaired debts	46	85	–	131	–	502
Balance of debt in arrears 90 days or longer	1,407	20	–	1,427	–	36
Average balance of liabilities	–	87,491	3,244	87,491	13,758	25,225
Of which: Average balance of deposits from the public	–	84,247	–	84,247	13,758	25,225
Balance of deposits from the public at end of reported period	–	84,917	–	84,917	14,179	25,357
Average balance of risk assets (1)	73,986	18,701	3,267	92,687	28	19,669
Balance of risk assets at end of reported period(1)	75,119	18,684	3,268	93,803	28	19,253
Average balance of assets under management(2)	10,170	42,481	–	52,651	2,943	29,712
Breakdown of interest revenues, net:						
Margin from credit granting operations	397	205	8	602	–	244
Margin from activities of receiving deposits	–	131	(1)	131	22	37
Other	18	1	–	19	–	6
Total interest revenues, net	**415**	**337**	**7**	**752**	**22**	**287**

(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**	
	81	147	7	34	2,541	106	2,647
	17	86	196	437	1,077	27	1,104
	64	61	(189)	(403)	1,464	79	1,543
	11	70	219	594	24	(24)	–
	75	**131**	**30**	**191**	**1,488**	**55**	**1,543**
	–	–	–	87	87	2	89
	21	30	9	63	389	6	395
	21	**30**	**9**	**150**	**476**	**8**	**484**
	96	**161**	**39**	**341**	**1,964**	**63**	**2,027**
	15	23	(2)	(1)	99	–	99
	16	29	16	92	992	19	1,011
	15	21	14	2	–	–	–
	31	**50**	**30**	**94**	**992**	**19**	**1,011**
	50	88	11	248	873	44	917
	17	31	4	86	303	15	318
	33	**57**	**7**	**162**	**570**	**29**	**599**
	–	–	–	–	–	–	–
	33	57	7	162	570	29	599
	–	–	–	(11)	(23)	–	(23)
	33	**57**	**7**	**151**	**547**	**29**	**576**
	7,130	17,016	1,155	50,558	246,137	11,115	257,252
	–	–	–	32	32	–	32
	7,130	17,016	1,155	–	195,579	3,530	199,109
	7,307	17,307	1,104	–	198,346	3,996	202,342
	98	233	156	–	1,120	–	1,120
	–	–	–	–	1,463	–	1,463
	8,326	26,642	40,049	28,870	230,361	10,649	241,010
	8,326	26,642	40,049	–	198,247	5,026	203,273
	8,301	25,943	41,731	–	200,428	4,760	205,188
	8,144	22,958	1,893	6,898	152,277	4,193	156,470
	8,464	24,079	1,650	7,296	154,573	4,053	158,626
	6,805	27,122	330,667	14,260	464,160	–	464,160
	61	109	5	–	1,021	28	1,049
	12	17	25	–	244	3	247
	2	5	–	191	223	24	247
	75	**131**	**30**	**191**	**1,488**	**55**	**1,543**

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	3,349	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 six months ended June 30, 2020 (unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small busi-nesses	Comm-ercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net:								
From externals	332	1,507	(12)	393	104	422	(76)	2,670
Inter-segment	475	(706)	52	67	17	75	20	–
Total interest revenues (expenses), net	**807**	**801**	**40**	**460**	**121**	**497**	**(56)**	**2,670**
Non-interest financing revenues	3	–	1	2	–	18	116	140
Commissions and other revenues	278	77	111	167	31	127	137	928
Total revenues	**1,088**	**878**	**152**	**629**	**152**	**642**	**197**	**3,738**
Expenses with respect to credit losses	95	114	–	127	28	246	5	615
Operating and other expenses	830	304	56	306	74	191	206	1,967
Pre-tax profit (loss)	163	460	96	196	50	205	(14)	1,156
Provision (reduced provision) for taxes on profit	56	158	33	67	17	70	(5)	396
After-tax profit (loss)	**107**	**302**	**63**	**129**	**33**	**135**	**(9)**	**760**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	107	302	63	129	33	135	(9)	760
Attributable to non-controlling interests	(24)	–	–	(2)	–	–	(17)	(43)
Net profit (loss) attributable to shareholders of the Bank	**83**	**302**	**63**	**127**	**33**	**135**	**(26)**	**717**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	9.2%	8.1%	–	20.2%	10.1%	6.9%	–	9.0%
Average balance of loans to the public, net	26,100	131,699	1,028	14,915	6,056	28,353	–	208,151
Average balance of deposits from the public	101,891	–	9,687	26,723	8,814	59,089	14,620	220,824
Average balance of assets	26,521	132,193	1,459	15,034	6,114	38,733	60,511	280,565
Average balance of risk assets [2]	23,054	76,533	522	13,375	6,700	39,998	7,435	167,617

(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 six months ended June 30, 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	240	2,318	(20)	334	99	315	(512)	2,774
Inter-segment	574	(1,607)	70	92	17	188	666	–
Total interest revenues, net	**814**	**711**	**50**	**426**	**116**	**503**	**154**	**2,774**
Non-interest financing revenues	2	–	1	1	–	12	130	146
Commissions and other revenues	263	78	28	162	28	121	124	804
Total revenues	**1,079**	**789**	**79**	**589**	**144**	**636**	**408**	**3,724**
Expenses (reduction of expenses) with respect to credit losses	49	18	(1)	59	20	33	(3)	175
Operating and other expenses	845	310	66	312	76	193	195	1,997
Pre-tax profit	185	461	14	218	48	410	216	1,552
Provision for taxes on profit	63	158	5	75	16	140	74	531
After-tax profit	**122**	**303**	**9**	**143**	**32**	**270**	**142**	**1,021**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	122	303	9	143	32	270	142	1,021
Attributable to non-controlling interests	(21)	–	–	(2)	–	–	(18)	(41)
Net profit attributable to shareholders of the Bank	**101**	**303**	**9**	**141**	**32**	**270**	**124**	**980**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.3%	8.6%	34.5%	24.6%	9.6%	15.1%	57.0%	13.3%
Average balance of loans to the public, net	25,856	122,914	1,026	13,597	5,905	26,678	–	195,976
Average balance of deposits from the public	92,057	–	8,699	22,699	7,804	54,288	16,245	201,792
Average balance of assets	26,280	123,347	1,576	13,708	5,963	34,204	51,954	257,032
Average balance of risk assets (2)	22,258	70,292	552	12,062	6,644	36,157	6,892	154,857

(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 June 30, 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	158	823	(5)	187	52	209	(101)	1,323
Inter-segment	234	(423)	22	38	9	36	84	–
Total interest revenues (expenses), net	**392**	**400**	**17**	**225**	**61**	**245**	**(17)**	**1,323**
Non-interest financing revenues	1	–	–	1	–	12	62	76
Commissions and other revenues	134	39	16	81	15	63	51	399
Total revenues	**527**	**439**	**33**	**307**	**76**	**320**	**96**	**1,798**
Expenses with respect to credit losses	55	50	–	68	3	94	–	270
Operating and other expenses	400	146	23	148	35	92	106	950
Pre-tax profit (loss)	72	243	10	91	38	134	(10)	578
Provision (reduced provision) for taxes on profit	24	82	3	31	13	45	(2)	196
After-tax profit (loss)	**48**	**161**	**7**	**60**	**25**	**89**	**(8)**	**382**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	48	161	7	60	25	89	(8)	382
Attributable to non-controlling interests	(12)	–	–	(1)	–	–	(9)	(22)
Net profit (loss) attributable to shareholders of the Bank	**36**	**161**	**7**	**59**	**25**	**89**	**(17)**	**360**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	8.0%	8.6%	–	18.9%	15.9%	9.0%	–	9.0%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach

