FIBI FIRST INTERNATIONAL BANK OF ISRAEL

ANNUAL REPORT 2019

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STATEMENT BY THE CHAIRMAN OF THE BOARD

Dear stakeholders,

The year 2019 has been marked by the continuation of the consistent growth outline presented by the First International Bank Group in recent years, and by the improved profitability and efficiency, simultaneously with the continuing maintenance of financial stability and appropriate risk appetite. In this respect, one of the significant moves was the merger with Otzar Hachayal Bank at the beginning of 2019, while maintaining its old established and unique brand name, this with the aim of achieving growth, efficiency an improvement in the value offers to customers.

The First International Bank has a consistent dividend distribution policy over the years, within the framework of which a dividend of NIS 410 million was distributed in 2019. The dividend yield being 4.5% is the highest in the banking sector.

The rating horizon of the First International Bank was raised by both the international rating agency Moody's to "A2", and by the local rating agencies "Ma'alot" and "Midrug" to the highest possible issuer rating of "AAA". This reflects an expression of confidence in the solidity of the Bank and in the strategic moves led by the Bank in recent years and which brought about a continuous and consistent improvement in its results.

Since the global financial crisis of 2008, the banking system around the world and in Israel has undergone a process of strengthening the capital and liquidity ratios and improving profitability, while focusing on efficiency, simultaneously with facing the challenge of the accelerated technological innovation and the entry of new players into the banking arena. The technological revolution puts new challenges in front of banks and requires them to prepare for different scenarios of banking models, though at the same time, creates opportunities for cooperation with the fintech industry and use of modern technologies.

Regulation in Israel, aims, inter alia, at increasing competition over households and small businesses, by promoting the use of advanced digital payment means, the separation of credit card companies from the large banks, the establishment of a credit data pool, open banking and the transfer of a bank account by a click on the keyboard. All these require extensive investments, but at the same time create opportunities for a bank of the size of the First International Bank.

In the course of 2019, the Bank approved a new strategic plan, while focusing on private banking and maintaining the leadership in the capital market. At the same time, growth continued in the small and middle market business lines. Efficiency measures were accomplished in accordance with the strategic outline, which includes the reduction in floor area and a gradual reduction in the workforce, following the improved efficiency of work procedures, when during 2019, the voluntary retirement of hundreds of employees of the First International Bank Group was successfully accomplished.

As part of a comprehensive strategic viewpoint, Otzar Hachayal Bank was merged with and into the First International Bank at the beginning of 2019, while maintaining its brand name, which focuses on the security forces personnel. In the same way, two additional banks in the Group, PAGI and U-Bank, were successfully merged four years ago with the Bank. The experience gained by their successful integration into the Group, helps the Bank in continuing the implementation of the merger process of Otzar Hachayal Bank, while maintaining the service channels and the unique products for its customers, who may enjoy now the additional services provided by the First International Bank Group.

The First International Bank continued in 2019 the implementation of its digital strategy, introduced in 2018, in the center of which stands the creation of response adapted to the needs of the customer, by means of the different digital channels, while emphasizing the technical and digital leadership in the capital market. Moreover, the Bank continued to implement the strategy for designing the computing architecture, which would enable the Bank to dynamically and creatively face the challenges of the future.

Concurrently with the implementation of technological innovation and promotion of digital banking, the Bank strictly maintains a high professional service level for its customers, which is personally adapted to their needs, both by means of service at the branches and by telephone as well as by means of the different online digital channels. Satisfaction surveys regarding bank customers reflect a high level of satisfaction expressed by customers of the First International Bank and of its subsidiary Massad Bank. We shall continue to invest resources in raising the level of service to our customers in the different segments of operation, and in creating value for them, while strictly maintaining fairness and transparency.

In its activity in aid of the community, the Bank continued to focus on providing prospects to youth in risk situation, and supporting the promotion of business women coming from social and geographic peripheral areas. All this is being performed in cooperation with employees of the Bank, who volunteer and contribute time, energy as well as accumulated knowledge in favor of the promotion of financial awareness and business entrepreneurship.

The First International Bank presents consistent and stable growth as well as improvement in profitability and efficiency, while implementing organizational actions that affect each of the employees of the Group. Employees of the Group are the beating heart of the Bank, and the gratitude of the Board of Directors is given to them and to Management that leads the Bank securely and successfully.

Jacob Sitt
Acting Chairman of the Board

Tel-Aviv, 15 March, 2020

Report of the Board of Directors and Management

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT FOR THE YEAR 2018

The meeting of the Board of Directors held on 15 March, 2020, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2019.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

Description of operation of the Bank Group

The Bank Group is one of the five large banking groups in Israel.

The business operations of the Bank Group focus on several principal areas:

- Financial brokerage between depositors and borrowers, which is the basis for commercial banking. Income from such operation is reflected in net interest income comprising the main source of profit of the Group.
- Financial and banking services producing commission income in a variety of operations in the foreign currency, international trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment and pension consulting.
- The "nostro" investments of the Bank and market and liquidity risk management.
- Operational banking services for the capital market.
- Trusteeship services for private and institutional customers through the Bank's trust company.

The Bank operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which through the branches provides banking and mortgages services to all customers segments- households, private banking and small businesses. In this framework operate Ubank branches specializing in private banking and capital market operations and Otsar Hahayal branches (which was merged with and into the Bank on January 1, 2019- see below), specializing in providing services to retail and commercial customers with emphasis on the employees and retirees of the defence forces. In addition, the PAGI sub-division branches specialize in the religious and orthodox segment.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market professionals. Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and the trust company and portfolio management company.

In addition to the Bank, the Group includes Massad Bank specializing in providing services to the teachers population in Israel.

A merger agreement was signed on September 20, 2018, between the Bank and Otsar Hahayal, according to which Otsar Hahayal would be merged with and into the Bank so that the assets and liabilities of Otsar Hahayal as of date of merger, shall pass to the Bank at no consideration, and Otsar Hahayal would be eliminated without liquidation and would be removed from the Register of Companies.
The merger, as stated above, was completed on January 1, 2019, following the fulfillment of all conditions precedent determined in the merger agreement.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- On June 26, 2019, Midrug raised the evaluation of the Bank's internal financial stability to aa2.il/stable outlook, the Bank's long-term deposits and the senior debt to Aaa.il/stable outlook rating, its subordinate debt notes to Aa1.il/stable outlook, its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating. The Bank's short-term deposits remained at the rating of P-1.il
- On July 11, 2019, S&P Maalot raised the issuer rating of the Bank to ilAAA/Stable and its subordinate debt notes to ilAA+ and ratified the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.
- On December 19, 2019, the international rating agency Moody's raised the rating of foreign-currency and local currency long-term deposits with the Bank to A2, and the short-term deposits to "Prime-1", and changed the rating outlook to "stable".

FORWARD-LOOKING INFORMATION

Part of the information detailed in this report which does not refer to historical facts is forward-looking information as defined in the Securities Law, 1968. Actual results are likely to be substantially different from those included in the context of forward-looking information due to a large number of factors, including changes in legislation and supervisory directives, macroeconomic developments in Israel and abroad and their effect on the liquidity position and stability in the capital markets at business companies in Israel and abroad, exceptional economic developments such as extreme changes in interest rates, exchange rates and inflation, stock prices, bond prices, competitors' behavior and changes in the terms of competition.

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.

The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	2019	2018	2017	2016	2015
					percent
Execution indices					
Return on equity attributed to shareholders of the Bank	**10.5%**	9.3%	9.1%	7.2%	6.5%
Return on average assets	**0.63%**	0.54%	0.52%	0.41%	0.37%
Ratio of equity capital tier 1	**10.81%**	10.51%	10.38%	10.09%	9.81%
Leverage ratio	**5.81%**	5.76%	5.50%	5.52%	5.43%
Liquidity coverage ratio	**128%**	122%	123%	123%	104%
Ratio of total income to average assets	**3.0%**	3.1%	2.9%	2.9%	2.9%
Ratio of interest income, net to average assets	**1.9%**	1.8%	1.8%	1.7%	1.6%
Ratio of fees to average assets	**0.9%**	1.0%	1.0%	1.0%	1.1%
Efficiency ratio	**64.4%**	68.4%	69.5%	73.5%	77.6%
Credit quality indices					
Ratio of provision for credit losses to credit to the public	**1.05%**	1.02%	1.03%	1.08%	1.12%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**1.08%**	0.83%	0.92%	1.02%	1.36%
Ratio of provision for credit losses to total impaired credit to the public	**131%**	186%	155%	147%	108%
Ratio of net write-offs to average total credit to the public (1)	**0.10%**	0.16%	0.18%	0.09%	0.15%
Ratio of expenses for credit losses to average total credit to the public (1)	**0.16%**	0.20%	0.15%	0.10%	0.03%

Principal data from the statement of income	2019	2018	2017	2016	2015
					NIS million
Net profit attributed to shareholders of the Bank	**865**	733	678	521	446
Interest Income, net	**2,602**	2,486	2,302	2,169	1,953
Expenses from credit losses	**138**	166	121	80	18
Total non-interest income	**1,520**	1,637	1,450	1,480	1,541
Of which: Fees	**1,286**	1,325	1,305	1,300	1,378
Total operating and other expenses	**2,654**	2,819	2,607	2,683	2,710
Of which: Salaries and related expenses	**1,601**	1,696	1,579	1,581	1,589
Dismissal expenses	**48**	35	16	57	27
Primary net profit per share of NIS 0.05 par value (NIS)	**8.62**	7.31	6.76	5.19	4.45

Principal data from the balance sheet	2019	2018	2017	2016	2015
					NIS million
Total assets	**141,110**	134,120	135,717	127,907	125,476
of which: Cash and deposits with banks	**37,530**	31,303	39,186	29,150	30,727
Securities	**10,995**	12,595	10,238	15,776	16,439
Credit to the public, net	**87,899**	84,292	80,378	77,328	72,555
Total liabilities	**132,186**	125,707	127,333	119,973	117,813
of which: Deposits from the public	**120,052**	111,697	113,511	105,817	103,262
Deposits from banks	**1,137**	1,150	1,133	755	1,565
Bonds and subordinated capital notes	**3,674**	4,989	5,249	5,801	5,862
Capital attributed to the shareholders of the Bank	**8,568**	8,093	7,756	7,321	7,073

Additional data	2019	2018	2017	2016	2015
Share price (0.01 NIS)	**9,989**	7,860	7,202	5,650	4,594
Dividend per share (0.01 NIS)	**410**	355	310	199	130
Average number of positions (1)	**4,150**	4,361	4,512	4,738	5,035

(1) The number of positions includes conversion of overtime in terms of positions.

Principal Risks To Which the Bank Is Exposed

The Bank group activity involves exposure to risk, the more significant of which are: Credit risk, including credit concentration (borrower and sectorial); Market risks, the principal of which is interest rate risk; Liquidity risks; Operating risks, including cyber and information security and IT risk; Compliance and Money Laundering risks; Strategic risk; Reputation risk; Legal risk.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequecy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel. Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementory allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

Developing risks

Developing risks are risks that may arise in new areas, or new risk focals in existing risks, deriving, among other things, from changes in the environment effecting the banking operations, including regulatory environment, competition, digital, etc.

Following are details regarding the principal developing risks:

1. **Impact of corona virus** -The outbreak of the Corona virus at the beginning of 2020 caused turbulence in the global financial markets. The crisis started in China and is progressing to all the influencing economies in the world. On March 11, 2020, the world health organization declared the virus to be a pandemic disease. The volume and the effect of the exposure to credit risks and financial risks, that might arise from the event, as well as the continuance of the outcome on the financial markets is dependent of the continuance of the spreading of the virus in Israel and around the world, the length of the event, its outcome and effect on the economy. The Bank estimates that the outcomes of the event are dependent on its effect on the business environment in the world and in Israel and may result in an increase in the provision for credit losses in the banking system. At this point, it is impossible to estimate the volume of the impact in the future in light of the uncertainty of future events and their realization. The Bank is following, on current basis, the exposures to the different risks, emphasizing on credit and financial risks.

   The Bank is preparing and is operating according to continuance business plan, that include working principles for preparing for the disease, preparation for teleworking and in alternative sites, parting teams to work at separate sites, etc. The forecast and the said arrangements include forward looking information. Forward looking information is uncertain information about the future, based on existing information in the Bank at the date of the report.

2. **Competitive-strategic/business model risk** - Following the Promotion of Competition in the Banking Sector Act ("Strom Act") and the separation of the credit cards companies from the large banks, the regulatory environment continues intensively to promote moves that raise the level of competition in different fields, such as payment services, commercial credit, building of credit database, standard of open banking which will allow to share financial information of customers with third parties, the movement reform of customers between banks, the promotion of establishment of banking computerization services bureau, and regulation which promotes the transformation to digital banking, this along with competitive threats on the part of various market factors (banks, other financial players and startup companies).
   - Business model/ strategic plan- Risks relating to social and consumer trends, to regulation and legislation, to a fluctuating macro-economic environment, affect changes in the business model, including the new transition trend to "digital banking", based on the digital. All these affect the operational environment of the Bank, and are expected to lead to a rise in the level of competition, particularly with respect to the retail and small business sector.
   - The Bank conducts current monitoring of macro-economic, regulatory, competitive and technological trends. An analysis of the implications of such trends notes that on the one hand they involve risk, and on the other hand, also opportunities for the Bank. The strategic plan of the Bank is directed to leverage and utilize the opportunities inherent in the changes taking place in the market, with the Bank adapting itself to such changes.

- Risks stemming from innovation in banking and in communication - the digital revolution continues vigorously with competitive threats existing on the part of technology players, thus lately he Supervision of Bank approved the establishment of a digital bank, therefor the need to face such competition requires significant investments in automation. Concurrently with the global trend, Bank of Israel promotes activity in digital banking and allows greater freedom of action in this field, while at the same time requiring the improvement of the existing risk management framework and its adaptation to the dynamic technological environment. A strategic risk is inherent in this matter, being part of the increasing competition in the banking market. The strategic plan of the Group includes reference to these developments while promoting innovation in this field.
  The strategy of the Bank and its risk appetite are proportional.
- Demand for greater efficiency in the banking sector - The growing competition in the financial markets and the low interest environment, on background of demand for higher efficiency of the banking sector on the part of the Supervisor of Banks, have led to the promotion of efficiency measures, within the framework of which different steps were taken, including changes in the long-term goals of the Bank alongside efficiency in expenditure, resulting in improved efficiency ratios. In continuation of the efficiency measures adopted by the Bank in recent years, the Bank institutes efficiency measures as part of its strategic plan, which inter alia include, continuing expansion of operations by digital means, reduction in the number of branches and improvement in work procedures at the branches and at Head Office.

3. **Regulatory risk** - This risk stems from the trend of increasing regulatory requirements in recent years in Israel and the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity and loss of income. The changes also require preparation, implementation and integration, which may result in heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, the compliance risk and the strategy risk.
   The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank and at the Group for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and reducing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support on basis of such developments.
   From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes. For details regarding material regulatory initiations with effect on the Bank's operations in the reported period see "Legislation regarding limitations, standards and special constraints affecting the Bank group", in the chapter of corporate governance, additional information.

4. **Cyber and data protection risks (as part of the operational risk)** - in accordance with Proper Conduct of Banking Business Directive No. 361, cyber risk is defined as potential for damage stemming from a cyber event, considering its probability level and the seriousness of its implications. The Bank conduct the cyber risk in accordance with Proper Conduct of Banking Business Directives Nos. 357,361,363, and 367, which consider this risk and the implications stemming from it. Cyber risks, leakage of information and data protection risks have a high potential for causing damage upon the happening of a significant event at high recovery costs. Innovation in banking and in communication entail operational risks with an emphasis on cyber and data protection risks. Consequently, for the purpose of the

proper management of cyber risk, the existing framework of information technology and data protection risk management at the Bank has been broadened and adapted from the aspects of the dimension of the threat and the required defense capabilities. The Bank adopts many preventative actions designed to reduce the risk, including promoting awareness in cyber and data protection areas and conducting exercises. In addition, a strategy has been established and a cyber and data protection policy has been written, as well as the appointment of a cyber protection manager, responsible for the implementation of the policy. The cyber protection management is conducted also by means of two frameworks, the one headed by the CRO "cyber protection management steering committee", and the other headed by the cyber protection manager "cyber information forum". Within the framework of the implementation of Proper Conduct of Banking Business Directive No.367 - "online banking", an online banking policy was formed. The Bank conducts forum meetings for the follow-up of developments in this field, and reports are submitted to the relevant functions in accordance with the policy.

Furthermore, the Bank purchased a designated insurance policy which reduces the financial damage which may be caused by a computer system failure and/ or a cyber event.

5. **Information technology risk (as part of operational risk)** - The risk us managed according to the Information Technology management policy and in accordance with Proper Conduct of Banking Business Directive No. 357. In addition, in accordance with Proper Conduct of Banking Business Directive No. 301, a Technology, innovation and management committee of the Board of Directors was formed. In light that in recent years the technological environment was developing and that dependence on it is increasing, the need for increasing business and technological flexibility was created as well as the need to increase the use in new technologies. Therefore, this risk was added to the list of developing risks. It is to be emphasized, that starting from the second quarter of the year, this risk, which is part of the operational risk, is estimated separately.

6. **Cross-border risks (as part of compliance risk)** - the Bank Group conducts business in different banking fields. Among its customers, the Bank Group provides services also to customers who are foreign residents. On background of the increased efforts made by different countries to discover funds of their residents held outside their country of residence as well as the growing trend of international cooperation in the campaign against tax evasion, the Bank's operations with foreign residents may increase exposure of the Bank to compliance risk stemming from cross-border activity as well as to reputation risk.

   The Bank has determined a designated policy regarding this issue, work procedures have been instituted, and decision has been taken regarding a series of operational steps for the management and reduction of risk, accounts identified as being of a high risk with respect to cross-border risks were marked, and the process of obtaining signed declarations from such customers regarding their tax liability and waiver of confidentiality has been and is being conducted.

   In addition, on February 6, 2019 the Income Tax Regulations (implementation of uniform standard for the reporting and performing due diligence on information regarding financial accounts), 2019, were published, thus imbedding into the Israeli Law the commitment which the State of Israel took upon itself to adopt the standard regarding the exchange between countries of information for tax purposes (CRS), which was developed by the Organization for Economic Cooperation (OECD) for the existence of automatic data exchange, on annual basis, for the mutual assistance in tax enforcement between countries. The Bank and the Group are preparing to implement the said legislation.

7. **Conduct risk (as part of compliance risk)** - the Bank Group is required to integrate values of fairness and transparency in its operation with customers, and to reinforce these principles in its current conduct. As a general rule, the Bank group is required to verify that the offers made to customers are adapted to their needs. Non-compliance with the proper conduct standard exposes the Group to different risks such as: compliance, legal, reputation and such like risks. The Bank approved a policy in the matter of proper business conduct, being part of the compliance policy, and one of the targets of the compliance officer is to integrate the said principles into the different divisions of the Bank.

For additional information, see the Chapter on risk review below and the risk report on the Internet website of the Bank.

Objectives and Strategy

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and goals as well as the lines of operation of the Bank.

On the basis of the multi-annual strategic plans of the Bank, Management presents to the Board of Directors annual work plans and budgets, giving quantitative and qualitative details of the income, expenses and investment mix, which Management had determined as the long-term goals and specific targets for the current year of operation.

The Board of Directors and its committees supervise and control the work of Management in everything relating to the implementation of the strategy and business policy, as approved by them. The Board of Directors approves also the comprehensive risk management policy, including the determination of different limitations to exposure regarding credit risk and market and liquidity risks. The various units of the Bank, of the branch layout and of the Head Office, operate within the framework of written procedures and circular letters, guiding them in their current operations. These procedures define, among other things, the authority of the different units of the Bank and the manner of operation which they have to adopt.

The Bank operates according to a multi-annual strategic plan, validated by the Board of Directors at half-yearly intervals. The plan is based upon appropriate conduct in all areas of operation, with aspiration for proper and stable profitability over a period of time.

In 2018, the Bank launched the digital strategy (approved at the end of 2017), the purpose of which is to support the business strategy of the Bank. As part of the digital strategy and with adequacy to the Bank's strategy "Investing in you", the Bank developes a digital answering adjusted and focuses on the customer's needs. The Bank emphasis is on solutions which can be combined in the interfaces with the customers and improving the Customer experience and providing added value in the various financial worlds, and specifically in the capital markets worlds. In addition, the Bank promote innovation through implementation of products and technologies from start-up companies, this alongside the current activity of developing products and technologies in-house by the IT division of the Bank. For that, a specific department was build for holistic treatment in innovation and digital.

On November 5, 2019 the Board of Directors of the Bank approved new entity strategy for the upcoming years in accordance with the latest changes in the Bank and its operating surroundings, and with looking forward on the banking world. The new strategy is a direct continuation to the former entity strategy and to detailed strategic processes carried out in latest years, as detailed below.