For the three months ended June 30, 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	72	1,621	(12)	151	49	129	(467)	1,543
Inter-segment	339	(1,259)	38	54	11	133	684	–
Total interest revenues, net	**411**	**362**	**26**	**205**	**60**	**262**	**217**	**1,543**
Non-interest financing revenues	1	–	1	1	–	8	78	89
Commissions and other revenues	129	41	14	80	15	56	60	395
Total revenues	**541**	**403**	**41**	**286**	**75**	**326**	**355**	**2,027**
Expenses (reduction of expenses) with respect to credit losses	25	11	–	23	16	26	(2)	99
Operating and other expenses	428	155	34	157	39	98	100	1,011
Pre-tax profit	88	237	7	106	20	202	257	917
Provision for taxes on profit	31	82	2	37	7	70	89	318
After-tax profit	**57**	**155**	**5**	**69**	**13**	**132**	**168**	**599**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	57	155	5	69	13	132	168	599
Attributable to non-controlling interests	(11)	–	–	(1)	–	–	(11)	(23)
Net profit attributable to shareholders of the Bank	**46**	**155**	**5**	**68**	**13**	**132**	**157**	**576**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	11.1%	8.8%	31.2%	23.6%	7.8%	14.9%	–	15.8%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

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 profit 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%	11.6%	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 June 30, 2020 (unaudited)					
	Provision for credit losses					
	Loans to the public				Banks and govern-ments	Total
	Com-mercial	Housing	Indivi-dual – other	Total		
Balance of provision for credit losses at start of period	1,041	731	293	2,065	3	2,068
Expenses with respect to credit losses	173	53	45	271	(1)	270
Accounting write-offs[2]	(92)	(2)	(41)	(135)	–	(135)
Collection of debts written off for accounting purposes in previous years[2]	38	1	17	56	–	56
Net accounting write-offs	(54)	(1)	(24)	(79)	–	(79)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**
	For the three months ended June 30, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	651	265	1,682	2	1,684
Expenses with respect to credit losses	65	11	24	100	(1)	99
Accounting write-offs[2]	(59)	(2)	(39)	(100)	–	(100)
Collection of debts written off for accounting purposes in previous years[2]	21	–	15	36	–	36
Net accounting write-offs	(38)	(2)	(24)	(64)	–	(64)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**
	For the six months ended June 30, 2020 (unaudited)					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	412	118	84	614	1	615
Accounting write-offs[2]	(175)	(10)	(76)	(261)	–	(261)
Collection of debts written off for accounting purposes in previous years[2]	58	1	33	92	–	92
Net accounting write-offs	(117)	(9)	(43)	(169)	–	(169)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**
	For the six months ended June 30, 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	108	19	51	178	(3)	175
Accounting write-offs[2]	(125)	(4)	(81)	(210)	–	(210)
Collection of debts written off for accounting purposes in previous years[2]	44	1	32	77	–	77
Net accounting write-offs	(81)	(3)	(49)	(133)	–	(133)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**

(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:

	Loans to the public				Banks and govern-ments	Total
	Com-mercial	Housing	Indivi-dual – other	Total		
	June 30, 2020 (unaudited)					
Recorded debt balance of debts [(1)]						
reviewed on individual basis	47,087	68	637	47,792	10,453	58,245
reviewed on group basis	9,358	140,547	18,841	168,746	–	168,746
Of which: the relevant provision is calculated by extent of arrears	1,817	140,547	–	142,364	–	142,364
Total debts	**56,445**	**[(2)]140,615**	**19,478**	**216,538**	**10,453**	**226,991**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	880	2	31	913	2	915
reviewed on group basis	127	781	267	1,175	–	1,175
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	7	781	–	788	–	788
Total provision for credit losses	**1,007**	**783**	**298**	**2,088**	**2**	**2,090**
	June 30, 2019 (unaudited)					
Recorded debt balance of debts [(1)]						
reviewed on individual basis	42,290	46	776	43,112	7,539	50,651
reviewed on group basis	8,933	131,029	19,268	159,230	–	159,230
Of which: the relevant provision is calculated by extent of arrears	1,662	131,029	–	132,691	–	132,691
Total debts	**51,223**	**131,075**	**20,044**	**202,342**	**7,539**	**209,881**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	587	2	30	619	1	620
reviewed on group basis	112	658	225	995	–	995
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	6	658	–	664	–	664
Total provision for credit losses	**699**	**660**	**255**	**1,614**	**1**	**1,615**
	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 8,315 million (as of June 30, 2019: NIS 7,365 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 June 30, 2019: NIS 18 million, as of December 31, 2019: NIS 18 million), and assessed on group basis, amounting to NIS 569 million (as of June 30, 2019: NIS 459 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 June 30, 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]	13,703	67	110	13,880	8	20
Construction and real estate – real estate operations	4,412	363	61	4,836	1	36
Financial services	5,772	2	133	5,907	1	3
Commercial – other	26,037	492	869	27,398	32	98
Total commercial	**49,924**	**924**	**1,173**	**52,021**	**42**	**157**
Private individuals – housing loans	138,836	[7]1,432	68	140,336	[7]1,432	[6]551
Private individuals – other	19,136	140	90	19,366	27	66
Total public – activity in Israel	**207,896**	**2,496**	**1,331**	**211,723**	**1,501**	**774**
Banks in Israel	570	–	–	570	–	–
Government of Israel	3	–	–	3	–	–
Total activity in Israel	**208,469**	**2,496**	**1,331**	**212,296**	**1,501**	**774**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,775	2	–	1,777	–	–
Commercial – other	2,588	–	59	2,647	–	–
Total commercial	**4,363**	**2**	**59**	**4,424**	**–**	**–**
Private individuals	391	–	–	391	–	–
Total public – activity overseas	**4,754**	**2**	**59**	**4,815**	**–**	**–**
Overseas banks	9,254	–	–	9,254	–	–
Overseas governments	626	–	–	626	–	–
Total activity overseas	**14,634**	**2**	**59**	**14,695**	**–**	**–**
Total public	212,650	2,498	1,390	216,538	1,501	774
Total banks	9,824	–	–	9,824	–	–
Total governments	629	–	–	629	–	–
Total	**223,103**	**2,498**	**1,390**	**226,991**	**1,501**	**774**

(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 62 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 1,976 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 June 30, 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]	13,697	46	124	13,867	5	14
Construction and real estate – real estate operations	3,167	376	20	3,563	–	9
Financial services	4,320	2	170	4,492	–	1
Commercial – other	24,568	254	673	25,495	31	67
Total commercial	**45,752**	**678**	**987**	**47,417**	**36**	**91**
Private individuals – housing loans	129,283	[7]1,407	46	130,736	[7]1,407	[6]521
Private individuals – other	19,528	140	85	19,753	20	70
Total public – activity in Israel	**194,563**	**2,225**	**1,118**	**197,906**	**1,463**	**682**
Banks in Israel	94	–	–	94	–	–
Government of Israel	1	–	–	1	–	–
Total activity in Israel	**194,658**	**2,225**	**1,118**	**198,001**	**1,463**	**682**
Borrower activity overseas						
Public – commercial	–	–	–	–	–	–
Construction and real estate	1,797	–	2	1,799	–	–
Commercial – other	1,995	12	–	2,007	–	–
Total commercial	**3,792**	**12**	**2**	**3,806**	**–**	**–**
Private individuals	630	–	–	630	–	–
Total public – activity overseas	**4,422**	**12**	**2**	**4,436**	**–**	**–**
Overseas banks	6,825	–	–	6,825	–	–
Overseas governments	619	–	–	619	–	–
Total activity overseas	**11,866**	**12**	**2**	**11,880**	**–**	**–**
Total public	198,985	2,237	1,120	202,342	1,463	682
Total banks	6,919	–	–	6,919	–	–
Total governments	620	–	–	620	–	–
Total	**206,524**	**2,237**	**1,120**	**209,881**	**1,463**	**682**