The Bank emphasises on providing added value to its customers by providing a comprehensive response modified to the needs of the customer, including in the digital area and technological answer; the Bank is to maintain the leadership of its subsidiary (Massad) and the brands UBank, PAGI and Otsar Hahayal in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group, alongside with rational risk management.

In 2019 the Bank completed to formulate a new strategic plan in the infrastructure and computerization worlds. The goal of the plan is to improve the Bank's ability to operate in the changing banking surroundings, among other things, by shortening response times and increasing flexibilty.

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic developments that impacted the economic environment in which the banking sector operated in Israel in 2019.

Growth

The latest published nonfinancial economic activity indicators, continue to be positive indicating that the economy continued to grow also in 2019, when estimates for the fourth quarter of 2019 indicated a growth of 4.2% in the GDP. The employment market continues to demonstrate vigor with relatively low unemployment rates and a high rate of employment security, with a trend of economic growth over a period of time being envisaged.

Bank of Israel's Composite State-of-the-Economy Index rose during 2019 by 3.4%, similarly to a growth rate of 3.6% in the coresponding period last year. The rate growth of the index reflects in the last two years a growth in the long run of the economy, which is consistant with the low unemployment rate.

The Research Division of Bank of Israel reduced in January 2020 the product growth forecast for 2020 to a level of 2.9%, with a growth forecast for 2021 of 3.2%.

Credit risk of the economy

The credit risk of the Israeli economy, as reflected in the ratings granted by the rating agencies and by the capital markets, is low. Fitch, the global rating agency, reaffirmed in March 2019 the credit rating of the State of Israel at the level of A+/stable outlook.

The global rating agency S&P reaffirmed in August 2019 the credit rating of the State of Israel at the level of AA-/stable outlook.

The global rating agency Moody's reaffirmed in November 2019 the credit rating of the State of Israel at the level of A1/positive outlook.

State budget

A deficit of NIS 52.2 billion was measured in 2019 in the budgetary activity of the Government, comprising 3.7% of the GDP, in comparison to a deficit of NIS 38.7 billion, comprising 2.9% of the GDP ,measured in 2018. The planned deficit for 2019, amounted to NIS 40.2 billion, comprising 2.9% of the GDP.

According to a preliminary forecast of the Accountant General at the Ministry of Finance, the ratio of Government debt to the GDP is expected to decline and amount in 2019 to 58.5% in comparison to 59.7% in 2018.

Inflation

The inflationary environment in the economy is relatively low, following a rise in the Consumer Price Index (CPI) in 2019 (the Index "for the month") by 0.6%. The "known" Index rose by 0.3%. According to Bank of Israel estimates of January 2020, the inflation rate in 2020 would reach 1.0%, and in 2021 would reach 1.4%. As of January 2020, the inflationary expectations for the coming twelve months, derived from the capital market, indicate an inflation rate of 1.0%.

Housing market

Recent publications reflect a rise in housing prices. According to the Housing Price Index published in January 2020 by the Central Bureau of Statistics (hereinafter - "the CBS") prices of apartments increased by 0.5% in the months of October-November 2019, in comparison with transactions effected in the months of September-October 2019. Prices of transactions in the months of October-November 2019 increased by 3.4% in comparison with the corresponding months last year.

Labor market

The rate of unemployment is low and falling, amounting to 3.4% in December 2019, as compared to 3.9% in November 2019. The rate of unemployment in the fourth quarter of 2019 was 3.6% as compared with 3.7% in the third quarter of 2019.

According to the Research Division of Bank of Israel, the labor market, which is settling in a full employment environment, is not expected to increase pressure on local prices.

Exchange rate

The exchange rate of the shekel as against the US dollar and as against the Euro declined in 2019 at the rate of 7.8% and 9.6%, respectively.

In November 2018, Bank of Israel announced the termination of the foreign currency purchase plan, intented to mitigate the impact of the effect of natural gas production in Israel on the foreign exchange rate. In the fourth quarter of 2019, inter alia, on background of the decline in the exchange rate of the shekel as against the US dollar, Bank of Israel purchased US$3.9 billion, in continuation of purchases amounting to US$88 million, during the first nine months of 2019.

Bank of Israel interest rate

In November 2018, Bank of Israel raised the interest rate for the first time since February 2015, by 0.15 percentage points to a level of 0.25%. According to estimates of Bank of Israel Research Division of January 2020, the interest rate is expected to settle in the fourth quarter of 2020 in the region of 0.25% to 0.1%. Furthermore, Bank of Israel Research Division estimares that towards the end of 2021, the anticipated increase in inflation together with the anticipated growth in the full employment environment, may lead to a beginning of a gradual rise in Bank of Israel interest rate.

The global environment

The global economy continues to slowdown, though a number of indicators point at the possibility of moderate improvement in the coming months. Following a long period of the downward updating of the global growth forecasts, the forecasts by investment houses remained stable, indicating moderation in growth of the principal economies in 2020 with a certain improvement in 2021.

Inflation remained at a level lower than the targets guiding the central banks, though there are signs that intensification of the monetary expansion by the main central banks has exhausted itself at this stage.

In the US, the monetary interest rate remained unchanged during the first half of 2019 at a level of 2.25%-2.5%, after being raised several times during 2018. In the course of the second half of 2019, on background of the deteriorating global image and weakness of the factors causing the rise in inflation in the US, the FED lowered three times the interest rate to a level of 1.5%-1.75%.

In Europe, economic growth continued to be moderate, mainly in Germany and in Italy, with the industrial sector burdening operations. The ECB left the interest rate unchanged, and according to existing estimates, is expected to leave the expansionary policy unchanged for a long time.

The impact of the Corona virus, which broke out at the beginning of 2020, is reflected, at this stage, in a slowdown of productive operations, mostly in China, a general decline in industrial inputs (in the falling global prices of oil and in falling prices of copper), in falling prices on the capital markets as well as in the damage caused to different segments of operation. The assessment of the impact of the Corona virus on the global economy generally, and on the domestic economy in particular, is still unknown and depends on the rate of spread of the virus in the coming months, therefore, most of the above economic data do not, as yet, reflect the implications that might arise therefrom. At the beginning of

March 2020, the FED lowered the interest rate by 50 base points, on background of the Corona virus damage caused to the global economy.

During the last several days, ank of Israel discussed the measures taken by other central banks following the spread of the Corona Virus around the world. Also, several scenarios of the impact on the Israeli economy and economic activity, were discussed.

According to the Bank of Israel, at this stage, despite the specific damage that firms experience in several sectors, there is no evidence of aterial macro-economic impact on the Israeli economy, and in the scenario which the spread of the virus will be halted in the few upcoming months, the estimate is that the global economy will recover reatively fast.

If the crisis will be prolonged, especialy if the preventing measures in Israel will be extended and will worsen, the ecnomic mpact is expected to be substantial. The Bank of Israel estimates that the financial terms currently applying in Israel are very comfortable and the low interest rate combined with the ongoing policy of foreign currency purchase are sufficient to provide support to the economy. Bank Of Israel also noted that while the capital markets in the world and in Israel reacted to the developments with decline of the prices and increase in volatility, there are no signs of lack of function of the markets and the liquidity in the markets is intact. According to the Bank of Israel, the basic sound economic data of the Israeli economy- among which are debt-GDP ratio and low unemployment rate, surplus in the current account and high foreign currency balances, and sound financial system, increase the stability of the economy against the developments.

In the last few days, the Research Division of Bank of Israel, estimated in accordance with the basis scenario (assuming that the event will end by the end of the second quarter of 2020), that the crisis will cause an impact of decreasing the growth in terms of 0.7% GDP this year. However it is a rolling event and there is great uncertainty regarding the continuance spread of the virus and the implications stemming from this. As a result other scenarios exist in which the impact will be more significant.

Bank of Israel also estimates, that once the virus spread is halted, the GDP is expected to return to the path prevailing before the crisis and it will expressed by temporary acceleration in growth.

Capital market

During 2019, the principal equities indices of the domestic capital market recorded a rise in prices: the TA-35 Index and the TA-125 Index recorded an increase of approximately 15.0% and 21.3%, respectively. The General Bond Index rose by 8.7%.

The trading turnover in equities on the local Stock Exchange recorded a downward trend in volume during 2019.

The S&P-500 Index rose by 28.9% during 2019. In Europe, the Eurostocks-600 Index rose by 23.2% and the developing countries Index (the EM-MSCI Index) rose by 15.4%.

Subsequently to balance sheet date, and with the news of the spreading Corona virus to additional countries, inter alia, Europe, the capital markets reacted with dropping prices.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 865 million, as compared to NIS 733 million in 2018, an increase of 18.0%.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 10.5%, as compared to 9.3% in 2018.

Following are the main factors which impacted the earnings of the Group in 2019 compared with 2018:

1. Increase in net interest earnings in the amount of NIS 116 million (4.7%), derived mainly from increase in volume of activity.
2. A decrease in expenses in respect of credit losses, in the amount of NIS 28 million (16.9%). The decrease derived mainly from a decline in expenses in respect of the collective provision for credit losses.
3. A decrease in fees income in the amount of NIS 39 million (2.9%).
4. A decrease in other income in the amount of NIS 72 million, derived from a decrease in gain from realization of assets.
5. A decrease in operating and other expenses in the amount of NIS 165 million (5.9%), derived mainly from a decrease in the amount of NIS 95 million (5.6%) in salaries and related expenses, a decrease in the amount of NIS 48 million (7.3%) in other expenses, mainly due to expenses in respect of the merger of Otsar Hahayal reported in 2018 and a decrease of NIS 23 million (6.1%) in expenses of maintenance and depreciation of buildings and equipment, derived mainly from a decline in the volume of real estate assets in the Group due to efficiency measures.

Condensed statement of income

	Year ended December 31		
	2019	**2018**	**change**
		NIS million	in %
Net financing earnings (1)	**2,827**	2,717	4.0
Expenses from credit losses	**138**	166	(16.9)
Net financing earnings After Expenses from credit losses	**2,689**	2,551	5.4
Fees (1)	**1,286**	1,325	(2.9)
Other income	**9**	81	(88.9)
Operating and other expenses	**2,654**	2,819	(5.9)
Profit before taxes	**1,330**	1,138	16.9
Provision for taxes on profit	**478**	408	17.2
The bank's share in profit of equity-basis investee, after taxes	**51**	37	37.8
Net profit:			
Before attribution to non-controlling interests	**903**	767	17.7
Attributed to non-controlling interests	**(38)**	(34)	11.8
Attributed to shareholders of the Bank	**865**	733	18.0
Net return of equity attributed to the Bank’s shareholders	**10.5%**	9.3%	

(1) The items of profit and loss above were presented in a different format then the condensed statement of income. The change is expressed by sorting of non-interest income from the item non-interest income (expenses) to the Net financing earnings.

Profitability after elimination of certain components

	For year ended December 31,	
	2019	2018
		NIS million
Net profit attributed to the shareholders of the Bank - as reported	**865**	733
Less/- Eliminations [1]		
- Gains from the sale/ evaluation of the TASE shares	**(16)**	(65)
- Gains from sale of buildings in subsidiaries companies	-	(46)
- Provision for merger expenses of Otsar Hahayal	-	53
Net profit attributed to the shareholders of the Bank after elimination of the above items	**849**	675
Return on equity	**10.3%**	8.6%

(1) See below for details regarding the eliminated items.

Details regarding eliminated items

Gain from the sale of the stock exchange - On August 27, 2018, the transaction for the sale of the stock exchange shares was completed. The gain from the sale in the amount of NIS 77 million was included in the third quarter of 2018 in the item non-interest financing income (the effect on net earnings - NIS 65 million).

Gain from evaluation of the stock exchange shares - On August 1, 2019 the stock exchange shares were registered for trade on the Stock Exchange. Following the registration, the Bank recorded in the third quarter of the year gain from evaluation of the shares in the amount of NIS 25 million in the item non-interest financing income (the effect on net earnings- NIS 16 million) (see note 12.f. to the inancial statements).

Gain from sale of a real estate asset in consolidated companies - the transaction for the sale of the real estate asset owned by FIBI (Swiss) Ltd. was concluded on March 14, 2018. The gain on the sale, in the amount of NIS 19 million, was included in "other income" in the first quarter of 2018 (the effect on net earnings - NIS 13 million).

On June 21, 2018, the sale of the rights of Otsar Hahayal in the building were the management of the company operated, was completed . The gain on the sale, in the amount of NIS 46 million, was included in "other income" in the second quarter of 2018 (the effect on net earnings - NIS 33 million).

Provision for expenses of the merger of Otsar Hahayal with and into the Bank - Expenses in respect of severance compensation payable under the merger terms, and which were recognized in the statement of profit and loss in the same period last year, amounted to NIS 82 million (the effect on net earnings - NIS 53 million).

DEVELOPMENT IN INCOME AND EXPENSES

The Net Financing earnings

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effect of the time value in the fair value of derivatives, which is integral part of interest rate risk management and the effect of the rate of raise in the known CPI on derivatives, which is an integral part of the management of the exposure to the CPI risk.

Set out below is the composition of net financing earnings:

	Year ended December 31		
	2019	**2018**	**Change**
		NIS million	%
Interest income	**3,085**	3,001	2.8
Interest expenses	**483**	515	(6.2)
Net interest income	**2,602**	2,486	4.7
Non-interest financing income	**225**	231	(2.6)
Net financing earnings	**2,827**	2,717	4.0
Elimination of non-current activities:			
Reconciliations to fair value of derivative instruments	**(6)**	18	(133.3)
Income from realization and reconciliations to fair value of bonds	**12**	9	33.3
Earnings from investments in shares	**71**	79	(10.1)
Total non-current activities	**77**	106	(27.4)
Financing earnings from current activity	**2,750**	2,611	5.3

Earnings from current activity increased by 5.3%, compared with 2018. This increase derived mainly from increase in the volume of activity.

Set out below are main data in respect of income and expenses rates:

	Year ended December 31	
	2019	**2018**
		Percent
Income rate on assets bearing interest	**2.55**	2.50
Expense rate on liabilities bearing interest	**0.69**	0.73
Total interest spread	**1.86**	1.77
Ratio of net interest income to balance of assets bearing interest	**2.15**	2.07

For additional information in respect of rate of income and expenses of the Bank and its consolidated companies and analysis of the changes in interest income and expenses, see appendix 1 to the chapter on corporate governance, appendices.

Expenses from credit losses totaled to NIS 138 million in 2019 compared with NIS 166 million in 2018.

Set out below are details of Expense from credit losses in respect of debts and off-balance sheet credit instruments:

	Year ended December 31	
	2019	**2018**
		NIS million
Individual expense from credit losses	**213**	185
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(194)**	(160)
Net individual expense from credit losses	**19**	25
Collective expense from credit losses	**119**	141
Total Expense from credit losses	**138**	166
Of which:		
Expense in respect of commercial credit	**66**	99
Expense in respect of housing credit	**3**	4
Expense in respect of other private credit	**69**	63
Ratio of individual expense from credit losses to average total credit to the public	**0.02%**	0.03%
Ratio of collective expense from credit losses to average total credit to the public	**0.14%**	0.17%
Ratio of total expense from credit losses to average total credit to the public	**0.16%**	0.20%

For additional information regarding expenses for credit loss, see Chapter "Review of Risks" below.

Fees income totaled NIS 1,286 million in 2019, compared with NIS 1,325 million in 2018, a decrease of 2.9%.

Set out below are details of fees income:

	Year ended December 31	
	2019	**2018**
		NIS million
Account management	**228**	244
Credit cards	**102**	108
Transactions in securities	**610**	618
Conversion differentials	**148**	148
Fees from financing transactions	**86**	90
Other Fees	**112**	117
Total Fees	**1,286**	1,325

Other income totaled NIS 9 million in 2019, compared with NIS 81 million in 2018, a decrease stemming from decrease in gain from realization of assets. On June 21, 2018 the transaction for the sale of Otsar Hahayal rights in the building in which the head-office of the company operates, was consumated. The gain from the sale of these rights, which was included in this item in the same period last year, amounted to NIS 46 million, before tax effect. On March 14, 2018 the transaction for the sale of the real estate asset owned by FIBI (Swiss) Ltd. was concluded. The gain on the sale, which was included in this item in the same period last year, amounted to NIS 19 million, before tax effect.

Operating and other expenses totaled NIS 2,654 million in 2019 compared with NIS 2,819 million in 2018, a decrease of 5.9%.

Set out below are details of operating and other expenses:

	Year ended December 31	
	2019	2018
		NIS million
Salaries and related expenses excluding bonus expenses	**1,518**	1,554
Bonuses	**83**	142
Maintenance and depreciation of premises and equipment	**353**	376
Amortization of intangible assets	**92**	91
Dismissals and reductions	**48**	31
Expenses in respect of the merger of Otsar Hahayal	**2**	82
Other expenses except dismissals and reductions	**558**	543
Total operating and other expenses	**2,654**	2,819

Salaries and related expenses totaled NIS 1,601 million in 2019 compared with NIS 1,696 million in 2018, a decrease of 5.6%. Salaries and related expenses excluding bonus expenses, totaled NIS 1,518 million compared with NIS 1,554 million in 2018, a decrease of 2.3%, explained mainly by decrease in salaries due to reduction in the manpower position in the Group, partialy offset by increase in salaries.

Maintenance and depreciation of buildings and equipment expenses amounted to NIS 353 million in comparison to NIS 376 million in 2018, a decrease of 6.1%, stemming from reduction in the volume of the real estate assets in the Group due to the efficiency measures.

Other expenses totaled NIS 608 million in 2019 compared with NIS 656 million in the same period last year, a decrease of 7.3%, stemming mainly from a decrease in the amount of NIS 80 million in expenses in respect of the merger of Otsar Hahayal. This reduction was partially offset by an increase in dismissal expenses due to early retirement of employees in the amount of NIS 17 million.

The provision for taxes on operating earnings amounted to NIS 478 million in 2019 compared with NIS 408 million in 2018. The effective tax rate as a proportion of earnings before taxes amounted to 35.9%, compared with 34.2% statutory tax rate.

For additional details, see Note 8 to the financial statements.

The Bank's share in the operating earnings of investee company after the tax effect amounted in 2019 to NIS 51 million, compare to NIS 37 million in 2018.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 885 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 865 million, by other comprehensive profit in respect of adjustments of available-for-sale bonds in an amount of NIS 66 million and by other comprehensive loss in respect of employees' benefits in an amount of NIS 46 million.

For details of income and expenses by quarters for the years 2018 and 2019 see appendix 3 of corporate governance section, appendices.

INFORMATION AND COMPUTER SYSTEMS

MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other companies in the group.

MATAF manages, operates and maintains the software and hardware of the central computers, of the central and the dispersed servers, and of the end stations, the communications and all the specialized peripheral equipment connected with IT at the branches and head-offices of the companies in the Group.

Investments and expenses in respect of the IT network

Software purchased by the Group is measured by cost, usualy including transaction costs less accrued depreciation and losses from impairement.

Costs relating to the development of software for the purpose of own use were only discounted if: the initial phase in the project is completed; and Management, which has the appropriate athority, approved and has the liability to finance, directly or indirectly, a project of developing software and it is expected that the development will be completed and if future economic benefits are expected from it. Costs that were recognized as intangible assets include direct costs of services and direct labor costs for employees. Other costs in respect of development activity and expenses in the initial phase are recognized as an expense as they arise.

Details of expenses and investments in information systems carried out:

Additions to assets in respect of the information technology system not charged as an expense:

				Year 2019				Year 2018
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Costs in respect of wages and related expenses	**36**	**-**	**-**	**36**	33	-	-	33
Outsourcing costs	**9**	**-**	**-**	**9**	8	-	-	8
Costs of acquisitions or usage licenses	**56**	**-**	**-**	**56**	49	-	-	49
Costs of equipment, buildings and land	**-**	**34**	**-**	**34**	-	25	-	25
Total	**101**	**34**	**-**	**135**	90	25	-	115

Balances of assets in respect of the information technology system:

				As of December 31, 2019				As of December 31, 2018
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Total depreciated cost	**238**	**79**	**3**	**320**	226	69	3	298
Of which: in respect of wages and related expenses	**107**	**-**	**-**	**107**	106	-	-	106

Expenses in respect of the information technology system as included in the statement of profit and loss:

				Year 2019				Year 2018
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Expenses in respect of wages and related expenses	**187**	**3**	**-**	**190**	191	4	-	195
Expenses in respect of acquisitions or usage licenses not discounted to assets	**64**	**-**	**-**	**64**	54	-	-	54
Outsourcing expenses	**20**	**18**	**-**	**38**	21	15	-	36
Depreciation expenses	**89**	**24**	**-**	**113**	86	24	-	110
Other expenses	**-**	**1**	**31**	**32**	-	2	31	33
Total	**360**	**46**	**31**	**437**	352	45	31	428

For additional information regarding technological changes and innovation, see chapter corporate governance, additional information.

COMPOSITION AND DEVELOPMENT OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

The consolidated balance sheet as of December 31, 2019 amounted to NIS 141,110 million compared with NIS 134,120 million as of December 31, 2018, an increase of 5.2%.

A. Set out below are developments in the principal balance sheet items:

	As of December, 31		
	2019	2018	Change
		NIS million	%
Credit to the public, net	**87,899**	84,292	4.3
Securities	**10,995**	12,595	(12.7)
Cash and deposits with banks	**37,530**	31,303	19.9
Deposits from the public	**120,052**	111,697	7.5
Bonds and subordinated capital notes	**3,674**	4,989	(26.4)
Capital attributed to the shareholders of the Bank	**8,568**	8,093	5.9

B. Set out below are developments in the principal off-balance sheet financial instruments:

	As of December, 31		
	2019	2018	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**135**	281	(52.0)
Guarantees and other liabilities	**7,551**	7,760	(2.7)
Unutilized credit lines for derivatives instruments	**2,268**	2,405	(5.7)
Unutilized revolving credit and other on-call credit facilities	**9,463**	9,422	0.4
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**8,200**	7,872	4.2
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**6,708**	6,679	0.4
Total	**34,325**	34,419	(0.3)

Derivative financial instruments:

	December 31, 2019			December 31, 2018		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**249**	**384**	**21,290**	207	224	29,110
Currency contracts	**391**	**414**	**74,927**	541	422	60,101
Contracts in respect of shares	**450**	**450**	**44,337**	650	650	45,227
Commodities and other contracts	**1**	**1**	**156**	1	1	100
Total	**1,091**	**1,249**	**140,710**	1,399	1,297	134,538

Credit to the public, net as of December 31, 2019 amounted to NIS 87,899 million compared with NIS 84,292 million as of December 31, 2018, an increase of 4.3%.

The following is information on credit to the public by linkage segment:

	As of December, 31				Segment's share of credit to the public on December, 31	
	2019	2018	Change		2019	2018
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**73,316**	69,600	3,716	5.3	**83.4**	82.5
- CPI-linked	**10,273**	10,073	200	2.0	**11.7**	12.0
Foreign currency (including f-c linked)	**3,664**	4,065	(401)	(9.9)	**4.2**	4.8
Non-monetary items	**646**	554	92	16.6	**0.7**	0.7
Total	**87,899**	84,292	3,607	4.3	**100.0**	100.0

Gross Credit to the public, before provision for credit losses, by segment of activity

	As of December, 31		
	2019	2018	Change
		NIS million	%
Large business segment	**17,959**	17,052	5.3
Medium business segment	**5,647**	5,816	(2.9)
Small and minute business segment	**16,477**	15,948	3.3
Household segment excluding housing loans	**21,835**	21,040	3.8
Housing loans	**25,583**	24,319	5.2
Private banking segment	**67**	51	31.4
Institutional entities	**1,261**	934	35.0
Total	**88,829**	85,160	4.3
Of which: consumer credit excluding housing loans and credit cards			
Household segment	**18,196**	17,720	2.7
Private banking segment	**33**	22	50.0
Total	**18,229**	17,742	2.7

Total credit risk to the public is comprised of balance-sheet credit risk, which includes credit to the public, investments in bonds of the public and assets deriving from financial derivative instruments purchased by the public, and from off-balance-sheet credit, which includes transactions in off-balance-sheet financial instruments, unutilized credit lines and liabilities for the granting of credit.

Total credit risk to the public amounted to NIS 123,687 million on December 31, 2019 compared with NIS 120,495 million on December 31, 2018, an increase of 2.6%.

Set out below is information on the distribution of total credit risk to the public by sectors of the economy.

Sector	As of December 31, 2019		As of December 31, 2018		
	Total credit risk	Sector's share in total credit risk	Total credit risk	Sector's share in total credit risk	change
	NIS million	%	NIS million	%	%
Financial services (including holding companies)	**14,940**	**12.1**	15,507	12.9	(3.7)
Construction and real estate	**16,433**	**13.3**	15,547	12.9	5.7
Industry	**10,020**	**8.1**	10,330	8.6	(3.0)
Commerce	**7,854**	**6.3**	7,981	6.6	(1.6)
Private customer, including housing loans	**61,878**	**50.0**	58,779	48.8	5.3
Others	**12,562**	**10.2**	12,351	10.2	1.7
Total	**123,687**	**100.0**	120,495	100.0	2.6

Set out below is the sector-specific distribution of the six largest borrowers at the Group (by size of gross indebtedness before deduction of collateral whose deduction is permissible for the purpose of limiting the indebtedness of a borrower and group of borrowers):

		As of December 31, 2019			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Total credit risk	Total credit risk after permitted deductions
					NIS million
1.	Financial services	**1,042**	**5**	**1,047**	**165**
2.	Financial services	**662**	**274**	**936**	**648**
3.	Industry	**404**	**391**	**795**	**795**
4.	Financial services	**651**	**50**	**701**	**701**
5.	Electricity and water supply	**402**	**223**	**625**	**625**
6.	Financial services	**601**	**6**	**607**	**607**

		As of December 31, 2018			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Total credit risk	Total credit risk after permitted deductions
					NIS million
1.	Financial services	1,999	224	2,223	763
2.	Financial services	900	6	906	906
3.	Industry	130	738	868	868
4.	Financial services	700	-	700	700
5.	Financial services	432	-	432	-
6.	Electricity and water supply	230	172	402	402

* Including credit to the public, investment in bonds and other assets in respect of derivative instruments.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2019, as stated in Note 29.c to the financial statements, 50% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 21% of total credit risk, and credit amounts of over NIS 20 million accounted for 29% of the Group's total credit risk.

Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:

	Consolidated and The Bank					
	December 31, 2019					
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	**2,057**	**670**	**2,727**	**-**	**2,727**	**4**
From 800,000 to 1,200,000	**1,705**	**279**	**1,984**	**1,170**	**814**	**2**
Total	**3,762**	**949**	**4,711**	**1,170**	**3,541**	**6**

	Consolidated and The Bank					
	December 31, 2018					
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	1,362	172	1,534	432	1,102	3
From 800,000 to 1,200,000	1,030	744	1,774	-	1,774	2
From 2,000,000 to 2,223,168	1,999	224	2,223	1,460	763	1
Total	4,391	1,140	5,531	1,892	3,639	6

For detailed information regarding credit risk, see chapter of risks review below, additional supervisory disclosures and risk report at the Bank's internet site.

The investment in securities totaled NIS 10,995 million compared with NIS 12,595 million at the end of 2018, a decrease of 12.7%.

Set out below is the composition of the portfolio:

	As of December 31		Share of total securities	
	2019	**2018**	**2019**	**2018**
		NIS million		%
Government bonds	**8,379**	9,742	**76.2**	77.4
Banks' bonds (1)	**649**	698	**5.9**	5.5
Other bonds (corporate)	**885**	803	**8.0**	6.4
Other bonds (corporate and asset-backed guaranteed by governments)	**743**	1,125	**6.8**	8.9
Shares (2)	**339**	227	**3.1**	1.8
Total	**10,995**	12,595	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed and owned by foreign governments in the amount of NIS 615 million (December 31, 2018 - NIS 531 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 89 million, investment in foreign currency shares and ETF of NIS 92 million and investment in shares and ETF traded on the Tel Aviv Stock Exchange amounting to NIS 124 million (31.12.18 - Investment in shares includes inter alia investment in private equity funds in the amount of NIS 123 million, investment in foreign currency shares and ETF of NIS 77 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 19 million).

Set out below is the distribution of the securities portfolio by linkage segments:

	As of December, 31				Segment's share of total securities	
	2019	**2018**		**Change**	**2019**	**2018**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**3,634**	4,250	(616)	(14.5)	**33.0**	33.7
- CPI-linked	**349**	712	(363)	(51.0)	**3.2**	5.7
Foreign currency denominated & linked	**6,673**	7,406	(733)	(9.9)	**60.7**	58.8
Non-monetary items	**339**	227	112	49.3	**3.1**	1.8
Total	**10,995**	12,595	1,600	(12.7)	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on December 31, 2019:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**210**	**34**	**95**	**339**
Local currency government bonds	**3,331**	**-**	**-**	**3,331**
Local currency corporate bonds	**374**	**278**	**-**	**652**
Non-asset backed foreign-currency and f-c linked bonds	**124**	**6,171**	**-**	**6,295**
MBS bonds	**-**	**378**	**-**	**378**
Total	**4,039**	**6,861**	**95**	**10,995**
% of portfolio	**36.7**	**62.4**	**0.9**	**100.0**

* Indicative price-An indication determined by the Bank and which is based mainly on price quotations obtained from an external entity or entities specializing in the matter, and the remainder is based on internal models determined by the Bank.

** Counter-party price-Price quotation obtained from the entity with which the transaction is conducted. With respect to private equity funds, the need for a provision for write-down is examined on the basis of their financial statements.

Below are additional details of bonds denominated in and linked to foreign currency, which are not asset-backed, by country/continent:

	As of December, 31	
	2019	**2018**
		NIS million
Israel (incl. Israel Government - NIS 3,092 million, 31.12.18 - NIS 3,364 million)	**3,220**	3,491
USA (incl. US Government - NIS 1,957 million, 31.12.18 - NIS 1,944 million)	**2,071**	2,051
France	**183**	96
Europe - others (1 countries; 31.12.18 - 2 countries)	**35**	93
Canada	**10**	459
Germany (owned by the German government or guaranteed by it)	**432**	547
Far East, New Zealand and others (3 countries; 31.12.18 - 5 countries)	**83**	204
Luxembourg	**261**	-
UK	**-**	29
Total	**6,295**	6,970

It should be noted that there is no issuer (except the Israel and US Government) whose bond balance exceeds 3% of the shareholders' equity of the Bank.

Set out below are additional details on local currency corporate bonds by sector:

	As of December, 31	
	2019	2018
		NIS million
Electricity and water	**148**	139
Construction and real estate	**204**	161
Financial services	**75**	72
Banks	**9**	68
Industry	**50**	46
Commerce	**54**	50
Transportation	**97**	63
Hotels, hospitality and food services	**11**	23
Public and community services	**4**	5
Communication and computer services	**-**	9
Total	**652**	636

Set out below is the composition of the foreign-currency bond portfolio at the Bank Group:

- **Non-asset-backed bonds denominated in or linked to foreign currency** - amounting to NIS 6,295 million (Dollar 1,821 million) (includes foreign corporations in an amount of NIS 1,118 million, foreign currency denominated Israel Government bonds amounting to NIS 3,092 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 126 million and bonds of foreign governments amounting to NIS 1,957 million). All of the foreign bonds are investment grade and is rated A or higher; 0.4% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer (which is not a government) does not exceed 4.2% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 3.0 years. The balance of unrealized gross earnings (included in shareholders' equity under reconciliations to fair value in respect of the presentation of bonds available for sale) as of the report date in respect of this portfolio amounted to NIS 59 million (Dollar 17 million) compared with NIS 6 million (Dollar 2 million) on December 31, 2018.
- **Mortgage Backed Securities (MBS)** - amount to NIS 378 million (Dollar 109 million).
  Of these, NIS 377 million (Dollar 109 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 1 million (Dollar 0.4 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.
  Set out below is a sensitivity analysis as of December 31, 2019 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

	Change in rate of early repayments	Change in fair value
	Percentage points	Dollar million
Increase of 200 base points	**(9.9)**	**(6.6)**
Increase of 100 base points	**(6.7)**	**(2.8)**
Decrease of 100 base points	**10.9**	**1.5**
Decrease of 200 base points	**18.9**	**2.1**

The balance of the gain, net (before tax effect) included in other comprehensive profit, in respect of the difference between fair value of available for sale bonds and their amortized cost, as of December 31, 2019 amounted to NIS 81 millions.
As of March 11, 2020, the balance of gross losses (before tax effect) amounted to NIS 32 million.

Cash and deposits at banks on December 31, 2019 totaled NIS 37,530 million compared with NIS 31,303 million at the end of 2018, an increase of 19.9%

Deposits from the public on December 31, 2019 totaled NIS 120,052 million compared with NIS 111,697 million at the end of 2018, an increase of 7.5%.

Set out below is the distribution of deposits from the public by linkage segments:

	As of December, 31				Segment's share of total deposits from the public on December, 31	
	2019	2018	Change		2019	2018
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**94,780**	86,317	8,463	9.8	**79.0**	77.3
- CPI-linked	**5,315**	5,858	(543)	(9.3)	**4.4**	5.2
Foreign currency denominated & linked	**19,309**	18,968	341	1.8	**16.1**	17.0
Non-monetary items	**648**	554	94	17.0	**0.5**	0.5
Total	**120,052**	111,697	8,355	7.5	**100.0**	100.0

Deposits from the public by segment of activity

	As of December, 31		
	2019	2018	Change
		NIS million	%
Large business	**11,271**	9,212	22.4
Medium business	**5,536**	5,167	7.1
Small and minute business	**18,859**	17,802	5.9
Household	**51,572**	50,300	2.5
Private banking	**7,734**	8,029	(3.7)
Institutional entities	**25,080**	21,187	18.4
Total	**120,052**	111,697	7.5

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of December 31, 2019, amounted to NIS 342 billion, as compared to NIS 304 billion at the end of 2018.

Bonds and deferred debt notes amounted at the end of the year to NIS 3,674 million, as compared with NIS 4,989 million at December 31, 2018, a decrease of 26.4%.

On September 10, 2019 the First International Issuance Ltd., a wholly owned subsidiary of the Bank, issued on public placement bonds, at par value of NIS 700 million in proceeds of NIS 711 million. After balance sheet date, on February 10, 2020, the First International Issuance Ltd., issued on public placement additional bonds, at par value of NIS 800 million in proceeds of NIS 814 million. The proceeds of the placements were deposited at the Bank. The Bank commited to fullfil the terms of the issued bonds.

For details regarding assets and liabilities according to quarters in the years 2018 and 2019, see Appendix 5 to the Chapter "Corporate governance", appendices.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on December 31, 2019 to NIS 8,568 million, as compared with NIS 8,093 million on December 31, 2018, an increase of 5.9%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

The Bank implement Proper Conduct of Banking Business Directives Nos. 201-211 in the metter of "Measurement and capital adequacy" as were amended in order to reconcile them with the Basel guidelines. These instruction require that the ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the ratio of comprehensive capital to average risk assets should be no less than 12.5% for all banking corporations, the total consolidated stated assets of which does not exceeds 20% of total stated assets of the banking sector (including the Bank).

To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date.
In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.31% and 12.81%, respectively.

The internal capital goals as were set by the Board of Directors are as follows:

- In a regular business situation - Tier I equity capital will be no less than 9.31%, and the ratio of the comprehensive capital will be np less than 12.81%.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

Basel 3 guidelines

According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. Accordingly, as from January 1, 2019 the maximum rate of instruments qualified as regulatory capital amounts to 30%.

Operational Efficiency

On January 12, 2016, Bank of Israel issued a letter, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the board of directors of banking corporation has to outline a multi-annual program for the improvement of efficiency.
A banking corporation that conforms with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

- On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect, the cost of which was estimated at NIS 207 million (before the tax effect). Were it not for the said relief, the implementation of the efficiency measures, as of December 31, 2019 would have reduced the capital adequacy ratios by 0.07%.
- In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of 2018, and on January 1, 2019, Otsar Hahayal was merged

with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).

Were it not for the said relief, the implementation of the efficiency measures, as of December 31, 2019 would have reduced the capital adequacy ratios by additional 0.06%.

Implementation of the instructions

As stated above, in accordance with Bank of Israel instructions, the Bank implements the Basel instructions.

Pillar I - Credit, market and operating risks - the Bank is implementing the standard approach in accordance with Bank of Israel instructions.

Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of March 31, 2019, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at the banking subsidiary, subject to required adjustments, and on the basis of its specific risk profile.

		December 31,	
		2019	**2018**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**8,785**	8,321
	Tier 2 capital after deductions	**2,345**	2,713
	Total capital	**11,130**	11,034
2.	**Weighted balances of risk assets**		
	Credit risk	**73,862**	71,847
	Market risk	**875**	889
	Operational risk	**6,512**	6,401
	Total weighted balances of risk assets	**81,249**	79,137
3.	**Ratio of capital to risk assets (in %)**		
	Raito of tier 1 equity capital to risk assets	**10.81%**	10.51%
	Total ratio of capital to risk assets	**13.70%**	13.94%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.31%**	9.31%
	Minimal ratio of capital required by the Supervisor of Banks	**12.81%**	12.81%

The Tier I equity capital ratio as of December 31, 2019, amounted to 10.81%, in comparison with 10.51% on December 31, 2018. The ratio of comprehensive capital to risk components as of December 31, 2019, amounted to 13.70%, in comparison with 13.94% on December 31, 2018.

The comprehensive capital as of December 31, 2019 amounted to NIS 11,130 million, in comparison with NIS 11,034 million on December 31, 2018. The change in the capital base stemmed mostly from the annual profit of NIS 865 million and an increase of NIS 66 million in other comprehensive income in respect of available for sale bonds to fair value.

This increase was partially offset by dividend paid in the amount of NIS 410 million, from other comprehensive loss from employees' benefits in the amount of NIS 46 million and by reduction of NIS 367 in instruments issued by the Bank qualified for inclusion in the supervisory capital.

The risk assets as of December 31, 2019 amounted to NIS 81,249 million as compared with NIS 79,137 million on December 31, 2018.

The comprehensive capital ratios and the Tier I equity capital ratios of the significant subsidiary, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

		December 31,
	2019	2018
		In percent
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**13.50%**	13.04%
Ratio of overall capital to risk assets	**14.52%**	14.12%

Leverage ratio in accordance with instructions of the Supervisor of Banks - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of Leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, for a banking corporation, the total consolidated stated assets of which is up to 20% of total stated assets of the banking sector as a whole (including the Bank). The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank as of December 31, 2019, amounts to 5.81%, compared to 5.76% as of December 31, 2018.

DIVIDEND DISTRIBUTION POLICY

According to the updated dividend distribution policy as was approved by the Board of Directors of the Bank (as was updated on June 9, 2015 and August 14, 2017), the Bank will distribute annual dividends of up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements being no less than the target specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or the legal environment. It should be clarified, that as from the year 2017, the net annual earnings refer to the annual net earnings of the current year.

This resolution is not to be construed as detracting from the Board of Directors' authority to review policy from time to time and to resolve at any time, after taking due account of business considerations and of the legislative provisions applying to the Bank, changes in policy or the rate of dividend to be distributed for a specific period, or to resolve not to distribute any dividend at all.

It is clarified that any dividend distribution shall be subject to specific approval by the Board of Directors and to all the restrictions applying to the Bank regarding dividend distribution, and shall be made public with all required details in accordance with the law.

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 24A.b. to the financial statements.

Following are details regarding dividends distributed by the Bank, as from the year 2018:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
5 March 2018	21 March 2018	95	0.95
28 May 2018	5 June 2018	60	0.60
14 August 2018	2 September 2018	100	1.00
20 November 2018	9 December 2018	100	1.00
12 March 2019	20 March 2019	105	1.05
28 May 2019	17 June 2019	85	0.85
13 August 2019	29 August 2019	110	1.10
26 November 2019	12 December 2019	110	1.10

Subsequent to balance sheet date, on March 15, 2020, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 125 million. The determining date for the distribution of the dividend is March 24, 2020, and the date of payment is March 31, 2020. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

SUPERVISORY SEGMENTS OF ACTIVITY

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materialy defferent from the segments of activity used by the Bank according to Management approach, which are detailed in Note 28A to the financial statements. The supervisory segements of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the cusromers characteristics, such as: the volume of assets protfolio- for private customers, or the business turnover- for business customers.
For the definitions of the supervisory segements of activity and for details regarding main instructions, estimates and principals of reporting, see Note 28 to the financial statements.
For details regarding segments of activity according to management approach see Note 28A to the financial statements.