(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 57 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 83 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 1,836 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 June 30, 2020 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	51,114	138,288	18,874	629	9,824	218,729
Debts in good standing other than at performing credit rating(1)	3,173	827	374	–	–	4,374
Troubled non-impaired debt.	926	1,432	140	–	–	2,498
Impaired debts	1,232	68	90	–	–	1,390
Total	**56,445**	**140,615**	**19,478**	**629**	**9,824**	**226,991**

	As of June 30, 2019 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debt in good standing(2)	47,157	128,859	19,394	620	6,919	202,949
Debts in good standing other than at performing credit rating(1) (2)	2,387	763	425	–	–	3,575
Troubled non-impaired debt.	690	1,407	140	–	–	2,237
Impaired debts	989	46	85	–	–	1,120
Total	**51,223**	**131,075**	**20,044**	**620**	**6,919**	**209,881**

	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 June 30, 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	99	22	11	110	177
Construction and real estate – real estate operations	53	3	8	61	73
Financial services	127	8	6	133	144
Commercial – other	794	207	75	869	1,048
Total commercial	**1,073**	**240**	**100**	**1,173**	**1,442**
Private individuals – housing loans	4	2	64	68	73
Private individuals – other	39	23	51	90	108
Total public – activity in Israel	**1,116**	**265**	**215**	**1,331**	**1,623**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,116**	**265**	**215**	**1,331**	**1,623**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	59	39	–	59	61
Total commercial	**59**	**39**	**–**	**59**	**61**
Private individuals	–	–	–	–	–
Total public – activity overseas	**59**	**39**	**–**	**59**	**61**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**59**	**39**	**–**	**59**	**61**
Total public	1,175	304	215	1,390	1,684
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,175**	**304**	**215**	**1,390**	**1,684**
Of which:					
Measured at present value of cash flows	1,135	300	199	1,334	
Debts under problematic debts restructuring	339	45	66	405	

(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 June 30, 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	119	20	5	124	199
Construction and real estate – real estate operations	17	1	3	20	30
Financial services	164	9	6	170	180
Commercial – other	605	131	68	673	755
Total commercial	**905**	**161**	**82**	**987**	**1,164**
Private individuals – housing loans	11	2	35	46	46
Private individuals – other	43	21	42	85	101
Total public – activity in Israel	**959**	**184**	**159**	**1,118**	**1,311**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**959**	**184**	**159**	**1,118**	**1,311**
Borrower activity overseas					
Public – commercial					
Construction and real estate	2	–	–	2	3
Commercial – other	–	–	–	–	–
Total commercial	**2**	**–**	**–**	**2**	**3**
Private individuals	–	–	–	–	–
Total public – activity overseas	**2**	**–**	**–**	**2**	**3**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**2**	**–**	**–**	**2**	**3**
Total public	961	184	159	1,120	1,314
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**961**	**184**	**159**	**1,120**	**1,314**
Of which:					
Measured at present value of cash flows	883	183	152	1,035	
Debts under problematic debts restructuring	285	27	81	366	

(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					
	June 30, 2020 (unaudited)			June 30, 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	106	1	1	136	1	1
Construction and real estate – real estate operations	56	–	–	22	–	–
Financial services	133	–	–	170	–	–
Commercial – other	879	2	2	628	2	2
Total commercial	**1,174**	**3**	**3**	**956**	**3**	**3**
Private individuals – housing loans	69	–	–	52	–	–
Private individuals – other	89	2	2	85	2	2
Total public – activity in Israel	**1,332**	**5**	**5**	**1,093**	**5**	**5**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,332**	**5**	**5**	**1,093**	**5**	**5**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	2	–	–
Commercial – other	57	–	–	2	–	–
Total commercial	**57**	**–**	**–**	**4**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**57**	**–**	**–**	**4**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**57**	**–**	**–**	**4**	**–**	**–**
Total public	1,389	5	5	1,097	5	5
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[4]	**1,389**	**5**	**5**	**1,097**	**5**	**5**

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 23 million (as of June 30, 2019 – NIS 18 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

B. Average balance and interest revenues[(4)]

	For the six months ended					
	June 30, 2020 (unaudited)			June 30, 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	1	1	141	2	2
Construction and real estate – real estate operations	58	–	–	23	1	1
Financial services	134	–	–	169	–	–
Commercial – other	846	6	5	623	6	6
Total commercial	**1,147**	**7**	**6**	**956**	**9**	**9**
Private individuals – housing loans	65	–	–	54	–	–
Private individuals – other	88	3	3	82	4	4
Total public – activity in Israel	**1,300**	**10**	**9**	**1,092**	**13**	**13**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,300**	**10**	**9**	**1,092**	**13**	**13**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	2	–	–
Commercial – other	50	–	–	2	–	–
Total commercial	**50**	**–**	**–**	**4**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**50**	**–**	**–**	**4**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**50**	**–**	**–**	**4**	**–**	**–**
Total public	1,350	10	9	1,096	13	13
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[(4)]	**1,350**	**10**	**9**	**1,096**	**13**	**13**

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 48 million (as of June 30, 2019 – NIS 38 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

	June 30, 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	186	–	–	9	195
Total commercial	**329**	**–**	**–**	**9**	**338**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	34	–	1	32	67
Total public – activity in Israel	**363**	**–**	**1**	**41**	**405**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**363**	**–**	**1**	**41**	**405**
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	363	–	1	41	405
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**363**	**–**	**1**	**41**	**405**

As of June 30, 2020, the Bank had commitments to provide additional credit amounting to NIS 4 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

	June 30, 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	14	–	–	8	22
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	161	–	–	–	161
Commercial – other	107	–	–	12	119
Total commercial	**283**	**–**	**–**	**20**	**303**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	36	–	1	26	63
Total public – activity in Israel	**319**	**–**	**1**	**46**	**366**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**319**	**–**	**1**	**46**	**366**
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	319	–	1	46	366
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**319**	**–**	**1**	**46**	**366**

(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					
	June 30, 2020 (unaudited)			June 30, 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	12	1	1	11	1	1
Construction and real estate – real estate operations	5	1	1	–	–	–
Financial services	2	–	–	3	3	3
Commercial – other	121	46	34	92	14	14
Total commercial	**140**	**48**	**36**	**106**	**18**	**18**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	268	9	9	235	11	4
Total public – activity in Israel	**408**	**57**	**45**	**341**	**29**	**22**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**408**	**57**	**45**	**341**	**29**	**22**
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	408	57	45	341	29	22
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**408**	**57**	**45**	**341**	**29**	**22**