The following is a summary of the results of activity by segments:

a. Total income*

	For the year ended December 31,			Segment's share of total income December 31,	
	2019	2018	Change	2019	2018
		NIS million	%		%
Large business segment	**398**	416	(4.3)	**9.7**	10.1
Medium business segment	**250**	258	(3.1)	**6.1**	6.3
Small and minute business segment	**945**	940	0.5	**22.8**	22.8
Household segment	**1,793**	1,722	4.1	**43.5**	41.7
Private banking segment	**106**	95	11.6	**2.6**	2.3
Institutional entities	**265**	256	3.5	**6.4**	6.2
Financial management segment	**365**	436	(16.3)	**8.9**	10.6
Total	**4,122**	4,123	-	**100.0**	100.0

b. Net earnings attributed to the shareholders of the bank

	For the year ended December 31,	
	2019	2018
		NIS million
Large business segment	**120**	121
Medium business segment	**75**	77
Small and minute business segment	**185**	140
Household segment	**159**	49
Private banking segment	**27**	20
Institutional entities	**53**	48
Financial management segment	**246**	278
Total	**865**	733

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Credit to the public			Segment's share of credit to the public	
	For the year ended December 31,			For the year ended December 31,	
	2019	**2018**	**Change**	**2019**	**2018**
		NIS million	%	%	%
Large business segment	**17,275**	17,855	(3.2)	**20.2**	21.3
Medium business segment	**5,675**	5,739	(1.1)	**6.7**	6.9
Small and minute business segment	**15,925**	15,426	3.2	**18.6**	18.4
Household segment	**45,476**	43,802	3.8	**53.2**	52.4
Private banking segment	**50**	51	(2.0)	**0.1**	0.1
Institutional entities	**1,039**	764	36.0	**1.2**	0.9
Total	**85,440**	83,637	2.2	**100.0**	100.0

	Deposits from the public			Segment's share of deposits from the public	
	For the year ended December 31,			For the year ended December 31,	
	2019	**2018**	**Change**	**2019**	**2018**
		NIS million	%	%	%
Large business segment	**10,157**	9,981	1.8	**8.9**	8.8
Medium business segment	**4,932**	4,907	0.5	**4.3**	4.3
Small and minute business segment	**18,400**	17,127	7.4	**16.0**	15.1
Household segment	**50,896**	47,682	6.7	**44.3**	42.1
Private banking segment	**7,611**	7,667	(0.7)	**6.6**	6.8
Institutional entities	**22,825**	25,984	(12.2)	**19.9**	22.9
Total	**114,821**	113,348	1.3	**100.0**	100.0

* Average balances are calculated on the basis of balances at the beginning of quarter or the beginning of month.

BUSINESS SEGMENTS - SMALL AND MINUTE BUSINESS SEGMENT, MEDIUM BUSINESS SEGMENT AND LARGE BUSINESS SEGMENT

Following are main data concerning Business segments - Small and minute, medium and large business - activity in Israel

	For the year ended December 31, 2019				For the year ended December 31, 2018			
	Small and minute business segment	Medium business segment	Large business segment	Total	Small and minute business segment	Medium business segment	Large business segment	Total
								NIS million
Net interest income	**641**	**173**	**280**	**1,094**	619	177	297	1,093
Non-interest income	**304**	**77**	**118**	**499**	321	81	119	521
Total income	**945**	**250**	**398**	**1,593**	940	258	416	1,614
Expenses from credit losses	**35**	**12**	**18**	**65**	55	8	35	98
Operating and other expenses	**622**	**114**	**167**	**903**	653	120	188	961
Net profit attributed to the shareholders of the Bank	**185**	**75**	**120**	**380**	140	77	121	338
Average balance of credit to the public	**15,925**	**5,675**	**17,275**	**38,875**	15,426	5,739	17,855	39,020
Balance of credit to the public at the end of the reported period	**16,477**	**5,647**	**17,959**	**40,083**	15,948	5,816	17,052	38,816
Average balance of deposits from the public	**18,400**	**4,932**	**10,157**	**33,489**	17,127	4,907	9,981	32,015
Balance of deposits from the public at the end of the reported period	**18,859**	**5,536**	**11,271**	**35,666**	17,802	5,167	9,212	32,181

Main changes in the result of activity in the year 2019 compared with the year 2018

Total net interest income amounted to NIS 1,094 million, compared with NIS 1,093 million in 2018.

Non-interest income amounted to NIS 499 million, compared with NIS 521 million in 2018, a decrease of 4.2%, derived mainly from the decrease in commission.

Operating and other expenses amounted to NIS 903 million, compared with NIS 961 million in 2018, a decrease of 6.0%, derived mainly from expenses recorded in the same period last year in respect of the merger of Otsar Hahayal and from reduction in the payroll expenses due to a decrease in manpower in the Group. This decrease was partialy offset by an increase in dismissal expenses and an increase in salaries.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 380 million, in comparison with NIS 338 million in 2018, an increase of 12.4%, derived mainly from decrease in expenses in respect of credit losses and a decrease in operating and other expenses.

Average balance of credit to the public amounted to NIS 38,875 million, in comparison with NIS 39,020 million in 2018, a decrease of 0.4%.

Credit to the public as of December 31, 2019 amounted to NIS 40,083 million, in comparison with NIS 38,816 million on December 31, 2018, an increase of 3.3%.

Average balance of deposits from the public amounted to NIS 33,489 million, in comparison with NIS 32,015 million in 2018, an increase of 4.6%.

Deposits from the public as of December 31, 2019 amounted to NIS 35,666 million, in comparison with NIS 32,181 million on December 31, 2018, an increase of 10.8%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLD AND PRIVATE BANKING

Following are main data concerning Private individuals segments - household and private banking - activity in Israel

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**1,244**	**38**	**1,282**	1,145	33	1,178
Non-interest income	**549**	**68**	**617**	577	62	639
Total income	**1,793**	**106**	**1,899**	1,722	95	1,817
Expenses from credit losses	**72**	**-**	**72**	67	-	67
Operating and other expenses	**1,443**	**65**	**1,508**	1,545	63	1,608
Net profit attributed to the shareholders of the Bank	**159**	**27**	**186**	49	20	69
Average balance of credit to the public	**45,476**	**50**	**45,526**	43,802	51	43,853
Balance of credit to the public at the end of the reported period	**47,418**	**67**	**47,485**	45,359	51	45,410
Average balance of deposits from the public	**50,896**	**7,611**	**58,507**	47,682	7,667	55,349
Balance of deposits from the public at the end of the reported period	**51,572**	**7,734**	**59,306**	50,300	8,029	58,329

Main changes in the result of activity in 2019 compared with 2018

Total net interest income amounted to NIS 1,282 million, as compared with NIS 1,178 million in 2018, an increase of 8.8%. This increase is explained by the increase in volume of activity and an increase in the financial spread in deposit takig activity and in the housing loans activity.

Non-interest income amounted to NIS 617 million, compared with NIS 639 million in 2018, a decrease of 3.4%, derived mainly from the decrease in commission.

Operating and other expenses amounted to NIS 1,508 million, as compared to NIS 1,608 million in 2018, a decrease of 6.2% explained mainly by expenses recorded in 2018 in respect of the merger of Otsar Hahayal, from a decrease in payroll expenses due to a decline in the manpower of the Group and from a decrease in maintenance and depreciation of buildings and equipment expenses derived from a decline in the volume of real estate assets in the group. This decrease was partialy offset by an increase in dismissal expenses due to early retirement of employees and an increase in salaries.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes household and private banking, amounted to NIS 186 million, compared with NIS 69 million in 2018.

Average balance of credit to the public amounted to NIS 45,526 million, in comparison with NIS 43,853 million in 2018, an increase of 3.8%.

Credit to the public as of December 31, 2019 amounted to NIS 47,485 million, in comparison with NIS 45,410 million on December 31, 2018, an increase of 4.6%.

Average balance of deposits from the public amounted to NIS 58,507 million, in comparison with NIS 55,349 million in 2018, an increase of 5.7%.

Deposits from the public as of December 31, 2019 amounted to NIS 59,306 million, in comparison with NIS 58,329 million on December 31, 2018, an increase of 1.7%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 365 million compared with NIS 436 million in 2018.
The net profit of the Financial Management Segment amounted to NIS 246 million compared with NIS 278 million in 2018.

The following are the main factors which affected the decrease in profit in the financial management segment:
- Decrease in gain from the sale of assets in consolidated subsidiaries, which amounted to NIS 46 million, net after tax effect, in the year 2018.
- Gain from the sale of the Stock Exchange shares was recorded in the amount of NIS 65 million, net after tax effect, in the year 2018.

On the other hand, the following facrors partially offset these effect:
- An increase in profit from investment in shares and bonds in the amount of NIS 47 million, net after tax effect.
- An increase in the share of the Bank in the earnings of ICC in the amount of NIS 14 million.
- A decrease in operating and other expenses and income from taxes in previous years attributed to this segment.

Tota expenses from trading activity attributed to this segment mounted to NIS 21 million.
Total interest income (expenses) (Note 2 to the financial statements) and non-interest income (expenses) (Note 3 to the financial statements) in respect of trading activity amounted to expenses in the amount of NIS 14 million.
The difference in the amount of NIS 7 million, derives from income from activity in derivatives for trading, which does not attributed to this segment.

PRINCIPAL INVESTEE COMPANIES

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of the share capital and voting rights, is a commercial bank which operates a network of 23 branches and sub-branches.

The Bank's investment in Massad amounted to NIS 370 million on December 31, 2019.

Total assets of Massad on December 31, 2019 amounted to NIS 8,694 million compared with NIS 8,255 million on December 31, 2018, an increase of 5.3%.

Shareholders' equity of Massad on December 31, 2019, totaled NIS 726 million compared with NIS 653 million on December 31, 2018, an increase of 11.2%.

Net earnings of Massad totaled NIS 77.7 million in 2019, compared with NIS 68.9 million in 2018, an increase of 12.8%. The change in profits is mostly explained by the increase in interest income, stemming mainly from the growth in volume of credit to the public and an increase in the Bank of Israe interest rate.

The Bank's share in Massad's operating results for 2019 amounted to NIS 39.5 million compared with NIS 33.1 million in 2018.

Net return on equity (annualized) amounted to 11.3% in 2019, compared with 11.1% in the same period last year. The ratio of comprehensive capital to risk assets amounted to 14.52%, compared with 14.12% at the end of 2018. The Tier 1 equity capital ratio amounted to 13.5% compared with 13.04% at the end of 2018.

In the framework of the ICAAP process for the data of December 31, 2018 the minimal capital targets were set as follows: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2021 and the comprehensive capital ratio will be no less than 12.65% until December 31, 2021.

On July 26, 2019, Mr. Gavriel Title was appointed as the CEO of Massad, instead of Mr. Yaacov Shuri who retired.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa and MasterCard brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also settles credit cards of Isracard brand.

The Bank's investment in ICC amounted to NIS 605 million on December 31, 2019.

The ratio of comprehensive capital to risk assets amounted to 14.0%, compare with 15.9% at the end of 2018.

The Bank's share in the net earnings of ICC before the tax effect amounted in 2019 to NIS 58.0 million compared with NIS 41.5 in 2018, an increase of 38.1%. The increase in profit is mainly explained from an increase in income from transactions in credit cards.

In 2019 ICC distributed a dividend in an amount of NIS 200 million. The Bank's share in the dividend amounted to NIS 56 million.

See note 25 to the financial statements regarding motions for approval of class actions against ICC and regarding assessments issued to ICC by the Director of Value Added Tax.

REVIEW OF RISKS

REVIEW OF RISKS

Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk (cross system risk), liquidity risk, operational risk including cyber and information security risk and information technology risk, compliance risk and AML risk, strategy risk, legal risk and reputation risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.
b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.
c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.
d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant by means of independent control. The third line consists of the internal and external auditing functions.
e. Chief Risk Manager and member of Management in charge of the risk management division and across the organization risk management infrastructure.
f. Those responsible for risk management at the Group are:

   Mr. Eli Cohen, CPA - serves as the Head of risk management division, CRO, operational risk manager, supervisor of the internal enforcement and manager of business continuity (in addition, the cyber risks manager is subordinated to him). Until November 15, 2019, Mr. Bentzi Adiri CPA served as the Head of risk management division and CRO.

   The Strategic risk is managed by Mr. Bentzi Adiri CPA, head of resources division (until January 1, 2020 was managed by Mr. Yossi Levi who retired).

   In addition, the financial risks are managed by Mr. Bentzi Adiri CPA (until November 15, 2019 were managed by Mr. Avi Sterenshous).

   Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager;

   Mr. Amir Birenboim - as from April 1, 2019, compliance manager, including, among other things Money Laundering risk, Finance of Terror risks and internal enforcement and cross border risks. Also appointed as Responsible Officer in-charge of implementation of the FATCA and CRS directives and QI agreement.

   Mr. Ron Grisaro - the CEO of MATAF -IT risk manager.

   Mr. Yehoshua Peleg, manager of cyber defense and information security- cyber risks manager;

   Adv. Haviva Dahan, head of the legal sub-division -Legal Risk Manager;

   Mr. Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management members of the Board of Management and department heads in the areas for which they are responsible.
h. Risk management is carried out at each banking subsidiary in the Group separately, in accordance with the policy determined by the subsidiary’s board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of each subsidiary’s activity. A Chief Risk Manager was appointed at each banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.
i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.
j. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.

   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.
k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and addtional information regarding risks - see addtional supervisory disclosure and report on risks on the Internet website of the Bank.

CREDIT RISK

General

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
As required under Proper Conduct of Banking Business Regulation 311, the credit risk is managed by applying an overall credit risk management policy.

Risk policy and risk appetite

General

The risk management division leads the process of the formulation of the credit risk policy, with the participation of the employees in charge of the credit extension in the Bank. The credit policy is discussed and approved at least once a year by the Management, loan and risk management committee and the Board of Directors of the Bank and is revised according to changes in the financial markets in Israel and globally, changes in regulation, etc., as detailed below. The Bank's procedures in the area of credit and credit risk management support and express this policy in practice.
The Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk by defining risk apetite. In this respect were defined areas of activities which are not in the marketing focus of the Bank, in cases were the risk level imbedded in them are high or if the level of management and control over them is not high enough, even though the potential yield from them is expected to be high.

Risk appetite

The Group's credit risk appetite reflects proportional willingness of taking credit risks, corresponding with coutious banking activity, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. Accordingly, the Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the activities areas that are notable for a high level of risk.

Credit risk measurement, estimation and management systems

The Bank employs internal models for rating the credit risk inherent in the customer’s activity. The models are based mostly on objective criteria relating to the borrower’s position (the customer’s characteristics, the composition of his collateral, the financial resilience apparent in the customer’s financial reports, sector-specific data and other financial data).

Collaterals management policy

The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral.
Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary.

Problem loan policy and the provision for credit losses

- The Bank has lucid and orderly working procedures for facilitating the early detection of problem borrowers. The Bank determined procedures for identification of problematic debts and classification of problematic debts. In addition, the Bank determined a policy for the measurement of the provision for credit losses in order to maintain provision in an appropriate level to cover anticipated credit losses.
- Operating within the Bank are specialist units that process problem loans.

- As stated in the section on accounting policy and accounting estimates in critical matters, under a new directive from the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk and the allowance for credit losses, since January 1, 2011, and as adopted in the directives for reporting to the public, the Bank has applied US accounting standards in the matter (ASC 310) and the positions adopted by the banking supervision authorities, and the US Securities and Exchange Commission (SEC).

Supervision and control of the management of credit risk exposure

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.

Credit risk exposure management is examined and reviewed constantly, within the review of all risks, by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.

The Bank has a system for documenting the legal documents creating the liens on the assets pledged as colateral in the customers files and a system that controls the value of the assets, enabaling current daily supervision.

Reporting on exposure to credit risks

Management and the Board of Directors of the Bank receive a range of reports on exposure to credit risks, and in various cross-sections by management, supervision and control entities.

In addition, actual credit risk exposure as compared to the permitted frameworks and restrictions determined by the Board of Directors and the authorities for their management are reported in the quarterly Risks Document as required in Proper Conduct of Banking Business Regulations 310 and 311.

Significant exposures to borrower groups

As of December 31, 2019 there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to to directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 1,859 million compared with NIS 1,820 million at the end of 2018, an increase of 2.1%.

The ratio of problematic credit risk to total credit risk at the group amounted to 1.5% similar to the end of 2018.

21.6% of problematic credit risk at the group are attributed to the manufacturing sector, 10.2% to the real estate sector, 13.9% to the commerce sector and 29.9% to the private customers sector including housing loans.

The ratio of impaired debt not accruing interest income to total credit to the public amounted to 0.74%, compared with 0.5% at the end of 2018.

For additional information regarding credit quality see note 29.b.(1) to the financial statements.

Problematic credit risk, non-performing assets and credit quality analysis

	December 31, 2019				December 31, 2018			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
								NIS million
Credit risk in credit granting rating[(1)]								
Balance sheet credit risk	**41,405**	**25,037**	**20,411**	**86,853**	40,775	23,734	19,378	83,887
Off-balance sheet credit risk	**17,476**	**2,217**	**12,277**	**31,970**	18,073	1,309	12,046	31,428
Total credit risk in credit granting rating	**58,881**	**27,254**	**32,688**	**118,823**	58,848	25,043	31,424	115,315
credit risk not in credit granting rating:								
Non problematic	**1,330**	**321**	**942**	**2,593**	1,323	388	1,230	2,941
Problematic[(2)]	**1,112**	**225**	**318**	**1,655**	1,052	198	361	1,611
Special supervision[(3)]	**476**	**215**	**99**	**790**	594	192	192	978
Inferior	**79**	**-**	**73**	**152**	86	-	75	161
Impaired	**557**	**10**	**146**	**713**	372	6	94	472
Total balance sheet credit risk	**2,442**	**546**	**1,260**	**4,248**	2,375	586	1,591	4,552
Off-balance sheet credit risk	**486**	**3**	**127**	**616**	493	-	135	628
Total credit risk not in credit granting rating	**2,928**	**549**	**1,387**	**4,864**	2,868	586	1,726	5,180
Of which: non-impaired debts in arrears of 90 days or more	**37**	**186**	**26**	**249**	28	185	30	243
Total overall credit risk of the public	**61,809**	**27,803**	**34,075**	**123,687**	61,716	25,629	33,150	120,495
Non-performing assets								
Impaired debts - not accruing interest income.	**523**	**10**	**117**	**650**	342	6	70	418

(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
(2) Impaired, inferior or special supervision credit risk.
(3) Including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears and are in arrears of 90 days of more.

Changes in impaired debts in respect of credit to the public**

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Commercial	Private	Total	Commercial	Private	Total
			NIS million			NIS million
Balance of impaired debts at beginning of period	**367**	**100**	**467**	447	95	542
Classified as impaired during the period	**369**	**104**	**473**	174	55	229
Removed from impaired classification	**(3)**	**-**	**(3)**	(8)	-	(8)
Accounting write-offs	**(77)**	**(14)**	**(91)**	(72)	(14)	(86)
Collection of debts	**(103)**	**(34)**	**(137)**	(174)	(36)	(210)
Balance of impaired debts at end of period	**553**	**156**	**709**	367	100	467
Of which: movement in problematic restructured debts						
Balance of restructured debts at beginning of the period	**150**	**83**	**233**	189	74	263
Debts restructured during the period	**85**	**71**	**156**	78	53	131
Accounting write-offs of restructured debts	**(39)**	**(14)**	**(53)**	(36)	(11)	(47)
Collection of restructured debts	**(56)**	**(32)**	**(88)**	(81)	(33)	(114)
Balance of problematic restructured debts at end of period	**140**	**108**	**248**	150	83	233
Changes in provision for credit losses in respect of impaired debts						
Balance of provision for credit losses at the beginning of the period	**121**	**23**	**144**	136	26	162
Increase in provisions	**146**	**27**	**173**	113	16	129
Collection and write-offs	**(98)**	**(15)**	**(113)**	(128)	(19)	(147)
Balance of provision for credit losses at the end of the period	**169**	**35**	**204**	121	23	144

Risk Indices

	2019	2018
Ratio of impaired credit to the public to total credit to the public	**1.08%**	0.83%
Of which:		
Ratio of impaired credit to the public to total credit to the public	**0.80%**	0.55%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.28%**	0.28%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.50%**	1.51%
Ratio of expenses for credit losses to average total credit to the public	**0.16%**	0.20%
Ratio of net write-offs in respect of credit to the public to average total credit to the public	**0.10%**	0.16%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.05%**	1.02%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**131.2%**	185.9%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	**97.1%**	122.3%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public	**8.9%**	15.3%

Total credit risk according to economic sectors
(NIS million)

	as at December 31, 2019						
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	**9,959**	**9,227**	**402**	**197**	**(8)**	**(8)**	**191**
Construction and Real estate - construction (5)	**10,266**	**9,838**	**97**	**61**	**(24)**	**(19)**	**71**
Construction and Real estate - real estate activities	**6,143**	**5,905**	**84**	**71**	**(3)**	**(3)**	**22**
Commerce	**7,837**	**7,366**	**259**	**92**	**62**	**49**	**159**
Financial services	**13,936**	**13,903**	**12**	**3**	**(7)**	**(4)**	**21**
Other business services	**12,342**	**11,324**	**441**	**247**	**69**	**25**	**126**
Total commercial (6)	**60,483**	**57,563**	**1,295**	**671**	**89**	**40**	**590**
Private individuals - housing loans	**27,803**	**27,254**	**228**	**10**	**3**	**1**	**121**
Private individuals - others	**34,075**	**32,688**	**328**	**148**	**69**	**65**	**275**
Total public - activity in Israel	**122,361**	**117,505**	**1,851**	**829**	**161**	**106**	**986**
Banks and Israeli government in Israel	**8,643**	**8,643**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**131,004**	**126,148**	**1,851**	**829**	**161**	**106**	**986**
In respect of borrowers abroad							
Total public - activity abroad	**1,326**	**1,318**	**8**	**8**	**(23)**	**(23)**	**1**
Banks and foreign governments abroad	**4,419**	**4,419**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**5,745**	**5,737**	**8**	**8**	**(23)**	**(23)**	**1**
Total	**136,749**	**131,885**	**1,859**	**837**	**138**	**83**	**987**

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 92,002, 10,656, 9, 1,091 and 32,991 million, respectively.

(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(4) Balance sheet and off-balance sheet credit risk that is impaired, inferior, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(5) Including balance sheet credit risk amounting to NIS 233 million and non-utilized credit facilities amounting to NIS 91 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,718 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

Total credit risk according to economic sectors (Cont'd)

(NIS million)

	as at December 31, 2018						
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,253	9,576	458	136	34	(3)	178
Construction and Real estate - construction (5)	9,797	9,491	121	55	1	-	76
Construction and Real estate - real estate activities	5,750	5,565	76	73	-	1	21
Commerce	7,981	7,242	371	113	50	68	161
Financial services	14,452	14,282	21	1	1	-	25
Other business services	11,850	11,067	192	89	18	13	81
Total commercial (6)	60,083	57,223	1,239	467	104	79	542
Private individuals - housing loans	25,629	25,043	198	6	4	-	119
Private individuals - others	33,150	31,424	375	95	63	57	271
Total public - activity in Israel	118,862	113,690	1,812	568	171	136	932
Banks and Israeli government in Israel	10,726	10,725	-	-	-	-	-
Total activity in Israel	129,588	124,415	1,812	568	171	136	932
In respect of borrowers abroad							
Total public - activity abroad	1,633	1,625	8	8	(5)	(3)	-
Banks and foreign governments abroad	4,840	4,839	-	-	-	-	-
Total activity abroad	6,473	6,464	8	8	(5)	(3)	-
Total	136,061	130,879	1,820	576	166	133	932

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 88,776, 12,368, 863, 1,399 and 32,655 million, respectively.

(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(4) Balance sheet and off-balance sheet credit risk that is impaired, inferior, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(5) Including balance sheet credit risk amounting to NIS 309 million and non-utilized credit facilities amounting to NIS 95 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,875 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

Counter-party credit risk management

a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions may change over the lifetime of the transaction.

b. Policy

The Bank has risk policy and risk appetite at the Group level for activity with financial institutions, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it and based on parameters derived from the financial resilience of the counter-party.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default.

As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and financial institutions.

c. Present credit exposure to counter-parties that are foreign financial institutions

Most of the Bank Group's credit exposure to foreign financial institutions is to banks, mainly the banking systems in Western Europe and North America. The exposure to other financial institutions is negligible.

Present credit exposure to foreign financial institutions,(1) consolidated

External credit rating (5)	As of December, 2019			As of December 31, 2018		
	Balance-sheet credit risk(2)	**Current Off-balance-sheet credit risk(3)**	**Aggregate credit risk**	**Balance-sheet credit risk(2)**	**Current Off-balance-sheet credit risk(3)**	**Aggregate credit risk**
			NIS million			NIS million
AAA to AA-	**528**	**2**	**530**	596	1	597
A+ to A-	**1,403**	**47**	**1,450**	1,714	15	1,729
BBB+ to BBB-	**76**	**16**	**92**	44	12	56
BB+ to B-	**41**	**-**	**41**	51	-	51
Unrated	**-**	**-**	**-**	-	2	2
Total credit exposure to foreign financial institutions	**2,048**	**65**	**2,113**	2,405	30	2,435
Of which: Balance of problem loans (4)	**-**	**-**	**-**	-	-	-

NOTES:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.
(2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments.
(3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.
(4) Credit risk that is impaired, inferior or under special supervision.
(5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:

a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.
c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 27.B to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 304 million on December 31, 2019 (December 31, 2018 - NIS 327 million).

The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.

Most of the Group's present credit exposure (94%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 25% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 24 million investment in foreign currency bonds. All these bonds are investment grade bonds, which are rated A- or higher. The average duration of the portfolio is 2.8 years.
In addition, balance-sheet credit risk includes NIS 1.5 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2019 there is no country for which the Group has credit exposure to sovereigns exceeding 15% of the Bank's equity capital, which amounted to NIS 1,669 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

d. Reporting of exposure to counter-party credit risks

Management and the Board of Directors of the Bank and its committees receive a range of reports on the exposure to counter-party credit risks in various cross-sections by management, supervision and control entities.

Exposure to foreign countries

Balance-sheet exposure to foreign countries consists of deposits, bonds, credit to the public and the fair value of financial instruments.

Off-balance-sheet exposure consists of guarantees, off-balance-sheet credit risk with respect to financial derivatives and unutilized facilities.

Main exposures to foreign countries*(1) (NIS million)

	As at December 31, 2019			As at December 31, 2018		
	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total
United States	**3,601**	**68**	**3,669**	3,877	121	3,998
Other	**2,711**	**408**	**3,119**	3,583	453	4,036
Total exposure to foreign countries	**6,312**	**476**	**6,788**	7,460	574	8,034
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	**18**	**4**	**22**	15	18	33
Off which: Total exposure to LDC countries	**140**	**47**	**187**	254	96	350
Off which: Total exposure to countries with liquidity problems	**4**	**2**	**6**	4	2	6

* Including countries, the exposure to which exceeds 1% of total assets of the Bank on consolidated basis or 20% of capital, the lower of them.

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, problematic credit risk and impaired loans are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.

(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.

Risks in the Housing loans portfolio

Credit policy at the Bank Group regarding mortgages

The Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly, and is updated in accordance with changes and transformations taking place in Israel, changes in regulation, etc. As part of this policy, the Bank currently follows developments in the mortgages portfolio and adopts different measures for the management of the risk inherent therein.

Risks are examined in accordance with the policy adopted in respect of risk appetite in the mortgage field, both at the level of the single transactions and at the level of the whole mortgage portfolio of the Group. The Bank manages the risks, inter alia, by imposing restrictions regarding certain parameters, such as the financing ratio (LTV), ratio of repayment to income, the rate of loans carrying variable interest, the rate of loans for long periods (exceeding 25 years), and more. Upon the granting of a mortgage loan, the Bank examines the probability of default by using a statistical model, modified to customers of the Group, as well as examines the repayment ability of the borrower in possible scenarios of changes in interest rates. The Bank takes extra care in cases of assets the registration position of which is complex, while giving greater consideration to the quality of the borrower and to the financing ratio.

The Bank performs monthly control on the development of risk characteristic of the mortgage portfolio, in accordance with restrictions according to parameters of the credit policy. In addition, the Bank monitors changes in the volume of troubled debts in the mortgage portfolio, as well as the rate of arrears thereof, comparing the data with that of the whole banking sector.

Volume of housing loans

	For year ended December 31,		
	2019	**2018**	**Change**
		NIS million	%
Housing loans extensions			
Loans from bank funds	**4,374**	4,149	5.4
Loans from treasury funds	**21**	16	31.3
Grants from treasury funds	**11**	7	57.1
Total new loans	**4,406**	4,172	5.6
Refinanced loans from bank funds	**525**	300	75.0
Total extensions	**4,931**	4,472	10.3

	As at December 31,		
	2019	**2018**	**Change**
		NIS million	%
Balance of housing loans, net			
Loans from bank funds	**25,692**	24,138	6.4
Loans from treasury funds*	**320**	370	(13.5)
Grants from treasury funds*	**31**	24	29.2
Total balance of housing loans	**26,043**	24,532	6.1

* These amounts are not included in the balance sheet balances

Loan to value

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with the Banking Supervision Division's Directive No. 876 - "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.

The portfolio of housing loans extended from the Bank's sources on December 31, 2019 included 70% of credit granted at an LTV of up to 60%, compared with 71% on December 31, 2018. 94% of total loans were granted at an LTV of up to 75%, similar to 2018.

Housing loan extensions from the Bank's sources in 2019 included 71% of credit granted at an LTV of up to 60%, compared with 73% in 2018. All loan extensions were granted at an LTV of up to 75%, similar to 2018.

The calculation of the LTV does not include loans which are not secured by an asset.

Debt-income ratio

Another key parameter used by the Bank in examining the risk in the housing loan portfolio is the debt-income ratio. This ratio enables the Bank to assess a borrower's ability to maintain current loan repayments in an orderly manner from the borrower's regular income at the date of the extension of the loan.

The portfolio of housing loans extended from the Bank's sources as of December 31, 2019 included 88% of credit granted at a debt-income ratio of up to 35% compared with 87% on December 31, 2018. 98% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 97% on December 31, 2018.

Housing loan extensions from the Bank's sources in 2019 included 93% of credit granted at a debt-income ratio of up to 35% compared with 92% in 2018. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to 2018.

The calculation of the ratio does not include loans which are bullet and balloon.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of December 31, 2019 includes 61% of credit that was granted at floating-rate interest and amounts to NIS 15,767 million.

Housing loan extensions from the Bank's sources in 2019 include NIS 1,519 million of credit granted at floating-rate interest of up to five years constituting 35% of extentions. An amount of NIS 992 million is floating-rate credit for five years, constituting 23% of extentions .

Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2019 includes 84% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 21,579 million.

Housing loan extensions from the Bank's sources in 2019 include 72% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 3,141 million.

Set out below are data on the development of the housing loan portfolio at the Bank alone by linkage segments (excluding credit from Treasury funds and after deduction of the allowance for credit losses)

	For residential purposes											Secured by a residential apartment	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.12.19	**6,489**	**26.1**	**10,869**	**43.7**	**3,246**	**13.1**	**4,215**	**17.0**	**20**	**0.1**	**24,839**	**853**	**25,692**
31.12.18	5,885	25.4	10,246	44.1	3,132	13.5	3,925	16.9	34	0.1	23,222	916	24,138

Set out below are data on the development of housing loan extensions at the Bank alone (excluding credit from Treasury funds)

	2019	2018	2017	2016	2015
Total housing loan extensions (NIS million)	**4,374**	4,149	3,756	4,337	4,796
Rate of change in housing loan extensions compared with previous year	**5.4%**	10.5%	(13.4%)	(9.6%)	29.4%
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**0.01%**	-	(0.01%)	0.01%	0.01%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.49%**	0.50%	0.51%	0.55%	0.60%

Private individuals credit risk (excluding housing loans)

General

The private consumption is in growth trend during the last years, and as a result also the volume of credit to private individuals.

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.

The credit policy for private individuals reflects the risk apetite of the Bank and its intensions as to the risk levels it wants to take as well as the wanted profile for the private individuals credit portfolio and its volume in respect to the overall credit portfolio.

The granting of credit is based on statistical models for the rating of credit risk, which take into account the personal parameters of each customer, including: his income and stability of income, financial wealth, his repayment ability and past experience of the Bank with the customer.

This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit in the level of the single customer and in the level of the Bank, as well as in control procedures and structured work procedures, in the different control lines.

Models of credit rating used by the banks both for the direct granting of credit via the Internet, the cellular application and via "International Bank Call", and in the underwriting process of credit at the branches. The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein - shape the proportional risk appetite of the Group as regards the consumer credit field.

The Bank focuses on retail credit, typified by a high level of distribution and a low level of risk, taking into account the fact that the subsidiary Massad Bank is engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each population in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, salaried persons and those having a fixed income, designated populations having a joint connection on a country-wide level (such as: teaching personel, Ministry of Defense personnel, etc.) having repayment ability or realizable collateral.

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Most of the customers in the households segments and Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

These loan repayments and additional loans to the defense personnel population as well as loans granted in the framework of collective agreements, deducted directly from salaries.

78% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to the account in an amount exceeding NIS 10 thousands.

Set out below is the distribution of Private individuals credit risk (excluding housing loans) in Israel:

	As of December 31		
	2019	**2018**	**change**
		NIS million	%
Current account and utilized balances of credit cards	**5,448**	5,136	6.1
Other loans	**16,221**	15,646	3.7
Total balance credit risk	**21,669**	20,782	4.3
Unutilized current account credit lines	**4,273**	4,147	3.0
Unutilized credit lines in credit cards	**6,851**	6,658	2.9
Other off-balance credit risks	**1,265**	1,542	(18.0)
Total off-balance credit risk	**12,389**	12,347	0.3
Total credit risk	**34,058**	33,129	2.8
Average volume of credit, including overdrafts, credit cards and loans	**20,655**	20,228	2.1

Set out below is the distribution of Private individuals credit risk of total debts (excluding housing loans) in Israel:

	As of December 31		
	2019	**2018**	**change**
		NIS million	%
Impaired credit risks	**148**	95	55.8
Unimpaired problematic credit risk	**180**	280	(35.7)
Non-problematic credit risk	**33,730**	32,754	3.0
Total credit risk	**34,058**	33,129	2.8
Of which: unimpaired debts in arrears of 90 days or more	**26**	30	(13.3)
Balance of restructured debts out of the problematic credit	**108**	83	30.1
Expense rate of credit losses out of total credit to the public	**0.32%**	0.33%	

Following is the distribution of credit risk relating to private individuals in Israel by fixed income credited to the account

				December 31, 2019
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	**393**	**35**	**428**	**206**
Up to 10	**3,964**	**456**	**4,420**	**2,333**
From 10 to 20	**5,112**	**1,296**	**6,408**	**3,404**
Over 20	**6,260**	**4,153**	**10,413**	**6,446**
Total	**15,729**	**5,940**	**21,669**	**12,389**

				December 31, 2018
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	313	28	341	169
Up to 10	4,209	522	4,731	2,462
From 10 to 20	4,886	1,270	6,156	3,478
Over 20	5,816	3,738	9,554	6,238
Total	15,224	5,558	20,782	12,347

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary, total annuities, cash deposits and check deposits).

** The financial assets portfolio related to the account, such as: monetary deposits (including current account balances), securities portfolios and other financial assets.

Distribution by average period to redemption (according to the last repayment date of the loan)

	December 31, 2019	December 31, 2018
		Balance sheet credit risk
Period		NIS million
Up to one year	**6,012**	5,678
From one to three years	**3,019**	2,974
From three to five years	**4,822**	4,457
From five to seven years	**2,730**	2,761
Over seven years	**5,086**	4,912
Total	**21,669**	20,782

Distribution by size of credit to the borrower*

			December 31, 2019			December 31, 2018
Credit range to the borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk****	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk****
NIS thousands			NIS million			NIS million
Up to 10	**277**	**631**	**908**	261	608	869
From 10 to 20	**403**	**816**	**1,219**	388	815	1,203
From 20 to 40	**1,136**	**1,874**	**3,010**	1,095	1,862	2,957
From 40 to 80	**3,054**	**3,150**	**6,204**	2,957	3,136	6,093
From 80 to 150	**5,873**	**3,125**	**8,998**	5,644	3,083	8,727
From 150 to 300	**6,728**	**2,141**	**8,869**	6,475	2,157	8,632
Over 300	**4,198**	**652**	**4,850**	3,962	686	4,648
Total	**21,669**	**12,389**	**34,058**	20,782	12,347	33,129

* Definition of borrower - in accordance with the definition included in Proper Conduct of Banking Business Directive No. 313.

** Total credit risk - excluding indebtedness in respect of derivatives and excluding residential loans.

Distribution by type and extent of exposure to a significant growth in payments

	Balance sheet credit risk	
	December 31, 2019	December 31, 2018
Type of credit		NIS million
Current account	**1,775**	1,787
Credit card	**3,673**	3,349
Credit carrying variable interest	**15,650**	15,068
Credit carrying fixed interest	**571**	578
Total	**21,669**	20,782

Collateral

	December 31, 2019			December 31, 2018		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
			NIS million			NIS million
Total credit secured by collateral*	**4,107**	**1,125**	**5,232**	4,059	1,381	5,440
* Of which:						
Non-liquid collateral	**3,434**	**877**	**4,311**	3,324	1,141	4,465
Liquid collateral	**673**	**248**	**921**	735	240	975

Description of operations

A. The underwriting of credit to private individuals

The underwriting of consumer credit is conducted taking into consideration of personal parameters of the customer and reflects readiness for proportional acceptance of credit risk. This concept is well reflected in quantitative and qualitative limitations, as well as by means of a wide array of structured work procedures and close control processes in the different control lines.

The banks in the Group offer credit to their customers in an initiated fashion on the basis of monitoring the risk characteristics of the borrower and identifying his needs. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency towards the customer.

B. The manner of supervising and monitoring risk characteristics

The banks in the Group have a high level of skill and expertise in the field of retail credit due to many years of experience in household credit.

The Group trains its employees at a high level of professional skill in the credit field, having decision supporting computer systems and control and monitoring systems for the early discovery of borrowers in default or of negative symptoms.

The Group hedges acceptance of credit risks, inter alia, by means of the distribution of risk among customers.

Risk management and the control thereof are conducted at the Bank by means of an appropriate infrastructure of inspection, supervision, control and audit mechanisms. Control in the matter of consumer credit is conducted by means of three defense lines.

Controls conducted within the framework of the first line of defense include: the monitoring of deviation from current account and revolving debit account credit facilities, examination of troubled credit in arrears and follow-up of developments in the troubled consumer credit at the branches.

The second line of defense includes different controls, the essence of which are intended to test the financial management of accounts and to identify signs for deterioration in the debt situation. Deterioration signs may stem from a decline in the volume of operations, deviation from approved credit facilities, etc. In addition, the Bank uses supporting computer systems, such as a system for the identification and treatment of debts showing trouble symptoms and a statistical system forecasting credit default.

The third line of defense is the internal audit division, which is responsible for performing independent audits of risk management, work framework and controls over consumer credit risks, including the work of the first and second lines of defense in respect of this risk.

Construction and real estate sector risks

On background of the risk under which the Israeli banking sector is operating in the construction and real estate credit field, as well as on background of changes and developments in the housing credit market, directives of the Supervisor of Banks and Government regulations, the Bank adopts a proportional and careful credit policy, approved by the Board of Directors of the Bank, which is examined every year and is revised in accordance with changes in conditions in the country, changes in regulation, etc. The said proportionality and care are reflected in the examination of the financing ratio, the careful examination of failures in the financing of construction projects and examination of the ratio of the borrower's equity and early sales, this in order to reduce the risk to the extent possible.

Moreover, The Bank has adopted a specific policy in respect of the different lines of operation in the real estate and construction field, including the financing of housing construction, financing of income producing property construction, as well as financing of construction of income producing offices, commercial and industrial properties. The Bank grants credit to "purchase groups" and focuses on groups having projects in demand areas and on groups the organizer thereof has proven experience in this field.

Over and above examination performed on a current basis, the Bank conducts monthly discussions with respect of all credit portfolios and examines the condition of the projects as well as the level of risk inherent in each, and reduces exposure accordingly.

The pricing of each transaction is strictly calculated in accordance with the risk involved and the required capital allocation.

The parameters used by the Bank for the examination of risk relating to the real estate credit portfolio are mostly "loan to value", the ratio of the credit amount to the value of assets used as collateral at date of approval of the loan, based on an updated value assessment and the existence of stable sources for the repayment of the credit.

Examination of the risk relating to the construction credit portfolio is performed on a monthly basis, based on construction progress reports by the supervisor of the project, where the examined risks are both at the level of market risk and at the level of execution risk.

Following are data of credit to the public risk in the construction and real estate field:

	December 31	
	2019	**2018**
		NIS million
Overall credit risk[(1)]		
Projects not yet completed		
Of which: Open land	**2,123**	1,846
Property under construction	**4,467**	4,484
Completed building projects	**4,255**	4,253
Other[(2)]	**5,564**	4,964
Total	**16,409**	15,547

(1) Of which: credit secured by housing property in the amount of NIS 5,107 million, Credit secured by industrial property in the amount of NIS 634 million and credit secured by commercial property in the amount of 5,104 million (31.12.18 - NIS 5,638 million, NIS 430 million and NIS 4,515 million, respectively).

(2) Includes credit to borrowers in the construction and real estate field in Israel, the collateral provided by them does not include real estate, or borrowers where the value of their property for prompt realization purposes secures less than 50% of the credit risk of the borrower.

Leveraged Finance

Leveraged finance is defined as credit granted for financing capital transaction by corporations (as defined in the Bank of Israel directive 323) that meets certain criteria, and credit granted to debtors characterized with high finance leverage levels.

The Bank considers leveraged finance as credit included in one of the following four classes:

A. Credit for the purpose of a capital transaction, as defined in Bank of Israel directive 323 (acquisition of another corporation, purchase of own shares and distribution of capital), which meets certain tests regarding the volume of credit, the relating ratio of finance, and the volume of tangible collateral as determined by the Bank.