(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[2]					
	For the six months ended					
	June 30, 2020 (unaudited)			June 30, 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	25	2	2	22	2	2
Construction and real estate – real estate operations	5	1	1	–	–	–
Financial services	4	–	–	4	3	3
Commercial – other	217	112	99	183	47	46
Total commercial	**251**	**115**	**102**	**209**	**52**	**51**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	464	17	17	517	26	19
Total public – activity in Israel	**715**	**132**	**119**	**726**	**78**	**70**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**715**	**132**	**119**	**726**	**78**	**70**
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	715	132	119	726	78	70
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**715**	**132**	**119**	**726**	**78**	**70**

(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			
	June 30, 2020 (unaudited)		June 30, 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	–	–	1	–
Construction and real estate – real estate operations	–	–	–	–
Financial services	–	–	–	–
Commercial – other	13	4	10	1
Total commercial	**13**	**4**	**11**	**1**
Private individuals – housing loans	–	–	–	–
Private individuals – other	40	–	24	1
Total public – activity in Israel	**53**	**4**	**35**	**2**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**53**	**4**	**35**	**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	53	4	35	2
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**53**	**4**	**35**	**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[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made which are in default[2]			
	For the six months ended			
	June 30, 2020 (unaudited)		June 30, 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	–	3	–
Construction and real estate – real estate operations	–	–	1	–
Financial services	–	–	1	–
Commercial – other	36	4	38	3
Total commercial	**38**	**4**	**43**	**3**
Private individuals – housing loans	–	–	–	–
Private individuals – other	89	2	54	1
Total public – activity in Israel	**127**	**6**	**97**	**4**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**127**	**6**	**97**	**4**
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	127	6	97	4
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**127**	**6**	**97**	**4**

(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:

		June 30, 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%	93,716	2,433	60,221	2,595
	Over 60%	46,618	531	29,593	2,519
Junior lien or no lien		281	–	207	8,533
Total		**140,615**	**2,964**	**90,021**	**13,647**

		June 30, 2019 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	88,419	3,007	57,229	2,765
	Over 60%	42,366	539	27,335	2,007
Junior lien or no lien		290	3	208	5,940
Total		**131,075**	**3,549**	**84,772**	**10,712**

		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 June 30, 2020				For the three months ended June 30, 2019			
	Com-mercial	Housing	Other	Total	Com-mercial	Housing	Other	Total
Loans acquired	–	–	–	–	–	–	88	88
Loans sold	40	–	–	40	–	–	–	–

	For the six months ended June 30, 2020				For the six months ended June 30, 2019			
	Com-mercial	Housing	Other	Total	Com-mercial	Housing	Other	Total
Loans acquired	–	–	301	301	–	–	379	379
Loans sold	40	–	–	40	–	571	–	571

	For the year ended December 31, 2019			
	Com-mercial	Housin g	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

	June 30,		December 31,	June 30,		December 31,
	2020	2019	2019	2020	2019	2019
	Balance(1)			Provision for credit losses		
	(unaudited)		(audited)	(unaudited)		(audited)
Transactions in which the balance represents a credit risk:						
– Un-utilized debitory account and other credit facilities in accounts available on demand	19,292	16,324	14,734	36	20	20
– Guarantees to home buyers(3)	10,794	11,142	10,672	4	3	4
– Irrevocable commitments for loans approved but not yet granted(4)	22,950	17,228	22,466	34	15	19
– Un-utilized revolving credit card facilities	8,873	7,948	8,160	8	5	5
– Commitments to issue guarantees(3)	9,354	7,807	9,993	3	2	3
– Other guarantees and liabilities(2)(3)	8,879	7,882	8,613	48	32	36
– Loan guarantees(3)	2,923	2,442	2,898	34	26	31
– Documentary credit	171	166	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 June 30, 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 June 30, 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	52,047	–	8,986	303	196	–	61,532
Securities	4,393	1,010	2,665	239	–	133	8,440
Securities borrowed or bought in conjunction with resale agreements	49	2	–	–	–	–	51
Loans to the public, net(3)	145,586	58,233	5,770	3,338	1,523	–	214,450
Loans to Governments	–	3	437	189	–	–	629
Investments in associated companies	36	–	–	–	–	(6)	30
Buildings and equipment	–	–	–	–	–	1,433	1,433
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,390	124	553	112	21	–	2,200
Other assets	1,457	459	107	–	35	650	2,708
Total assets	**204,958**	**59,831**	**18,518**	**4,181**	**1,775**	**2,297**	**291,560**
Liabilities							
Deposits from the public	175,923	14,333	35,424	4,032	2,072	–	231,784
Deposits from banks	102	–	744	79	21	–	946
Deposits from the Government	12	2	19	1	–	–	34
Debentures and subordinated notes	6,099	23,590	–	–	–	–	29,689
Liabilities with respect to derivative instruments	1,829	21	850	181	17	–	2,898
Other liabilities	6,397	1,907	121	7	36	271	8,739
Total liabilities	**190,362**	**39,853**	**37,158**	**4,300**	**2,146**	**271**	**274,090**
Difference	**14,596**	**19,978**	**(18,640)**	**(119)**	**(371)**	**2,026**	**17,470**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,110	(3,110)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(18,256)	(1,067)	19,261	(98)	160	–	–
Net in-the-money options (in terms of underlying asset)	439	–	(432)	12	(19)	–	–
Net out-of-the-money options (in terms of underlying asset)	(389)	–	234	145	10	–	–
Grand total	**(500)**	**15,801**	**423**	**(60)**	**(220)**	**2,026**	**17,470**
Net in-the-money options (capitalized par value)	(535)	–	598	(60)	(3)	–	–
Net out-of-the-money options (capitalized par value)	1,201	–	(1,137)	(154)	90	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments 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 June 30, 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	41,581	–	6,624	313	182	–	48,700
Securities	2,872	754	4,125	939	–	126	8,816
Securities borrowed or bought in conjunction with resale agreements	55	4	–	–	–	–	59
Loans to the public, net(3)	133,792	55,937	6,066	2,953	1,980	–	200,728
Loans to Governments	–	–	486	134	–	–	620
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,375	1,375
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,440	357	205	83	32	–	2,117
Other assets	1,060	453	66	2	43	65	1,689
Total assets	**180,835**	**57,505**	**17,572**	**4,424**	**2,237**	**1,650**	**264,223**
Liabilities							
Deposits from the public	148,820	15,520	34,382	4,237	2,229	–	205,188
Deposits from banks	114	3	352	60	25	–	554
Deposits from the Government	13	2	21	–	–	–	36
Debentures and subordinated notes	8,195	23,401	–	–	–	–	31,596
Liabilities with respect to derivative instruments	1,660	123	340	125	28	–	2,276
Other liabilities	6,440	1,267	100	8	23	253	8,091
Total liabilities	**165,242**	**40,316**	**35,195**	**4,430**	**2,305**	**253**	**247,741**
Difference	**15,593**	**17,189**	**(17,623)**	**(6)**	**(68)**	**1,397**	**16,482**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,818	(2,818)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,443)	(1,800)	17,535	(128)	(164)	–	–
Net in-the-money options (in terms of underlying asset)	409	–	(393)	(21)	5	–	–
Net out-of-the-money options (in terms of underlying asset)	(386)	–	295	76	15	–	–
Grand total	**2,991**	**12,571**	**(186)**	**(79)**	**(212)**	**1,397**	**16,482**
Net in-the-money options (capitalized par value)	(371)	–	(7)	440	(62)	–	–
Net out-of-the-money options (capitalized par value)	1,983	–	(976)	(1,341)	334	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments 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 derivative instruments	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 derivative instruments	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 derivative instruments:							
Derivative instruments (other than options)	3,458	(3,458)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (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 derivative instruments 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