B. Credit for different business purposes, which meets certain tests indicating weak financial data, as determined by the Bank.

C. Credit provided for the finance of income producing real estate, which meets certain tests in respect of the volume of credit, the relating ratio of finance, and the volume of tangible collateral as determined by the Bank.

D. Credit for rolling construction projects purposes, which meets certain tests in respect to the volume of credit, the volume of tangible collateral, and the risk to which the project might expose the Bank, as determined by the Bank.

In view of the high risk characteristics of the leveraged finance, the policy of the Bank states stringent guidelines for underwriting and restrictions on the scope of exposure to leveraged finance.

The criteria according to which the Bank considers credit as leveraged finance were determined conservatively.

As of December 31, 2019, total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 587 million, as compared to NIS 708 million at the end of 2018.

MARKET RISK

General

1. Market risk (financial risk) is the actual or future existence of a risk to the Group’s income and capital and risk of erosion in the Group's fair value as the result of changes in prices, rates and margins in the financial markets in which it operates or is likely to operate, and which affect the value of the Group’s assets or liabilities: interest rates, exchange rates, inflation, securities prices, volatility in these parameters and changes in other economic indexes.
2. The Bank has a detailed policy for the management of exposure to financial risks. The policy document outlines and details, inter alia, overall financial risk appetite and risk appetite across a single cross-section of risk and principles for activity.

Supervision and control of market risk exposure management

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.
Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet website of the Bank).

Reporting of market risk exposures

The Management, the Risk Management Committee and the Board of Directors of the Bank receive a variety of reports on exposure to market risks and in various cross-sections and among other things, development in the risk and in the financial environment and adherence to restrictions. These reports are submitted by management, supervisory and control entities.

Risk appetite

The Group's risk appetite reflects proportional willingness of taking financial risks, corresponding with coutious banking activity, conservative, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. In general, the Bank aspires to minimize the financial risks it is taking, and endeavors to create proper profitability while taking low financial risks.
Accordingly, the Bank's policy includes an extensive variety of risk/loss quantity restrictions, proportional to the Bank's capital, and tight control processes and structured working processes in the various control lines of defense.

Methodology for the estimation of exposure to market risk

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests, interest exposure management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve.

Interest exposure

General

Interest risk is the actual or future existence of a risk to the Group’s income as the result of a difference between the redemption dates or interest adjustment dates of assets and liabilities in each of the segments of activity. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

Exposure management

Interest risk exposure is managed by means of adjusting the duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates, subject to the limits determined by the Board of Directors. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest senarios is measured, and its potential erosion on the economic value and the accounting profit for 12 months forward, in each of the segments seperately, and all segments together, is measured. The Bank’s principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, and results from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.
The Bank uses derivative financial instruments part of its assets and liabilities management, including for hedging, in order to minimize the interest risk in specific activities in the nostro portfolios.

Risk appetite

- The interest risk appetite is conservative, as reflects in the restrictions, and the utilization of the exposure limits is conducted according to the Bank's estimates regarding expected interest rates and the structure of the interest curve in different time horizons and subject to the restrictions defined in the financial risks policy.
- The Bank has series of restrictions on changes in the interest curve and specific restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units and restrictions on the maximum erosion in fair value in crisis scenario.

Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption periods of assets and liabilities. The effect of the early repayment of housing loans is also taken into account in risk management.
Non-interest bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

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

Following are the details on assets and liabilities which are exposed to changes in interest according to their fair value, including sensitivity analysis as to the effect of potential changes in interest rates on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-financial items, according to accounting rules:

Following are the details of the effect of changes in the interest rate on the fair value of the asset surplus in the segment, on net interest income and non-interest income:

1. Fair value of financial instruments of the Bank and consolidated subsidiaries, excluding non-financial items (before the effect of potential changes in the interest rates):

	December 31, 2019			December 31, 2018		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
			NIS million			NIS million
Adjusted fair value, net [(1)]	**7,580**	**84**	**7,664**	6,641	(138)	6,503
Of which: banking portfolio	**7,748**	**(122)**	**7,626**	6,954	(1,064)	5,890

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods.

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A to the financial statements.

2. Effect of scenarios of changes in interest rate on the adjusted fair value[1] of the Bank and its consolidated subsidiaries:

	December 31, 2019			December 31, 2018		
	NIS[5]	Foreign currency	Total	NIS[5]	Foreign currency	Total
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**(67)**	**(35)**	**(102)**	(81)	(25)	(106)
Of which: banking portfolio	**(58)**	**(20)**	**(78)**	(83)	(15)	(98)
Parallel decrease of 1%	**146**	**26**	**172**	109	21	130
Of which: banking portfolio	**138**	**14**	**152**	110	14	124
Non-parallel changes						
Steeping [2]	**(187)**	**(2)**	**(189)**	(190)	1	(189)
Flattening [3]	**194**	**(16)**	**178**	152	(11)	141
Interest increase in short term	**142**	**(30)**	**112**	57	(17)	40
Interest decrease in short term	**(41)**	**14**	**(27)**	(35)	5	(30)

The table presents the adjusted net fair value of all financial instruments, with the assumption that the change in interest occurred in all interest rate and in all linkage segments

3. Effect of scenarios of changes in interest rate on interest income, net and non-interest income:

	December 31, 2019			December 31, 2018		
	Interest income	Non-interest income	Total[4]	Interest income	Non-interest income	Total[4]
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**304**	**6**	**310**	290	10	300
Of which: banking portfolio	**304**	**-**	**304**	288	-	288
Parallel decrease of 1%	**(583)**	**(6)**	**(589)**	(545)	(10)	(555)
Of which: banking portfolio	**(583)**	**-**	**(583)**	(543)	-	(543)

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods.
(2) Steeping- decline of interest in the short term and increase in interest in the long term.
(3) Flattening- Increase in interest in short term and decline in interest in the long term.
(4) After offsetting effects.
(5) The components for which a negative interest environment is taken in the calculation- derivative financial instruments, assets and liabilities in the CPI segment and bonds in the foreign currency segment.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.

Disclosure regarding preparations for the discontinuation of use of the LIBOR

On February 13, 2020, the Supervisor of Banks published a circular letter in the matter of "disclosure regarding preparations for the discontinuation of use of the LIBOR", this on background of the disclosure guidelines of the SEC regarding the discontinued use of the LIBOR, clarifying, inter alia, the required disclosure in the matter. The said disclosure guidelines had been published on background of the risk of lack of certainty regarding the way in which contracts linked to the LIBOR would be interpreted, in a situation in which, as from the year 2021, a LIBOR rate would no longer be published, or it is determined that the LIBOR no longer represents the relevant interest rates.

In accordance with a publication of the British Financial Conduct Authority (FCA) of July 2017, the global financial system is expected to gradually discontinue use of the LIBOR until 2021. Following this decision, work teams have been formed worldwide for the purpose of determining alternative interest indices to the LIBOR rate for each of the following currencies: US dollar, Pound Sterling, Euro, Swiss Franc and the Japanese Yen. The alternatives being studied by the work teams include, inter alia, the interest rates of the SOFR (Secured Overnight Financing Rate); the SONIA (Sterling Overnight Index

Average); the ESTER (Euro Short-Term Rate); the SARON (Swiss Average Rate Overnight); TONA (Tokyo Overnight Average Rate).

The discontinued use of the LIBOR and transition to alternative interest indices are expected to have wide implications upon the Bank, such as: economic, operational and accounting implications.
In this respect, guidelines of the Supervisor of Banks clarify that, on background of the uncertainty risk regarding the interpretation of contracts linked to the LIBOR, banks are required to include in their reports to the public as from December 31, 2019, disclosure regarding their preparations for the discontinued use of the LIBOR.
The Bank has begun the process of studying the expected impact of the discontinuation of the publication of the LIBOR rate, including examination of the possible alternatives in each of the currencies mentioned above, the financial implications that might arise from the transition to the use of such currencies, and the required preparations regarding both the business aspect and the risk management aspect of the new exposure.
At the same time, in view of the early stage of this project, it is not possible as yet to assess unequivocally the extent of the impact of the discontinued use of the LIBOR upon the Bank.

As of date of this Report, and in accordance with assessments made by the Bank, it does not have material balance sheet exposure regarding contracts that relate to the LIBOR, for periods exceeding the year 2021.
Exposure to the LIBOR rate within the framework of derivative operations established under ISDA arrangements and under other arrangements is not material.

Principal risks and preparations made by the Bank in respect thereof

The discontinuation of use of the LIBOR and transition to alternative interest indices, create different risks for the Bank, such as: financial risk, model risk, legal risk, regulation and supervision risk, technological risk and business risk. The Bank has identified these risks, inter alia, by means of mapping all relevant contracts and exposure.
As of date of this Report, the Bank has started preparations for the management and reduction of identified risks related to the discontinuation of use of the LIBOR. As part of these preparations, the Bank has formed a designated team, aimed, inter alia, at developing working procedures for the identification of risk, assessment of the scope of the risk, examination of the impact of each risk, offering alternatives for means of risk reduction, the monitoring of risk and related implications, as well as submission of current reports to Management and the Board of Directors.

The following risks had been mapped at this stage:

- Financial risk - decline in profitability and/or increase in costs stemming, inter alia, from: recognition of loss on financial instruments held by the bank, due to cancellation of contracts; customer objection to their interest charges; decline in the number and turnover of customer transactions; opening of positions exposed to interest and modification of the Bank's asset and liability management process.
- Model risk - structuring a transfer price methodology modified to the transition to alternative interest indices; determining new pricing for products.
- Legal risk - studying the need and way of making changes to existing contracts and the drafting of new contracts agreeing with the discontinuation of use of the LIBOR and the new economic environment.
- Regulation and supervision risk - absorption of policy, procedures and allocation of responsibility.
- Technological risk - updating of the data bases and information systems, including their modification for use of the old and new products.
- Business risk - includes mostly the basis risk created as a result of the fallback mechanisms between the different products (such as: deposits as against derivatives).

Financial implications

The discontinuation of use of the LIBOR and transition to alternative interest indices, are expected to have different accounting implications in a number of areas, inter alia, as follows:

- Hedge accounting - the main expected effects on hedge accounting are, inter alia: banks would be required to examine whether, in view of the transition to a probable, alternative interest index, the terms required for the application of hedge accounting are being maintained.
- Discounting rates - transition to alternative interest indices might lead to changes in discounting rates used as input in different models for the purpose of valuation of different assets and liabilities, such as: financial instruments, leasing, derivatives and impairment of nonfinancial assets.

Basis exposure

General

Basis exposure is created as a result of unmatching in timing, in the basis of measurement and the investment amount with or without hedging activities.

Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment (the CPI segment and the foreign currency denominated and linked segment) is defined as basis risk exposure.

Exposure management

- Management of the basis risks and the investment in active capital (defined as shareholders' equity plus minority interest and less non-monetary items, net) in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Division regarding developments in the money and capital markets.
- The composition of the investment of active capital in the different linkage segments is managed on a current basis subject to the restrictions presented below, and on the basis of forecasts regarding the relevant market variables when exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities and the exposure of active capital.
- Apart from determining restrictions on overall risk appetite to basis risks at the active capital exposure level, Management of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

Actual basis exposure

Set out below is a description of the exposure of active capital, at the Group level (NIS millions):

	Exposure of Active Capital		% of active capital	
	As of December 31,		As of December 31,	
	2019	2018	2019	2018
Non-linked local currency	**3,959**	5,504	**58**	87
CPI-linked local currency	**2,780**	1,045	**41**	16
Foreign currency and f-C linked	**38**	(199)	**1**	(3)

Sensitivity of capital to changes in the exchange rate

The Bank operates in the currency markets by means of spot transactions, forward transactions and options on its own behalf and on behalf of its customers. The Bank operates using global negotiable currencies, and the total net currency exposure for the Group is low.

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not exposued in its derivative activity to material currency risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of December 31, 2019 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

	Dollar	Euro
5% decrease	**9**	**(1)**
10% decrease	**13**	**(3)**
5% increase	**(5)**	**5**
10% increase	**1**	**13**

NOTES:

(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.

(2) An increase implies a strengthening of the currency in question against the shekel.

(3) The data express the effects of changes in exchange rates on fair value after the tax effect.

(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank's earnings.

Sensitivity of capital to changes in the CPI

The Bank operates in the CPI market by extending uses such as loans, mortgages and the purchase of bonds and by raising CPI linked funds. In addition, the Bank performs CPI forward transactions on behalf of its customers and itself.

The Bank is not exposed in its forward activity to material CPI risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of December 31, 2019 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in CPI	
3% decrease	**(81)**
3% increase	**73**

Option risk

General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including implied volatility.

Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and especially to changes in the volatility of the underlying assets, the Board of Directors has determined additional restrictions for the dealing room's activity in options.
- The Board of Directors of the Bank has determined restrictions with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. The Board of Directors has also determined restrictions on the maximum changes in the value of the options portfolio in terms of sensitivity indexes (Greeks), and the maximum erosion in the fair value at crisis scenario.

Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

Management of risks in derivative financial instruments

General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

Rist appetite

The Bank has a policy for the management of risks in derivative instruments, including activity volumes of option tracks containing "implied" options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.

Investment in various derivative instrument is carried out after the measurement of each instrument and its adjustments to the financial needs of the Bank and its ability to operate in an optimal manner, as well as its ability to monitor the risk attached to it, both in the market risk and in the credit risk for transactions were the Bank acts on behafe of its customers.

Foreign currency dealing room

The foreign currency dealing room trades in a wide variety of foreign currency financial instruments. In addition it was appointed by the Treasury as a chief market maker in local currency government bonds. The foreign currency dealing room is one of the most active dealing rooms in the banking system in derivative instruments as well, and acts in the currency market by spot transactions, interest transactions, OTC options and FX/NIS options traded on the Tel Aviv stock exchange.

The foreign currency dealing room acts in the main currencies however the main activity is in Dollar/Shekel.

The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

Set out below is the volume of activity in derivative financial instruments (nominal value NIS millions):

	December 31, 2019			December 31, 2018		
	Derivatives not for trading	Derivatives for trading	Total	Derivatives not for trading	Derivatives for trading	Total
Hedging transactions:						
Interest rate contracts	**2,911**	**-**	**2,911**	3,209	-	3,209
Other transactions:						
Interest rate contracts	**969**	**17,410**	**18,379**	900	25,001	25,901
Foreign currency contracts	**12,882**	**62,045**	**74,927**	8,851	51,250	60,101
Contracts on shares, share indexes, commodities and other contracts	**-**	**44,493**	**44,493**	37	45,290	45,327
Total derivative financial instruments	**16,762**	**123,948**	**140,710**	12,997	121,541	134,538

Supervision and control of management of derivative instrument risk

The Bank's activity in derivative financial instruments on its own behalf is controlled and supervised by the lines of defense and the exposures are reported in the risk report document.

Share price risk

Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the mediate-long run in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 125 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the requisition.

Risk apetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk apetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

LIQUIDITY RISK

General

Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources, including sharp decline in the value of assets available to the Bank. Materialization of the risk might cause the Bank shortage in liquid means, that will force the Bank to realize assets in prices lower than the market prices and/or raise funds in a price higher than market prices and in crisis situations might endanger the stability of the Bank.

Risk management policy

The Bank applies a comprehensive policy for the management of liquidity risk in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, minimal liquidity ratios in ordinary scenarios and in stress scenarios including the survival range on the cash flows, and reference to measurement tools, the supervision and control and the reporting mechanisms that have to be maintained as part of the current liquidity risk management. Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

Risk appetite

The Bank and the Group endeavors to sustain appropriate inventory of liquid assets, concurrect with the management of uses that will produce income to the Bank.

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is conservative and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts incharge of management of this risk.

Liquidity coverage ratio in accordance with Proper Conduct of Banking Business Directive No. 221

The Bank calculates the LCR (Liquidity Coverage Ratio) in accordance with Proper Conduct of Banking Business Directive No. 221, from September 2014, in the matter of liquidity coverage ratio, which adopts the Basel Committee recommendations as regards liquidity coverage ratio by the banking sector in Israel.

The liquidity coverage ratio is a Standard intended to improve the short term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private markets, so as to provide response to liquidity requirements in stress situations, which combines a specific shock to the bank and to the banking sector as a whole, and which continues for thirty calendar days.

The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The liquidity coverage ratio contains two components:

(a) The value of high quality liquid assets (HQLA) under stress tests.

(b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress test.

The ratio is computed as a proportion of the high quality liquid assets to the total net cash outflow during the next thirty calendar days. Starting from January 1, 2017 the minimal regulatory requirement for the LCR, both for the Bank level and the Group level, is 100%. However, in times of financial stress, a banking corporation can deviate below this level, but it has to report the deviation immediately to the Bank of Israel, and in certain cases, with a plan to close this deviation.

As part of the policy of management of financial risks, the Board of Directors adopted an internal restriction, which is stringent than the regulatory restriction for LCR, both for the banking entity solo and consolidated.
The Bank adhere in all the regulatory risk restrictions for 2019.

Set out below is the liquidity coverage ratio consolidated and the Bank:

	For the three months ended December 31	
	2019	2018
		percent
Liquidity coverage ratio consolidated data	**128%**	122%
Liquidity coverage ratio Bank data	**127%**	122%
Minimal liquidity coverage ratio as per the Supervisor of Bank	**100%**	100%

Supervision and control of Liquidity risk exposure management

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherence to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.
Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense.

Reporting on exposure to liquidity risks

- A daily liquidity report in shekels and in foreign currency is produced.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the head of the Finance Division.
- Reporting on positions is collated in the quarterly "risks document," and current brief on the exposure to liquidity risks as necessary.

Management of liquidity risk on a Group basis

The Bank implement comprehesive policy for the management of the liquidity risk in local currency, in foreign currency and linked to foreign currency, on group level, Bank and banking subsidiary levels, in accordance with Proper Conduct of Banking Business Directives Nos. 342 and 221. The banking subsidiary is responsible to maintain independence policy of short term liquidity risk management (up to 12 months) and long term, while fulfilling the directives of the regulatory authority and in adjustment to its needs and in accordance with the structure of its assets and liabilities and nature of its operations.
In addition, the banking subsidiary adhere to its own liquidity ratio.
There are no material restriction or limitations on transfering funds within the group over the restrictions applying to performing transactions of any kind.

Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which include: cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 47.3 billion on December 31, 2019, compared with NIS 42.9 billion at the end of 2018. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 37.5 billion, and NIS 9.8 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public, net on December 31, 2019 amounted to 136.6% compared with 132.5% on December 31, 2018.

At the end of December 2019, deposits from the public, bonds and subordinated notes totaled NIS 123.7 billion compared with NIS 116.7 billion at the end of 2018.

The composition of the assets and liabilities of the Bank shows high liquidity. This, as a result of the policy to raise deversified and stable funds, while emphsizing on raising sources for medium and long periods from deversified customers sectors and in different currencies.

The Bank has sources in a contractual duration for a short- medium terms, which the Bank anticipate that they will be stable for a long period of time. The uses are both for short term and medium- long term.

In general, the currency exposures of the Bank in the foreign currency segement are low (see the chapter on market risk).

The CPI exposure of the Group as of December 31, 2019 amounted to NIS 2,780 million.

For information regarding details of assets and liabilities according to currency and maturity date- see note 31 to the financial statements.

Balance of deposits from the public of the three largest depositors in the Group:

	As of December 31	As of December 31
	2019	**2018**
		NIS million
1	**2,721**	2,017
2	**2,439**	1,758
3	**2,089**	1,672

FINANCING RISK

General

Financing risk derives from the unexpected rise of financing cost, when financing sources are refinanced or paid and exchanged by new financing sources which are more expensive, or when the Bank has to realize uses as a result of lack in available sources.

The financing risk at the Bank is managed as part of the liquidity risk management. The Bank has diversified financing sources mainly deposit from the public.

This risk is monitored by short/long model that restricts the volume of long sources in Israeli currency and foreign currency and also limits the loss anticipated to the Bank in respect of cost increase in the fund raising in the period of one year.

OPERATIONAL RISK

General

According to the definition of Proper Conduct of Banking Business Regulations No. 350, operational risk is the risk of loss resulting from the impropriety or failure of internal processes, persons (including labor relation risk) or systems or resulting from external events. The definition includes legal risk, fraud and embezzlement risks, information security and cyber risks and business continuity, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).

Policy

The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, in accordance with Proper Conduct of Banking Business Regulations 310 and 350, setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank. The policy also prescribes risk identification, assessment, control and monitoring mechanisms, and the reporting systems.

Exposure management

1. Detection, mapping, minimization and monitoring of risk

Operational risks are unseperable part of all types of business activities of the Bank, the processes of the organizational units and crosswise processes and supporting systems. A basic component in the risk management plan of the Bank is effective and pro-active management of the operational risks, including frauds, embezzelements and unethical behaviour.