	June 30, 2020 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	61,532	15,262	45,177	1,093	61,532
Securities[(3)]	8,440	6,764	1,680	69	8,513
Securities loaned or purchased in resale agreements	51	51	–	–	51
Loans to the public, net	214,450	1,587	9,752	[(5)]201,832	213,171
Loans to Governments	629	–	–	630	630
Investments in associated companies	30	–	–	30	30
Assets with respect to derivative instruments	2,200	160	995	[(2)]1,045	2,200
Other financial assets	850	7	–	843	850
Total financial assets	**[(4)]288,182**	**23,831**	**57,604**	**205,542**	**286,977**
Financial liabilities					
Deposits from the public	231,784	1,587	73,369	159,130	234,086
Deposits from banks	946	–	381	565	946
Deposits from the Government	34	–	–	37	37
Debentures and subordinated notes	29,689	28,232	–	1,941	30,173
Liabilities with respect to derivative instruments	2,898	160	1,215	[(2)]1,523	2,898
Other financial liabilities	6,870	743	4,472	1,654	6,869
Total financial liabilities	**[(4)]272,221**	**30,722**	**79,437**	**164,850**	**275,009**

(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 79,294 million and NIS 80,832 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 9 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued:

	June 30, 2019 (unaudited)				
		Fair value			
	Book balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	48,700	11,334	36,411	954	48,699
Securities[3]	8,816	5,748	3,036	74	8,858
Securities loaned or purchased in resale agreements	59	59	–	–	59
Loans to the public, net	200,728	569	11,233	[5]189,472	201,274
Loans to Governments	620	–	–	620	620
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	2,117	212	1,359	[2]546	2,117
Other financial assets	459	16	–	443	459
Total financial assets	**[4]261,531**	**17,938**	**52,039**	**192,141**	**262,118**
Financial liabilities					
Deposits from the public	205,188	569	59,428	146,452	206,449
Deposits from banks	554	–	269	285	554
Deposits from the Government	36	–	–	38	38
Debentures and subordinated notes	31,596	30,746	–	1,905	32,651
Liabilities with respect to derivative instruments	2,276	218	1,387	[2]671	2,276
Other financial liabilities	6,294	658	4,528	1,108	6,294
Total financial liabilities	**[4]245,944**	**32,191**	**65,612**	**150,459**	**248,262**

(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 66,299 million and NIS 61,139 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 derivative instruments	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 derivative instruments	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 5 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

	June 30, 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	1,197	1,513	–	2,710
Of foreign governments	1,169	–	–	1,169
Of banks and financial institutions overseas	–	110	–	110
Investments in shares not held for trading	65	–	17	82
Securities held for trading:				
Debentures of the Government of Israel	276	57	–	333
Securities loaned or purchased in resale agreements	51	–	–	51
Credit with respect to loans to clients	1,587	–	–	1,587
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	85	153	238
Other	–	310	209	519
Currency contracts	40	483	567	1,090
Contracts for shares	120	114	113	347
Commodities and other contracts	–	3	3	6
Other financial assets	7	–	–	7
Other	–	–	9	9
Total assets	**4,512**	**2,675**	**1,071**	**8,258**
Liabilities				
Deposits with respect to borrowing from clients	1,587	–	–	1,587
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	77	23	100
Other	–	497	307	804
Currency contracts	39	604	954	1,597
Contracts for shares	121	18	239	378
Commodities and other contracts	–	19	–	19
Other financial liabilities	743	–	–	743
Other	–	–	16	16
Total liabilities	**2,490**	**1,215**	**1,539**	**5,244**

(1) Fair value measurement of derivative instruments 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

	June 30, 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	512	2,729	–	3,241
Of foreign governments	2,028	–	–	2,028
Of banks and financial institutions overseas	–	307	–	307
Investments in shares not held for trading	52	–	17	69
Securities held for trading:				
Debentures of the Government of Israel	413	–	–	413
Securities loaned or purchased in resale agreements	59	–	–	59
Credit with respect to loans to clients	569	–	–	569
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	89	69	158
Other	–	483	26	509
Currency contracts	53	754	407	1,214
Contracts for shares	158	33	39	230
Commodities and other contracts	1	–	5	6
Other financial assets	16	–	–	16
Other	–	–	5	5
Total assets	**3,861**	**4,395**	**568**	**8,824**
Liabilities				
Deposits with respect to borrowing from clients	569	–	–	569
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	64	46	110
Other	–	724	33	757
Currency contracts	58	579	550	1,187
Contracts for shares	158	20	38	216
Commodities and other contracts	2	–	4	6
Other financial liabilities	658	–	–	658
Other	–	–	1	1
Total liabilities	**1,445**	**1,387**	**672**	**3,504**

(1) Fair value measurement of derivative instruments 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 purchased in resale agreements	120	–	–	120
Credit with respect to loans to clients	781	–	–	781
Assets with respect to derivative instruments(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 derivative instruments(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 derivative instruments 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

	June 30, 2020 (unaudited)				For the three months ended June 30, 2020	For the six months ended June 30, 2020
	Fair value					
	Level 1(1)	Level 2(1)	Level 3(1)	Total	Gains (losses)	
Impaired credit whose collection is contingent on collateral	–	6	46	52	(11)	(19)
Investments in shares for which no fair value is available	–	–	51	51	–	–

	June 30, 2019 (unaudited)				For the three months ended June 30, 2019	For the six months ended June 30, 2019
	Fair value					
	Level 1(1)	Level 2(1)	Level 3(1)	Total	Gains (losses)	
Impaired credit whose collection is contingent on collateral	–	16	68	84	(2)	5
Investments in shares for which no fair value is available	–	–	57	57	–	–

	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 (losses)
Impaired credit whose collection is contingent on collateral	–	16	46	62	24
Investments in shares for which no fair value is available	–	–	49	49	(6)

(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 June 30, 2020 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2020	In statement of profit and loss	In statement of Other Compre-hensive Income under Equity	Acqui-sitions	Sales	Dispos-itions	Transfer to level 3[4]	Fair value as of June 30, 2020	Unrealized gains (losses) with respect to instruments held as of June 30, 2020
Assets									
Shares not held for trading	18	(1)	–	–	–	–	–	17	(1)
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	182	(2)	–	4	–	(57)	26	153	102
Other	209	31	–	–	–	(31)	–	209	260
Currency contracts	1,639	(123)	–	264	–	(1,213)	–	567	236
Contracts for shares	335	(144)	–	33	–	(111)	–	113	–
Commodities and other contracts	4	–	–	–	–	(1)	–	3	–
Other	8	1	–	–	–	–	–	9	–
Total assets	**2,395**	**(238)**	**–**	**301**	**–**	**(1,413)**	**26**	**1,071**	**597**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	11	–	–	–	–	(1)	13	23	(36)
Other	351	(22)	–	–	–	(22)	–	307	346
Currency contracts	1,264	(61)	–	374	–	(623)	–	954	662
Contracts for shares	202	(11)	–	50	–	(2)	–	239	–
Commodities and other contracts	1	–	–	–	–	(1)	–	–	–
Other	19	(3)	–	–	–	–	–	16	–
Total liabilities	**1,848**	**(97)**	**–**	**424**	**–**	**(649)**	**13**	**1,539**	**972**

(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 June 30, 2019 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2019	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 June 30, 2019	Unrealized gains (losses) with respect to instruments held as of June 30, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	74	(16)	–	–	–	(10)	21	69	127
Other	16	(1)	–	11	–	–	–	26	166
Currency contracts	544	(8)	–	207	–	(336)	–	407	207
Contracts for shares	133	(76)	–	7	–	(25)	–	39	–
Commodities and other contracts	5	1	–	–	–	(1)	–	5	–
Other	5	–	–	–	–	–	–	5	–
Total assets	**777**	**(100)**	**–**	**225**	**–**	**(372)**	**38**	**568**	**500**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	32	20	–	3	–	(9)	–	46	(17)
Other	30	(2)	–	5	–	–	–	33	302
Currency contracts	608	34	–	189	–	(281)	–	550	551
Contracts for shares	170	(104)	–	23	–	(51)	–	38	–
Commodities and other contracts	2	2	–	–	–	–	–	4	–
Other	2	(1)	–	–	–	–	–	1	–
Total liabilities	**844**	**(51)**	**–**	**220**	**–**	**(341)**	**–**	**672**	**836**

(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 six months ended June 30, 2020 (unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of December 31, 2019	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 June 30, 2019	Unrealized gains (losses) with respect to instruments held as of June 30, 2020
Assets									
Shares not held for trading	17	–	–	–	–	–	–	17	–
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	126	35	–	12	–	(71)	51	153	102
Other	24	188	–	28	–	(31)	–	209	260
Currency contracts	485	(116)	–	1,411	–	(1,213)	–	567	236
Contracts for shares	63	13	–	150	–	(113)	–	113	–
Commodities and other contracts	3	–	–	1	–	(1)	–	3	–
Other	8	1	–	–	–	–	–	9	–
Total assets	**726**	**121**	**–**	**1,602**	**–**	**(1,429)**	**51**	**1,071**	**598**
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	14	(1)	–	–	–	(14)	24	23	(36)
Other	40	212	–	77	–	(22)	–	307	346
Currency contracts	771	(317)	–	1,123	–	(623)	–	954	662
Contracts for shares	135	(19)	–	127	–	(4)	–	239	–
Commodities and other contracts	4	(4)	–	1	–	(1)	–	–	–
Other	–	16	–	–	–	–	–	16	–
Total liabilities	**964**	**(113)**	**–**	**1,328**	**–**	**(664)**	**24**	**1,539**	**972**

(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 six months ended June 30, 2019 (unaudited)								
		Net realized / unrealized gains (losses) included(1)							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Disposi-tions	Transfer to level 3(4)	Fair value as of June 30, 2019	Unrealized gains (losses) with respect to instru-ments held as of June 30, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	75	(4)	–	–	–	(33)	31	69	127
Other	9	(3)	–	20	–	–	–	26	166
Currency contracts	1,092	(114)	–	460	–	(1,031)	–	407	207
Contracts for shares	156	(122)	–	66	–	(61)	–	39	–
Commodities and other contracts	3	3	–	1	–	(2)	–	5	–
Other	4	1	–	–	–	–	–	5	–
Total assets	**1,339**	**(239)**	**–**	**547**	**–**	**(1,127)**	**48**	**568**	**500**
Liabilities									
Liabilities with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	25	16	–	3	–	(14)	16	46	(17)
Other	27	1	–	5	–	–	–	33	302
Currency contracts	584	170	–	346	–	(550)	–	550	551
Contracts for shares	206	(188)	–	73	–	(53)	–	38	–
Commodities and other contracts	3	2	–	–	–	(1)	–	4	–
Other	8	(7)	–	–	–	–	–	1	–
Total liabilities	**853**	**(6)**	**–**	**427**	**–**	**(618)**	**16**	**672**	**836**

(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 derivative instruments[(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 derivative instruments[(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 June 30, 2020	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 derivative instruments:					
Interest contracts – NIS CPI	125	Cash flows discounting	Inflationary expectations	0.23% – 0.18%	0.20%
Contracts for shares	1,728	Options pricing model	Standard deviation per share	82.27% – 53.31%	80.07%
Other	524	Cash flows discounting	Counter-party credit quality	3.50% – 0.30%	1.75%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	23	Cash flows discounting	Inflationary expectations	0.23% – 0.18%	0.19%
Other	941	Cash flows discounting	Counter-party credit quality	3.50% – 0.30%	1.78%

	Fair value as of June 30, 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 derivative instruments:					
Interest contracts – NIS CPI	66	Cash flows discounting	Inflationary expectations	1.17% – 1.10%	1.15%
Contracts for shares	246	Options pricing model	Standard deviation per share	38.63% – 36.95%	37.91%
Other	239	Cash flows discounting	Counter-party credit quality	2.85% – 0.30%	1.71%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	39	Cash flows discounting	Inflationary expectations	1.17% – 1.10%	1.12%
Other	633	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.78%

	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 derivative instruments:					
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 derivative instruments:					
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 June 30, 2020 and June 30, 2019, the Bank did not elect the fair value option.
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.

	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 – Other matters

On June 22, 2020, the Bank's Board of Directors, after receiving approval by the Remuneration Committee dated June 8, 2020, approved the offering of options to the Bank President & CEO for 2019 and to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2020, pursuant to Section 15b(1)(a) of the Securities Act, as set forth in the Bank's immediate report issued on June 22, 2020, reference no.: 2020-01-056299 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

As resolved by the Board of Directors on June 22, 2020, the following option plans were approved:

For the Bank President & CEO with respect to 2019:

- Option plan 1 – 22,148 options 1 exercisable for up to 22,148 Bank ordinary shares of NIS 0.1 par value each.

For other Bank managers with respect to 2020:

- Option plan A – up to 343,527 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 343,527 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 199,500 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 199,500 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 517,700 options C to be awarded to up to eighteen key Bank employees and up to sixteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 517,700 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 779,930 options D to be awarded to up to fifty-six managers employed by the Bank subject to individual employment contracts and up to twenty-seven other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 779,930 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – up to 1,454,530 options E to be awarded to up to two hundred sixty-eight managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,454,530 Bank ordinary shares of NIS 0.1 par value each.

Note 16 – Other matters – continued

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 110 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that in case of dividend distribution, bonus share distribution, rights issuance, share capital split or reverse split or re-organization of the Bank, adjustments would be made as set forth in the Employee Offering Memorandum.

The options to be issued in the name of the Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

The options to be issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2023; and (3) April 1, 2024, and each lot of options would expire 18 months after each of said dates.

All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer specified in the employee offering outline.

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.10 of the Memorandum.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.
The exercise price for each option issued pursuant to any of the plans is NIS 70.88 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the Memorandum were taken into account.

Based on the aforementioned assumptions, as stated in the Memorandum, the fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options 1 – NIS 10.61;
- Options A – NIS 9.97;
- Options B – NIS 10.00;
- Options C – NIS 9.89;
- Options D and E – NIS 10.41.

Note 16 – Other matters – continued

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 32 million.

The theoretical lot value will be recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2020 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 22, 2020 (reference: 2020-01-056299). This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 17 – 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 volatility in financial markets. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

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 provisions 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 half and in the second quarter of 2020, amounted to NIS 615 million and NIS 270 million, respectively, compared with NIS 175 million and NIS 99 million in the corresponding periods last year – an increase by NIS 440 million and NIS 171 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

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Corporate governance

Board of Directors and management

Board of Directors

During the first half of 2020, the Bank Board of Directors held 16 plenary meetings. During this period there were also 34 meetings of Board committees and 2 Board member workshops.