The operational risk mapping and identification review is one of the main methods for controlling and supervising these risks. The review includes the mapping and documentation of the business processes, identification of the operational risks and controls in these processes, including embezzelement and unethical behaviour, also with respect to the database concerning failure events and audit findings, assessment of risks and their mitigation by implementation of new controls, reinforcement of controls, etc.

As an outcome of the risk surveys performed, the findings of the internal audit and the drawing of conclusion in respect of failure events, mechanized and other controls are combined in the defferent activities in the Bank, as well as work processes and control were upgraded and improved.

In addition, and as part of the monitoring and control infrastructure key risk indicators (KRI) have been defined at the Bank for the early detection of changes in the risk map.

2. Failure event collation

The Bank collates and documents loss events (events that caused or nearly caused a loss/profit, provision for lawsuit) for the purpose of data base for quarterly and annual analysis of trends and risk centers, for presentation to Management and the Board of Directors for estimating the operational risks in business processes and at the organizational units, and for keeping a history of shortcomings, learning lessons and improving processes.

The Bank also conducts a lesson learning process for significant external events reported in the media.

3. System for measurement, estimation and management of operational risks

The Bank manages the risks map by means of software, supporting the methodology of management of the operational risks. The centeral data base of the software, includes the information of the organizational structure and the mapping and documentation of the processes in the Bank.

Business continuity planning

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the directives of Proper Conduct of Banking Business Regulation 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. The Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity, a working framework document detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly.

Risk management in an iCloud environment

The Banks applies a policy using iCloud computing within the framework of its information technology management policy, as approved by Management and the Board of Directors. The Bank acts in accordance with Directive 362 in the matter, which determines guidelines and terms required for the use by a banking corporation of the iCloud computing technology, and which emphasizes the need for risk management in respect of each of the uses of iCloud computing technology.

Information security

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of information security policy in accordance with Proper Conduct of Banking Business Regulation 357. The Bank has made all the preparations required in Bank of Israel directives concerning the social media and implement the guidelines of he privecy regulation.

Implications of information security risks and cybernetic incidents

Cybernetic attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's information and the operative readiness of its systems. This damage could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cybernetic attacks, in addition to overall information security activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes technical devices and processes for reducing the vulnerability of the Bank's infrastructures, on the basis of special attack scenarios defined by the Cyber defence Manager.

The cyber defense unit identified attack atempts, but the Group did not experience cybernetic attacks with a material effect on the functioning of the Group.

In accordance with Proper Conduct of Banking Business regulation 361 concerning management of cyber defense, Management and Board of Directors of each banking entity in the Group defined the strategy of defending cybernetic attacks and the policy of the defense from cybernetic attack for the banks in the gorup.

The Bank implements the instructions of Proper Conduct of Banking Business regulations which were issued by Bank of Israel in respect of the activity of the Bank against its service providers: Regulation 363: "Management of cyber risks in chain of supply" and regulation 359A- "Outsourcing". In addition, the Bank complies with the control requirements of Swift company.

Supervision and control of operational risk management

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

OTHER RISKS

LEGAL RISK

General

Legal risk is included in operational risk as defined in the Proper Conduct of Banking Business Regulations 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

Risk appetite

The Bank adopts a conservative policy of a low risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank adopts a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

Policy and exposure management

The Bank operates in accordance with a legal risk management policy, detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank's Legal Department monitors developments in legislation, regulation and in court rulings which could affect the current activity of the Bank, and provides consultation, back-up and legal support to the Bank and its different units. The Bank endeavors to minimize risks on the basis of these developments and their implications.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

Reporting on legal risk exposure

- Exposures to legal risks are collated and reported in the quarterly Risks Document, which is discussed once every quarter in Management, and Board of Director committee for risk management.
- On the occurrence of a material event of a legal nature, such as a lawsuit or the materialization of legal risk, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager. The policy for legal risks management, specifies immediate reports and other report to the Bank's CEO and Board of Directors.

Group management of legal risk

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. A Group Legal Risk Management Committee convenes regularly to discuss material legal issues and exposures.

RISK MANAGEMENT IN THE NIS AND FOREIGN-CURRENCY SECURITIES PORTFOLIO-MARKET AND INDEBTEDNESS RISKS

a. The Board of Directors of the Bank have determined in the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks, interest and liquidity. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets that may affect the Bank's exposures.
b. The Bank invests only in the bonds of companies that have been rated investment grade minimal as of the purchase date, as set in the policy of management of financial risks after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.
c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments.
d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank's reporting format are:
   - Immediate reporting on discovery of a deviation from restrictions and procedures.
   - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
   - A weekly report to the two-days Current Matters Committee chaired by the CEO or the financial risk manager on the opening of margins, new purchases, sales and exceptional events.
   - Every second week investment meeting, chaired by the financial risk manager.
   - At least once a quarter discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
   - A report six times a year to the Board of Directors' Risk Management Committee.
   - A quarterly report within the framework of the overall risks document.
   - A report every second month to the ALCO Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

   See the section on the composition and development of the Bank Group's assets, liabilities, capital and capital adequacy for details of the securities portfolio.

COMPLIANCE RISK

General

- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- Proper Conduct of Banking Business Directive No. 308 of the Supervisor of Banks requires banks to act in order to maintain all statutes and rules of conduct applying to the different banking operations of a bank. An update to the Directive published in December 2019, added the duty of studying also significant changes occurring outside of Israel regarding compliance rules enforcement policy applied outside of Israel and which apply to a banking corporation, including activity of customers. Identification and assessment processes found at the basis of the update, are to include also conclusions drawn from significant compliance events, and shall be established in the procedures of the banking corporation, or in another documented manner that would ensure their absorption in the process.

  The Bank acts for an initiated and organized gathering of foreign regulation updates relating to the main countries relevant to the cross-border operation of the Bank.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of a bank.
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject. The Bank appointed the Head of the Risk Management Division and CRO of the Bank as the supervisor on the internal enforcement program of the securities law. The Bank conducts a follow-up on the application of the internal enforcement program for the securities law, among others, by executing controls and audits in the securities laws area.
- The Bank has adopted an internal enforcement program regarding economic competition legislation. The Bank has established procedures and different processes for the continuing implementation of the program. The Bank has appointed the Chief Compliance Officer of the Bank as the function in charge of internal enforcement at the Bank of economic competition legislation. The bank performs monitoring of the execution of the enforcement program with respect to economic competition legislation, inter alia, by means of performing controls and also by taking action to absorb information in this field.

Policy

The Board of Directors prescribed and approved a Group compliance policy. The Bank has revised the compliance policy in accordance with the new Directive, whithin the framework of which, it determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

Risk appetite

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization.

Exposure management

- In order to abide by the Directive, the Bank has established a Compliance Department (hereinafter - "compliance function" or the "the function"), which is subject to the Chief Compliance Officer and serves as an independent function responsible for compliance risk management at the Bank. Moreover, the Chief Compliance Officer was also appointed as Regulation Officer ("RO") in charge of the implementation of legislation rules and instructions regarding FATCA, the aim of which is to enforce reporting mechanisms with respect to bank accounts of American citizens held outside the US, as RO in charge of verifying the implementation of the Qualified Intermediary ("QI") rules, which apply the reporting requirements and the withholding of tax from certain payments not only to accounts of American foreign residents but also to other accounts recording income from US sources, as well as officer in charge of verifying the implementation of the common reporting standards (CRS) rules, which similarly to the FATCA rules, are aimed at regularizing the manner of the automatic exchange of information between countries signing this agreement, with respect to financial accounts of foreign residents.
- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps to all echelons of authority at the Bank.
- Working alongside the Chief Compliance Office are:
  - Compliance supervisors at each of the Bank's branches and the head-office.
  - A forum for monitoring the application of statutory directives, that monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.

Exposure reporting

- Quarterly report within the quarterly risk document, which includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to violations and preventing their recurrence, and the Bank’s preparations for applying a new compliance directive, as well as an annual detailed report summarizing his activity in the previous year.
- In addition, immediate reports are defined in the compliance policy prescribed by the Board of Directors, to Management and Board of Directors.

Management of compliance risk on a group basis

The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiary, providing guidance and assistance to the subsidiary company in developing systems, the writing of procedures, training of staff and integration of the instructions. The banking subsidiary has its own compliance officer.

Conduct risk management

Conduct risk is cross-organization risk, which extracts its normative framework from a long list of laws and regulation guidelines and which is based on fundamental values such as fairness, transparency, in the way the Bank conducts with deferent stakeholders. The Group is requested to implement the values of fairness and transparency in its activity with its customers and to strengthen these values in its daily operations. In general, the group is requested to ensure that the proposal that are given to customers are costumed to their needs. Failing to meet the conduct risk expose the group to different risks, among others, compliance risks, legal risk, reputation risk etc. The Bank implemented a policy regarding proper business conduct (conduct risk) as part of the compliance policy.

MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

General

- Money laundering and terrorism financing prohibition risk (hereinafter: “money laundering/AML“) is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Law, the Financing of Terrorism Prohibition Law, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Regulation 411 and various circulars.

Policy

The Board of Directors of the Bank approves once a year the Group’s money-laundering and terrorism financing prohibition policy document.

Risk apetite

- The Bank operates "zero tolerence" policy concerning money laundering risks including cross border tax offences, which in its framework all the Bank's managers and employees, without any exception, including all the subsidiaries in the Group, must comply to the Law's directives and regulations applicable to the Bank and to all the Bank's procedures derived from these directives.
- The Bank group applies stringent policy to assure precise application of the law and suitable knowledge of the customers with which the Bank conduct its business, including understanding its business conducted with the Bank or by the Bank, imparative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.
- The policy in the area of money laundering prevention includes clear definision of prohibitions in relation to activity with entities and countries against which there are restrictions.

Exposure management

A unit for prevention of money laundering and finance of terrorizm operates within the Bank, and is responsible for the application of the law directives in this subject and their implementation.

The unit is part of the compliance unit and is subordinated to the chief compliance officer, which also serves as the officer in charge of Anti Money Laundering. The compliance department is subordinated to the Chief Risk Officer.

The roles of the person in charge of AML and finance of terror include, inter alia:

- Policy and procedures compilation and updates in accordance with changes in legislation and the provisions of the law, development and conduct of controls to ensure that the Bank is implementing the law and reports the necessary reports, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary corporations in the Group and conducting and/or reviewing the existence of instructional sessions to money laundering prohibition officers and all employees, which increase the awareness to the subject.
- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures. These supervisors are

selected from among the Bank's authorized signatories, and in the area of money-laundering prohibition are professionally subordinate to the Money Laundering Prohibition Officer.

- The Bank inspects data quality by means of control reports that are circulated to the branches together with appropriate guidelines. The Bank also invests considerable resources in developing and upgrading computerized control systems, and allocates personnel to the unit in order to increase the efficiency of the controls for the detection of unusual transactions.
- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- An advisory committee was established for the purpose of assisting the Money Laundering Prohibition Officer in his function, the main elements of which include: discussion of unusual transactions when doubts exist as to whether their details should to be sent to the Money Laundering Prohibition Authority.

Exposure reporting

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to the Board of Directors of the Bank.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to Management, the Board of Directors and to the Bank of Israel.

Group management of money laundering and terrorism financing risk

The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Law, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries in Israel and abroad, as required in Proper Conduct of Banking Business Regulation 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.

Cross-border risk management

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, The Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial accounts), 2019, which were published on February 6, 2019, adopt the international standard regarding the exchange of information ("the CRS standard") which was developed by the Organization of Economic Cooperation (OECD) , in order to automaticly exchange information on annual basis, in order to provide mutual assistance in tax enforcement between countries. The Bank and the Group prepared to implement the said legislation.

REPUTATION RISK

General

Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.

Risk appetite

The group has low tolerance to reputation risk, that might have an impact on its stability, including threats deriving from the perception of the Bank. Further more, the Bank sees a positive perception as a major asset, therefore it will act to prevent the materialization of the reputation risk that might reach a crisis scenario and will try to minimize the materialization of reputation risks, as much as possible.

Policy and exposure management

The Bank has a policy for the management of the risk that includes: identifying and monitoring after the risk factors and compilation of prevention activity, early identification of potential reputation events, continuous monitoring of the risk and its management.

Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the reputation risk including immediate reports. The reporting layout defines, inter alia, who is responsible to report, its frequency and its recipients.

STRATEGY RISK

General

Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation.

Policy and exposure management

The goals of the strategy risk management policy are:

- To assure the correlation between the Bank's strategic objectives to: annual work plans; the resources that were allocated to these objectives (among others, capital allocation as part of the capital planning of the Bank); implementation of strategic decisions.
- The ability to monitor the strategy risk, which allow early identification of the gaps in materialization of strategy planning: erroneous decisions/ plans; inappropriate implementation of strategic decisions; sector, economic, technology and regulatory changes.

Risk appetite

The group has low tolerance to strategic risk, due to the critical impact it might have on the Bank's stability and business acheivements. The Group embrace business strategy characterized by high level of cousious and conservativity.

Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the strategy risk along the different lines of defense.

Regulatory risk

This risk stems from the trend of increasing regulatory requirements in recent years in Israel and over the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity and loss of income. The changes also require preparation, implementation and integration, which may result in heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, the compliance risk and the strategy risk. The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank and at the Group for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and reducing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support on basis of such developments.

From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes. For details regarding material regulatory initiatives having an impact on the operations of the Bank in the reported period, see the Chapter "Legislation regarding Limitations, Standards and Special Constraints affecting the Bank Group" in the "Corporate Governance - Additional Details" part.

DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the quarterly risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, alone, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

	Risk	Effect	Risk level
1.	**Market risks**	Market risk is the actual or future existence of a risk to the Group's income and capital as the result of changes in prices, rates and margins in the financial markets in which it operates, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, commodities prices, volatility in these parameters and changes in other economic indexes. In order to minimize the exposure to market risks, the Bank has a detailed policy for the management of exposure to market risks which specifies inter alia: overall market risk appetite and risk appetite across a single cross-section of risk control layout, reporting infrastructure and principles for activity.	Low-Medium
1.1	**Interest risk**	Interest risk is the risk to earnings or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates. Interest rate risk to which the Bank is exposed to include: the risk of repricing, yield curve risk, base (spread) risk and option risk. The interest risk to the entire portfolio, is one of the dominant risks the Bank is exposed to in respect to the effect on the present value of assets and liabilities and profit.	Low-Medium
1.2	**Inflation risk**	Inflation risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in the consumer price index.	Low
1.3	**Exchange rate risk**	Exchange rate risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in exchange rates.	Low
1.4	**Share/Option risk**	Share price risk is a risk to a loss as a result of changes in the shares' price or shares' index. Option risk is the actual or future risk to the Group's income and capital that could materialize as the result of a loss deriving from changes in the parameters affecting the value of options, including standard deviation.	Low
2.	**Liquidity risk**	Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources. In order to minimize the exposure to liquidity risk, the Bank applies an overall policy for the management of liquidity risk in local and foreign currency and foreign-currency linked activity as required in accordance with Proper Banking Management Regulations.	Low
3.	**Credit risk**	Credit risk is the risk of borrowers or counterparty will not fulfil their obligations to the Bank. In order to minimize the exposure to credit risk, a risk management policy and exposure restrictions with respect to borrowers/sectors in the different segments of activity have been defined at the Group. The Bank has an extensive control and reporting environment.	Low-Medium

	Risk	Effect	Risk level
3.1	**Quality of borrowers and collateral**	The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit, in such cases as: - The borrower's financial robustness - resilience, liquidity, profitability, repayment ability, level of leverage, and/or harm to them as the result of developments in economic parameters (such as exchange rates and interest rates), and/or the business environment and developments in the sector in which the borrower operates. - Value, quality or composition of the collateral provided by the borrower for securing the credit in his accounts.	Low-Medium
3.2	**Sector concentration**	Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability.	Low
3.3	**Borrower and borrower group concentration**	Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to a borrower/group of borrowers, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors.	Low
4.	**Operational risk**	Operational risk is the actual or future risk to the value of the Group's assets, income and capital, due to the impropriety or failure of internal processes, persons and systems, including implemental systems and technological infrastructure, or due to external events, including cyber risk. The definition includes fraud and embezzlement risks, information security risks, cyber and business continuity and legal risks, but does not include strategic risk or reputation risk. In order to minimize the exposure to operational risk, the Bank applies an overall operational risk management policy that outlines the control environment, the organizational frameworks and the managerial functions that will be used for the management and minimization of exposure to operational risks.	Medium
4.1	**Cyber and data protection risk**	This risk (being part of operating risk) is separately assessed in view of increasing events around the world and in the financial system in particular, and in view of the expanding digital activity. The risk is defined as a potential for the damage stemming from a cyber event, considering the level of likelihood and severity of its implications. The Bank manages the risk in accordance with Proper Conduct of Banking Business Directives Nos. 357, 361, 363 and 367, relating to this risk and to the threats stemming there from. For the purpose of proper management of the cyber risk, the existing framework for the management of information technology and data protection risks at the Bank has been enlarged and modified regarding the aspects of the scope of threat conception and the required defence capabilities. The Bank adopts many prevention measures to reduce the risk.	Medium
4.2	**Information technology risk**	This risk (being part of operating risk) is separately assessed because the technological environment is complex and variable and dependence on it is increasing. In recent years the risk has intensified in view of the need to increase business and technological flexibility as well as increasing the use of new technologies. The risk is being managed in accordance with the information technology management policy and in accordance with Proper Conduct of Banking Business Directives Nos. 357.	Medium

	Risk	Effect	Risk level
5.	**Legal risk**	Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Regulation 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements". In order to minimize the exposure to legal risk, the Bank applies a legal risk management policy that is submitted for the approval of the Management and the Board of Directors. The policy document describes legal risk, and the methods employed for identifying, mapping and minimizing the risk. For this purpose, the Bank acts to identify in advance all legal risks, including a review of any new product/service or activity, and compilation of all the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.	Low
6.	**Reputation risk**	Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources. Reputation risk is materially impacted by the materialization of adjacent risks such as operational risk, credit risk, compliance risk, and money laundering and terrorism financing risk, the publication of which could lead to the materialization of reputation risk (for example, theft or embezzlement events, money laundering events and large monetary loss).	Low-medium
7.	**Legislative and regulatory risk**	Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel.	Medium

	Risk	Effect	Risk level
8.	**Compliance, money laundering and terrorism financing prohibition risks**	Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, in accordance with the Efficiency of Enforcement Procedures in the Securities Authority Act, the risk of failure to comply with the provisions of the Internal Enforcement Plan in competition legislation and the risks arising from activity vis-à-vis foreign residents. This risk also includes conduct risk, which is a cross organization risk that draws its normative outline from a long list of legislation and regulation directives and based on basic values such as fairness and transparency in the manner the Bank operates with different interest holders. Stricter regulations and enforcement by the tax authorities in different countries, designed to locate offshore accounts of residents could impact clients' behaviour patterns and expose the Bank to compliance risk, reputation risk and cross-border compliance risks. Money laundering and terrorism financing prohibition risk (hereinafter: "money laundering/AML ") is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk. The degree of impact of compliance, money laundering and terror funding risks affects all areas of operation of the Bank, including administrative enforcement and international regulation in tax matters, including FATCA and CRS. In order to minimize the risk, policy and procedures were set for the management of the various risks, in each a risk appetite was defined, and an outline of procedures, controls and supporting IT systems and an outline of requested reports are existing.	Medium
9.	**Strategy risk**	Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. The strategy risk includes also competition risk, stemming from exposure of the Bank Group to competition in Israel in all segments of the Group's operations. In the course of its current operations, the Bank Group faces competitive factors, which include banking corporations and other financial bodies that provide alternative financial products to those provided by it. The competition risk reflects the risk of erosion in profitability and in equity, on background of the competitive pressure to lower the level of commissions and margins. In the fourth quarter of 2019, it has been decided to raise the risk level from "low-medium" to "medium", in view of the rise in risk of the competitive environment, which is gathering.	Medium

Apart from the above-mentioned risks, the Bank's financial results and its performance are directly affected by the state of the Israeli economy. Deterioration in the conditions in the Israeli economy and/or deterioration in geopolitical conditions and/or deterioration in the security situation could adversely affect the Group's income. Most of the activity of the Bank and of a large part of its held companies is carried out in the State of Israel. Accordingly, a recession in the economy, a significant withdrawal of foreign investments that were placed in the economy during recent years, a substantial economic downturn and a decrease in the standard of living in Israel could seriously impair the Bank's results. An economic recession is likely to increase the volume of problematic debts, reduce activity turnover in the capital market, adversely affect the demand for current banking services consumed by households, and lead to a decrease in the volume of credit card activity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

GENERAL

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that the estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

a. Provision for credit losses

Since January 1, 2011, the Bank has applied the directives for reporting to the public concerning "measurement and disclosure of impaired debts, credit risk and provision for credit losses," which adopt American accounting standards in the matter (ASC 310) and the positions taken by the banking supervision authorities and of the SEC in the USA.