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 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, announced his intention to conclude his term in office.

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 Mr. Moshe Vidman.

On June 8, 2020, the Bank's Board of Directors resolved to adopt the recommendation of the search committee, and to appoint Mr. Moshe Larry to be the Bank's next President & CEO, as from September 16, 2020.

On July 2, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Moshe Larry as President & CEO of the Bank.

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.

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 July 20, 2020, the Bank's Board of Directors resolved to appoint Mr. Adi Shachaf as Manager, Finance Division at the Bank, replacing Mr. Moshe Larry, effective as from September 16, 2020.

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 half 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).

Controlling shareholders

On July 1, 2020, L.I.N (Holdings) Ltd. increased its holding stake in the Bank to 22.54% by purchasing 790,000 shares during trading on the stock exchange. For more information see Immediate Report dated July 1, 2020 (reference: 2020-01-062383).

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.
On June 30, 2020, the Knesset Economics Committee approved the request by the Minister of Finance, to delay by six months the start date of Chapter II of the Act, which should become effective on September 22, 2021, unless further delayed (two allowed delays by up to six months each).
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 June 30, 2020
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	6,038
Deposits from the public	–
Net derivatives (par value)	893

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) and €STR (Euro Short-Term 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.

Note that as from the end of July 2020, the London Clearing House (LCH) started using the €STR curve (anchor curve in EUR) and as from October, it would also use anchor interest rates in USD based on the SOFR curve.

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, April 7, 2020, April 27, 2020, May 5, 2020, May 20, 2020, June 1, 2020 and June 23, 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.

Transfer of activity and closing of client account

On June 23, 2020, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 432. According to this circular and in order to improve the application process for transfer of a securities portfolio, it was stipulated that the client may submit the application through online channels, unless there is reasonable ground for refusal. The effective start date of this amendment is 6 months after the publication date thereof.

The Bank is preparing to implement provisions of the circular. Application of the circular is not expected to have any material impact on the Bank's financial statements.

Bank's credit rating

On July 21, 2020, 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: "The Stable rating outlook for Mizrahi reflects our view that over the next 24 months, the Bank's capital cushion would allow the Bank to absorb the impact to profitability due to implications of the Corona Virus outbreak."

The Bank's subordinated capital notes (Upper Tier II capital) and 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-.

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. The 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 June 30, 2020			For the three months ended June 30, 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	204,320	[(7)]1,651	3.27	191,700	[(7)]2,482	5.28
Outside of Israel	3,340	47	5.75	3,531	59	6.85
Total	**207,660**	**1,698**	**3.31**	**195,231**	**2,541**	**5.31**
Loans to the Government						
In Israel	234	10	18.22	134	–	–
Outside of Israel	443	5	4.59	489	8	6.71
Total	**677**	**15**	**9.16**	**623**	**8**	**5.24**
Deposits with banks						
In Israel	1,548	2	0.52	983	3	1.23
Outside of Israel	211	1	1.91	203	1	1.99
Total	**1,759**	**3**	**0.68**	**1,186**	**4**	**1.36**
Deposits with central banks						
In Israel	46,234	11	0.10	36,981	19	0.21
Outside of Israel	11,796	3	0.10	5,530	33	2.41
Total	**58,030**	**14**	**0.10**	**42,511**	**52**	**0.49**
Securities loaned or purchased in resale agreements						
In Israel	50	–	–	82	–	–
Outside of Israel	–	–	–	–	–	–
Total	**50**	**–**	**–**	**82**	**–**	**–**
Debentures held to maturity and available for sale[(4)]						
In Israel	6,886	6	0.35	7,918	36	1.83
Outside of Israel	657	3	1.84	550	4	2.94
Total	**7,543**	**9**	**0.48**	**8,468**	**40**	**1.90**
Debentures held for trading[(5)]						
In Israel	360	1	1.12	240	2	3.38
Outside of Israel	–	–	–	–	–	–
Total	**360**	**1**	**1.12**	**240**	**2**	**3.38**
Total interest-bearing assets	**276,079**	**1,740**	**2.54**	**248,341**	**2,647**	**4.33**
Receivables for credit card operations	3,352			3,708		
Other non-interest bearing assets[(6)]	5,076			5,107		
Total assets	**284,507**			**257,156**		
Total interest-bearing assets attributable to operations outside of Israel	**16,447**	**59**	**1.44**	**10,303**	**105**	**4.14**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
	Average balance	Interest revenues	Revenue rate	Average balance	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public						
In Israel	202,875	[7]3,203	3.18	190,243	[7]3,997	4.25
Outside of Israel	3,236	96	6.02	3,477	119	6.96
Total	**206,111**	**3,299**	**3.23**	**193,720**	**4,116**	**4.29**
Loans to the Government						
In Israel	230	10	8.88	138	1	1.45
Outside of Israel	449	12	5.42	488	16	6.66
Total	**679**	**22**	**6.59**	**626**	**17**	**5.51**
Deposits with banks						
In Israel	1,319	3	0.46	1,168	8	1.37
Outside of Israel	204	1	0.98	230	2	1.75
Total	**1,523**	**4**	**0.53**	**1,398**	**10**	**1.44**
Deposits with central banks						
In Israel	44,775	34	0.15	36,460	37	0.20
Outside of Israel	9,457	24	0.51	6,138	73	2.39
Total	**54,232**	**58**	**0.21**	**42,598**	**110**	**0.52**
Securities loaned or purchased in resale agreements						
In Israel	49	–	–	88	–	–
Outside of Israel	–	–	–	–	–	–
Total	**49**	**–**	**–**	**88**	**–**	**–**
Debentures held to maturity and available for sale						
In Israel	7,489	33	0.88	8,697	68	1.57
Outside of Israel	657	7	2.14	724	9	2.50
Total	**8,146**	**40**	**0.98**	**9,421**	**77**	**1.64**
Debentures held for trading						
In Israel	513	3	1.17	240	3	2.52
Outside of Israel	–	–	–	–	–	–
Total	**513**	**3**	**1.17**	**240**	**3**	**2.52**
Total interest-bearing assets	**271,253**	**3,426**	**2.54**	**248,091**	**4,333**	**3.52**
Receivables for credit card operations	3,571			3,643		
Other non-interest bearing assets	5,514			5,102		
Total assets	**280,338**			**256,836**		
Total interest-bearing assets attributable to operations outside of Israel	**14,003**	**140**	**2.01**	**11,057**	**219**	**4.00**

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 June 30, 2020			For the three months ended June 30, 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	30,802	1	0.01	25,874	24	0.37
Term deposits	128,632	316	0.99	120,085	626	2.10
Outside of Israel						
On-call	637	–	–	468	–	–
Term deposits	4,115	12	1.17	4,555	25	2.21
Total	**164,186**	**329**	**0.80**	**150,982**	**675**	**1.80**
Deposits from the Government						
In Israel	71	–	–	40	–	–
Outside of Israel	–	–	–	–	–	–
Total	**71**	**–**	**–**	**40**	**–**	**–**
Deposits from banks						
In Israel	992	2	0.81	987	2	0.81
Outside of Israel	3	–	–	2	2	–
Total	**995**	**2**	**0.81**	**989**	**4**	**1.63**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	29,400	85	1.16	28,319	423	6.11
Outside of Israel	–	–	–	–	–	–
Total	**29,400**	**85**	**1.16**	**28,319**	**423**	**6.11**
Other liabilities						
In Israel	460	1	0.87	254	2	3.19
Outside of Israel	–	–	–	–	–	–
Total	**460**	**1**	**0.87**	**254**	**2**	**3.19**
Total interest-bearing liabilities	**195,112**	**417**	**0.86**	**180,584**	**1,104**	**2.47**
Non-interest bearing deposits from the public	62,341			50,614		
Payables for credit card transactions	3,501			3,826		
Other non-interest bearing liabilities[(8)]	6,428			5,929		
Total liabilities	**267,382**			**240,953**		
Total equity resources	**17,125**			**16,203**		
Total liabilities and equity resources	**284,507**			**257,156**		
Interest margin			**1.69**			**1.86**
Net return[(9)] on interest-bearing assets						
In Israel	259,632	1,276	1.98	238,038	1,465	2.48
Outside of Israel	16,447	47	1.15	10,303	78	3.06
Total	**276,079**	**1,323**	**1.93**	**248,341**	**1,543**	**2.51**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,755**	**12**	**1.01**	**5,025**	**27**	**2.17**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
	Average balance	Interest expenses (revenues)	Expense (revenue) rate	Average balance	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	30,194	7	0.05	24,849	35	0.28
Term deposits	126,374	605	0.96	121,360	968	1.60
Outside of Israel						
On-call	601	–	–	529	–	–
Term deposits	4,048	29	1.44	4,739	53	2.25
Total	**161,217**	**641**	**0.80**	**151,477**	**1,056**	**1.40**
Deposits from the Government						
In Israel	54	–	–	41	–	–
Outside of Israel	–	–	–	–	–	–
Total	**54**	**–**	**–**	**41**	**–**	**–**
Deposits from banks						
In Israel	1,064	4	0.75	991	4	0.81
Outside of Israel	4	–	–	1	2	–
Total	**1,068**	**4**	**0.75**	**992**	**6**	**1.21**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	30,865	110	0.71	28,959	494	3.44
Outside of Israel	–	–	–	–	–	–
Total	**30,865**	**110**	**0.71**	**28,959**	**494**	**3.44**
Other liabilities						
In Israel	437	1	0.46	221	3	2.73
Outside of Israel	–	–	–	–	–	–
Total	**437**	**1**	**0.46**	**221**	**3**	**2.73**
Total interest-bearing liabilities	**193,641**	**756**	**0.78**	**181,690**	**1,559**	**1.72**
Non-interest bearing deposits from the public	59,380			49,379		
Payables for credit card transactions	3,746			3,712		
Other non-interest bearing liabilities[(8)]	6,119			6,101		
Total liabilities	**262,886**			**240,882**		
Total equity resources	**17,452**			**15,954**		
Total liabilities and equity resources	**280,338**			**256,836**		
Interest margin			**1.76**			**1.80**
Net return[(9)] on interest-bearing assets						
In Israel	257,250	2,559	2.00	237,034	2,610	2.21
Outside of Israel	14,003	111	1.59	11,057	164	2.99
Total	**271,253**	**2,670**	**1.98**	**248,091**	**2,774**	**2.25**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,653**	**29**	**1.25**	**5,269**	**55**	**2.10**

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 June 30, 2020			For the three months ended June 30, 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	189,717	1,280	2.73	169,728	1,232	2.94
Total interest-bearing liabilities	133,720	(251)	(0.75)	119,251	(251)	(0.84)
Interest margin			**1.98**			**2.10**
Israeli currency – linked to the CPI						
Total interest-bearing assets	59,528	326	2.21	55,665	1,206	8.95
Total interest-bearing liabilities	35,657	(71)	(0.80)	35,852	(692)	(7.95)
Interest margin			**1.41**			**1.00**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	10,387	75	2.92	12,645	104	3.33
Total interest-bearing liabilities	20,980	(83)	(1.59)	20,456	(134)	(2.65)
Interest margin			**1.33**			**0.68**
Total – operations in Israel						
Total interest-bearing assets	259,632	1,681	2.62	238,038	2,542	4.34
Total interest-bearing liabilities	190,357	(405)	(0.85)	175,559	(1,077)	(2.48)
Interest margin			**1.77**			**1.86**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
	Average balance	Interest expenses (revenues)	Expense (revenue) rate	Average balance	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	186,679	2,622	2.83	167,751	2,443	2.93
Total interest-bearing liabilities	133,340	(502)	(0.75)	120,062	(491)	(0.82)
Interest margin			**2.08**			**2.11**
Israeli currency – linked to the CPI						
Total interest-bearing assets	59,543	488	1.65	55,701	1,449	5.27
Total interest-bearing liabilities	37,006	(31)	(0.17)	35,867	(751)	(4.23)
Interest margin			**1.48**			**1.04**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	11,028	176	3.22	13,582	222	3.30
Total interest-bearing liabilities	18,642	(194)	(2.09)	20,492	(262)	(2.57)
Interest margin			**1.13**			**0.73**
Total – operations in Israel						
Total interest-bearing assets	257,250	3,286	2.57	237,034	4,114	3.50
Total interest-bearing liabilities	188,988	(727)	(0.77)	176,421	(1,504)	(1.71)
Interest margin			**1.80**			**1.79**

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 June 30, 2020 compared to the three months ended June 30, 2019			For the six months ended June 30, 2020 – compared to the six months ended June 30, 2019		
	Increase (decrease) due to change[(10)]			Increase (decrease) due to change[(10)]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	102	(933)	(831)	199	(993)	(794)
Outside of Israel	(3)	(9)	(12)	(7)	(16)	(23)
Total	**99**	**(942)**	**(843)**	**192**	**(1,009)**	**(817)**
Other interest-bearing assets						
In Israel	5	(35)	(30)	12	(46)	(34)
Outside of Israel	6	(40)	(34)	13	(69)	(56)
Total	**11**	**(75)**	**(64)**	**25**	**(115)**	**(90)**
Total interest revenues	**110**	**(1,017)**	**(907)**	**217**	**(1,124)**	**(907)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	27	(360)	(333)	40	(431)	(391)
Outside of Israel	(1)	(12)	(13)	(4)	(20)	(24)
Total	**26**	**(372)**	**(346)**	**36**	**(451)**	**(415)**
Other interest-bearing liabilities						
In Israel	4	(343)	(339)	8	(394)	(386)
Outside of Israel	–	(2)	(2)	–	(2)	(2)
Total	**4**	**(345)**	**(341)**	**8**	**(396)**	**(388)**
Total interest expenses	**30**	**(717)**	**(687)**	**44**	**(847)**	**(803)**

(1) Information in these tables is after effect of hedging I 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 (to) the average balance of debentures available for sale, for the three-month periods ended June 30, 2020 and June 30, 2019, and for the six-month periods ended June 30, 2020 and June 30, 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 Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (4) million, NIS 20 million, NIS 16 million and NIS (18) million, respectively.

(5) From the average balance of debentures held for trading, for the three-month periods ended June 30, 2020 and June 30, 2019, and for the six-month periods ended June 30, 2020 and June 30, 2019, we deducted (added) the average balance of unrealized gains from adjustment to fair value of debentures held for trading amounting to NIS 17 million, NIS 4 million, NIS 15 million and NIS 2 million, respectively.

(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 91 million, NIS 74 million, NIS 224 million and NIS 145 million were included in interest revenues for the three-month periods ended June 30, 2020 and June 30, 2019 and for the six-month periods ended June 30, 2020 and June 30, 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.

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