The Bank determined procedures for identifying problematic credit and classifying debts as problematic. According to these procedures, the Bank classify all problematic debts and the off balance sheet items as: under special supervision, infered or impaired. In addition the Bank set up a policy for measurement of the provision for credit losses in order to maintain provision at a suitable level to cover expected credit losses in regard to the credit portfolio.

The provision to cover credit losses regarding the credit portfolio is estimated by one of two options: specific provision or collective provision.

The individual (case-specific) provision, which is relevant for problem debts under the classification of "impaired," is made on the basis of the Management's assessments regarding the losses inherent in the balance-sheet and off-balance-sheet credit portfolio. This provision is estimated by means of the difference between the recorded balance of the debt and the present value of the receipts expected on repayment of the debt, or the fair value of the collateral.

Estimation of the receipts expected on repayment of the debt from the diverse relevant sources of repayment, including the borrower's business activity, the value of the collateral provided by the borrower, private sources for repayment and the realization value of the guarantees provided by the borrower or by third parties, requires the use of discretion and estimates which the Management of the Bank regard as reasonable when assessed, although there is naturally no certainty that the amounts actually received will be the same as the estimates that were determined.

In addition, the Bank examines the debts and writes off from the accounting aspect, debts that conform to the terms of accounting write-off.

The group provision is relevant to all debts not classified as impaired, calculated to reflect impairment in respect of individual unidentified credit losses inherent in large groups of small debts with similar risk characteristics, as well as for debts which were examined specificly and found to be unimpaired.

The provision estimated on a collective basis for balance sheet and off balance sheet credit risk is calculated on the basis of historical loss rates in the different economic segments for the period starting 2011. Accordingly, the determination of provision in 2019 is based on the rate of accounting write-offs in the period of the last nine years), while distinguishing between problematic credit and unproblematic credit. The Bank uses the average historical loss rates in the different economic segments in the range of the said years, and in addition, in order to estimate the appropriate provision rate regarding credit to the public take into account additional data (qualitative adjustments). Regarding the explanation of qualitative adjustments- see Note 1.d.(5) to the financial statements.

b. Lawsuits and contingent liabilities

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.
   The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.
2. The processing of claims and complaints against the Bank.
   Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.
Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly.
As to the disclosure format of legal claims see Note 1.d.(16) to the financial statements.

c. Employee rights

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes - Severance compensation, pension, retiree benefits and other.
- Other benefits (for some companies in the Group) - seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

Following efficiency moves, which the Bank implements, including gradual decline in manpower, as detailed in the note for Employees' rights (see note 23 to the financial statements), the parameters were updated as mentioned above.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

	December 31, 2019	
	Increase of 1%	**Decrease of 1%**
		NIS million
Effect of change in Salary on:		
Actuarial liabilities for pension and severance payments	**85**	**(69)**
Other post-employment and retirement benefits	**2**	**(2)**
Benefit in respect of nonutilized sick leave	**4**	**(4)**
Effect of change in discount rate on:		
Actuarial liabilities for pension and severance payments	**(71)**	**88**
Other post-employment and retirement benefits	**(34)**	**46**
Benefit in respect of nonutilized sick leave	**(4)**	**5**
Staff long service awards	**(1)**	**1**
Effect of change in rate of employees leaving on:		
Actuarial liabilities for pension and severance payments	**80**	**(111)**
Other post-employment and retirement benefits	**(2)**	**2**
Benefit in respect of nonutilized sick leave	**(7)**	**10**
Staff long service awards	**(1)**	**1**

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes - severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.

The effect of the change in the principal parameters on benefits - seniority awards and benefits in respect of unutilized sick leave, are recognized in profit and loss.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

d. Assessment of the fair value of derivative financial instruments

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.

Since 2012, the Bank has applied FAS 157 principles for the measurement of the fair value of derivative financial instruments.

FAS 157 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.

The use of these data types create the following scale of fair value:

- Level 1 data - prices quoted from an active market.
- Level 2 data - prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data - prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under FAS 157 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32(b).

e. Fair value of securities

The Bank's activity in non for trading shares which have available fair value, bonds in the portfolio available for sale and in thesecurities portfolio for trading is measured in the balance sheet on the basis of their fair value.

See Note 1.d.(8) and Note 1.d.(9) to the financial statements regarding the determination of fair value of securities and other than temporary impairment.

Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the Financial division of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank's total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer's bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

The Mortgage-Backed Bond (MBS) portfolio

The external quotation supplier provides the Bank with data on the prices of all the securities existing in the portfolio. Once a month, a reasonability test is run on the external quotation supplier's prices by means of prices taken from other financial systems.

Sensitivity analysis

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 9.7 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Nores 12 and 32(b).

f. Capitalization of software development costs

See Note 1.d.(14) to the financial statements regarding intangible assets and impairment of software developments costs.

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are report of Management and the Board of Directors in respect of internal control over financial reporting as well as declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for December 31, 2019 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the fourth quarter ending on December 31, 2019, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Tel Aviv, 15 March, 2020	**Jacob Sitt** Acting Chairman of the Board	**Smadar Barber-Zadik** CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the year 2019 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, 15 March, 2020

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the year 2019 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, 15 March, 2020

Nachman Nitzan
Executive Vice President,
Chief Accountant

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2019, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2019, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2019 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report .The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2019.

Jacob Sitt
Acting Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 15 March, 2020

AUDITED ANNUAL FINANCIAL STATMENTS

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AUDITORS' REPORT TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

We have audited the accompanying balance sheets of The First International Bank of Israel Ltd. (hereinafter - "the Bank") as of December 31, 2019 and 2018, and the consolidated balance sheets of the Bank and its subsidiaries as at such dates, and the related statements of income, the statements of comprehensive income, changes in equity, and cash flows - the Bank and consolidated - for each of the three years the last of which ended December 31, 2019.

These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973 and certain auditing standards applied in the audit of banking corporations guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated at December 31, 2019 and 2018 and the results of their operations, the changes in the equity and the cash flows - for the Bank and consolidated - for each of the three years which ended December 31, 2019 in conformity with Generally Accepted Accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the directives of the Supervisor of Banks.

As explained in Note 1.A.1, the accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

15 March, 2020

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2019	2018	2017	2019	2018(1)	2017(1)
Interest Income	2	**3,085**	3,001	2,704	**2,847**	2,312	2,060
Interest Expenses	2	**483**	515	402	**491**	511	397
Interest Income, net	2	**2,602**	2,486	2,302	**2,356**	1,801	1,663
Expenses from credit losses	13,29	**138**	166	121	**127**	117	47
Net Interest Income after expenses from credit losses		**2,464**	2,320	2,181	**2,229**	1,684	1,616
Non-Interest Income							
Non-Interest Financing income	3	**225**	231	83	**233**	203	94
Fees	4A,4B	**1,286**	1,325	1,305	**1,144**	995	973
Other income	5	**9**	81	62	**54**	151	176
Total non-Interest income		**1,520**	1,637	1,450	**1,431**	1,349	1,243
Operating and other expenses							
Salaries and related expenses	6	**1,601**	1,696	1,579	**1,487**	1,303	1,179
Maintenance and depreciation of premises and equipment		**353**	376	380	**326**	282	278
Amortizations and impairment of intangible assets	17	**92**	91	94	**89**	86	83
Other expenses	7	**608**	656	554	**583**	508	486
Total operating and other expenses		**2,654**	2,819	2,607	**2,485**	2,179	2,026
Profit before taxes		**1,330**	1,138	1,024	**1,175**	854	833
Provision for taxes on profit	8	**478**	408	358	**418**	319	284
Profit after taxes		**852**	730	666	**757**	535	549
The bank's share in profit of equity-basis investee, after taxes	15	**51**	37	54	**108**	198	129
Net profit:							
Before attribution to non-controlling interests		**903**	767	720	**865**	733	678
Attributed to non-controlling interests		**(38)**	(34)	(42)	**-**	-	-
Attributed to shareholders of the Bank		**865**	733	678	**865**	733	678

Consolidated and The Bank	**Note**	**2019**	**2018**	**2017**
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		**8.62**	7.31	6.76

(1) See note 15.E. regarding to merging Otsar Hahayal with and into the Bank.

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

Jacob Sitt
Acting Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 15 March, 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31(1)

(NIS million)

			Consolidated
	2019	**2018**	**2017**
Net profit before attribution to non-controlling interests	**903**	767	720
Net profit attributed to non-controlling interests	**(38)**	(34)	(42)
Net profit attributed to the shareholders of the Bank	**865**	733	678
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale bonds (2018 and 2017- securities) to fair value, net	**101**	(102)	90
Adjustments from translation of financial statements(2) net after the effect of hedges(3)	**-**	-	4
Adjustments of liabilities in respect of employee benefits(4)	**(74)**	37	1
Other comprehensive income (loss) before taxes	**27**	(65)	95
Related tax effect	**(9)**	22	(35)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**18**	(43)	60
Less other comprehensive income (loss) attributed to non-controlling interests	**(2)**	(4)	3
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**20**	(39)	57
Comprehensive income before attribution to non-controlling interests	**921**	724	780
Comprehensive income attributed to non-controlling interests	**(36)**	(30)	(45)
Comprehensive income attributed to the shareholders of the Bank	**885**	694	735

(1) See Note 10.
(2) Adjustments from translation of financial statements of foreign operations which their currency of operations is different from the currency of operation of the Bank.
(3) Hedges-gains (losses) regarding the hedging of investment in foreign currency.
(4) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

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

BALANCE SHEET AS AT DECEMBER 31

(NIS million)

		Consolidated		The Bank	
	Note	2019	2018	2019	2018[5]
Assets					
Cash and deposits with banks	11	**37,530**	31,303	**36,528**	30,905
Securities[4]	12, 26	**10,995**	12,595	**10,736**	10,620
Securities which were borrowed		**9**	863	**9**	863
Credit to the public	13, 29	**88,829**	85,160	**83,713**	66,846
Provision for Credit losses		**(930)**	(868)	**(871)**	(654)
Credit to the public, net		**87,899**	84,292	**82,842**	66,192
Credit to the government	14	**1,039**	700	**415**	7
Investment in equity-basis investees	15	**605**	606	**1,278**	2,878
Premises and equipment	16	**996**	1,023	**964**	960
Intangible assets	17	**248**	239	**238**	226
Assets in respect of derivative instruments	27A, 27B	**1,091**	1,399	**1,096**	1,416
Other assets[2]	18	**698**	1,100	**667**	929
Total assets		**141,110**	134,120	**134,773**	114,996
Liabilities and Shareholders' Equity					
Deposits from the public	19	**120,052**	111,697	**114,836**	87,038
Deposits from banks	20	**1,137**	1,150	**2,640**	10,852
Deposits from the Government		**353**	982	**353**	777
Bonds and subordinated capital notes	21	**3,674**	4,989	**2,055**	3,455
Liabilities in respect of derivative instruments	27A, 27B	**1,247**	1,294	**1,247**	1,298
Other liabilities[1][3]	22	**5,723**	5,595	**5,074**	3,483
Total liabilities		**132,186**	125,707	**126,205**	106,903
Capital attributed to the shareholders of the Bank		**8,568**	8,093	**8,568**	8,093
Non-controlling interests		**356**	320	**-**	-
Total equity		**8,924**	8,413	**8,568**	8,093
Total liabilities and shareholders' equity		**141,110**	134,120	**134,773**	114,996

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 57 million and NIS 64 million (consolidated) and NIS 55 million and NIS 57 million (the Bank) as of December 31, 2019 and 2018, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 42 million consolidated and the Bank (31.12.18 - NIS 426 million consolidated and the Bank).

(3) Of which: other liabilities measured at fair value in the amount of NIS 47 million consolidated and the Bank (31.12.18 - NIS 586 million consolidated and the Bank).

(4) Regarding amounts measured at fair value, see note 32B.

(5) See note 15.E. regarding to merging Otsar Hahayal with and into the Bank.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings(2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2017	927	(177)	6,571	7,321	283	7,604
Changes during 2017						
Net profit for the year	-	-	678	678	26	704
Dividend	-	-	(310)	(310)	(20)	(330)
Other comprehensive income, after tax effect	-	57	-	57	1	58
Temporary equity - non-controlling interest	-	-	10	10	-	10
Balance as at December 31, 2017	927	(120)	6,949	7,756	290	8,046
Changes during 2018						
Net profit for the year	-	-	733	733	34	767
Dividend	-	-	(355)	(355)	-	(355)
Other comprehensive loss, after tax effect	-	(39)	-	(39)	(4)	(43)
Temporary equity - non-controlling interest	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2018	927	(159)	7,325	8,093	320	8,413
Cumulative effect of the initial implementation of US accepted accounting principals(3)	-	8	(8)	-	-	-
Adjusted balance as at January 1, 2019 after the initial implementation	**927**	**(151)**	**7,317**	**8,093**	**320**	**8,413**
Changes during 2019						
Net profit for the year	**-**	**-**	**865**	**865**	**38**	**903**
Dividend	**-**	**-**	**(410)**	**(410)**	**-**	**(410)**
Other comprehensive income (loss), after tax effect	**-**	**20**	**-**	**20**	**(2)**	**18**
Balance as at December 31, 2019	**927**	**(131)**	**7,772**	**8,568**	**356**	**8,924**

(1) Including share premium of NIS 313 million (as from 1992 onwards).

(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend - see note 24A.B.

(3) Cumulative effect of the initial implementation regarding financial instruments of US accepted accounting standards at banks in respect of financial instruments (ASU 2016-01). See also Note 1.C.(1).

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
Cash flows from operating activities:						
Net profit for the year	**903**	767	720	**865**	733	678
Adjustments to reconcile cash provided by operating activities:						
The Bank's share in profit of equity-basis investee	**(51)**	(37)	(54)	**(108)**	(198)	(94)
Revaluation of subordinate debt notes issued by subsidiaries	**-**	-	-	**-**	(3)	-
Depreciation of premises and equipment	**69**	75	78	**65**	63	63
Amortization of intangible assets	**92**	91	94	**89**	86	83
Gain on sale of premises and equipment	**(3)**	(69)	(45)	**(3)**	(4)	(44)
Expenses from credit losses	**138**	166	121	**127**	117	47
Gain from sale of available for sale bonds and not for trading shares*	**(28)**	(77)	(28)	**(24)**	(76)	(21)
Realized and non-realized loss (gains) from adjustment to fair value of trading securities	**14**	(1)	10	**14**	-	12
Realized and non-realized gain from adjustment to fair value of not for trading shares	**(59)**	-	-	**(59)**	-	-
Deferred taxes, net	**(25)**	(24)	(2)	**(24)**	(23)	9
Defined benefit of pension and severance pay plans	**92**	157	70	**85**	43	48
Adjustments of exchange rate differences	**(561)**	439	(574)	**(572)**	418	(521)
Dividend received from equity-basis investee	**56**	-	8	**78**	37	-
Net change in current assets:						
Trading securities	**418**	(6)	434	**418**	(6)	424
Other assets	**445**	109	(198)	**416**	114	(282)
Assets in respect of derivative instruments	**198**	(74)	(8)	**219**	(70)	(19)
Net change in current liabilities:						
Other liabilities	**(861)**	1,243	174	**(906)**	1,247	98
Liabilities in respect of derivative instruments	**(47)**	(24)	(26)	**(71)**	(24)	(22)
Accumulation differences included in investing and financing activities	**(18)**	122	15	**(55)**	88	(15)
Net cash from operating activity	**772**	2,857	789	**554**	2,542	444
Cash flows from (for) investing activity						
Change in Deposits with banks	**(78)**	146	1,177	**43**	62	(30)
Change in Securities borrowed	**854**	(50)	(399)	**854**	(50)	(399)
Change in Credit to the public	**(5,001)**	(3,897)	(2,788)	**(4,572)**	(3,239)	(1,472)
Change in credit to the public held for sale	**-**	-	298	**-**	-	-
Change in Credit to the government	**(339)**	(25)	(21)	**(338)**	(7)	7
Purchase of available for sale bonds and not for trading shares*	**(6,380)**	(7,530)	(4,655)	**(6,232)**	(6,401)	(4,164)
Proceeds from redemption of bonds held to maturity	**193**	305	177	**193**	270	94
Proceeds from sale of available for sale bonds and not for trading shares*	**2,678**	1,009	4,103	**2,165**	497	3,078
Redemption of available for sale bonds	**4,526**	4,232	5,780	**4,517**	4,068	5,718
Acquisition of premises and equipment	**(49)**	(47)	(55)	**(49)**	(42)	(46)
Proceeds from sale of premises, equipment and other assets	**9**	113	93	**9**	16	89
Investment in intangible assets	**(101)**	(95)	(86)	**(101)**	(90)	(86)
Investments in deferred debt notes issued by a subsidiary company.	**-**	-	-	**-**	(60)	-
Merger of a subsidiary company	**-**	-	-	**(180)**	-	-
Cash flows from (for) investing activity	**(3,688)**	(5,839)	3,624	**(3,691)**	(4,976)	2,789

* Until December 31, 2018 - available for sale securities.

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)

(NIS million)

	Consolidated			The Bank		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Cash flows from (for) financing activity						
Change in Deposits from the public	**10,251**	(3,923)	8,582	**10,191**	(5,978)	7,375
Change in deposits from the public held for sale	**-**	-	(745)	**-**	-	-
Change in Deposits from banks	**39**	(39)	418	**26**	6,628	652
Change in Deposits from the government	**696**	53	(337)	**696**	(7)	(209)
Additional acquisition of shares in consolidated company	**-**	(340)	-	**-**	(340)	-
Proceeds from the issue of bonds and subordinate debt notes	**711**	252	352	**-**	252	352
Redemption of bonds and subordinate debt notes	**(2,053)**	(559)	(916)	**(1,556)**	(464)	(736)
Dividend paid to shareholders	**(410)**	(355)	(310)	**(410)**	(355)	(310)
Dividend paid to non-controlling shareholders in consolidated company	**-**	-	(20)	**-**	-	-
Net cash from (for) financing activity	**9,234**	(4,911)	7,024	**8,947**	(264)	7,124
Increase (decrease) in cash	**6,318**	(7,893)	11,437	**5,810**	(2,698)	10,357
Cash balances at beginning of year	**31,126**	38,863	27,638	**30,299**	32,882	22,694
Effect of changes in exchange rates on cash balances	**(169)**	156	(212)	**(145)**	115	(169)
Cash balances at end of year	**37,275**	31,126	38,863	**35,964**	30,299	32,882
Interest and taxes paid and/or received:						
Interest received	**3,185**	3,137	3,007	**2,974**	2,293	2,075
Interest paid	**(781)**	(657)	(684)	**(662)**	(464)	(471)
Dividends received	**15**	19	21	**15**	19	21
Income tax paid	**(547)**	(487)	(498)	**(480)**	(338)	(402)
Income tax received	**56**	70	131	**50**	63	94

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

(1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2019 include those of the Bank, of its consolidated companies and of an equity basis investee (hereinafter - "the Group").

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd. Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Cassy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are party to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on March 15, 2020.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

(2) **Definitions**

In these financial statements:

International financial reporting standards ("IFRS") - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

Accepted accounting principles by US banks - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

Consolidated subsidiaries - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

Equity basis investees - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

Investee companies - Consolidated companies or equity-based investees.

Foreign extensions - Subsidiaries of the Bank outside Israel.

Functional currency - The currency prevailing in the principal economic environment in which the Bank operates; generally, the currency of the environment in which the Bank generates and expends most of its cash.

Stated currency - The currency in which the financial statements are stated.

Related parties - In terms of Section 80 of the public reporting instructions.

Interested parties - In terms of Section 80 of the public reporting instructions.

CPI or Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Financial reporting in adjusted terms - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

Reported amount - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.

Cost - Cost in reported amount.

B. Basis of preparation of the financial statements

(1) Reporting principles

The financial statements of the Bank are prepared in accordance with Israeli accepted accounting principles (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks.

In most matters, these directives are based on US generally accepted accounting principles. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to certain situations, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

(2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated. For information regarding the functional currency of a banking extension operating abroad, see Note 1.D.(1).

(3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:

- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

(4) Use of estimates

Preparation of financial statements requires Management to use judgment, make estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty. When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

C. Initial implementation of accounting standards, updates of accounting standards and instructions of the Supervisor of Banks

Starting with the periods beginning on January 1, 2019, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedge, classification and measurement of financial instruments, cash flow statement and additional matters.
2. Amendment of Item 2017-08 of the Codification of the FASB regarding debtors - non-recoverable loans and other costs.

Following is a description of the substance of the changes made to the accounting policy applied in these consolidated financial statements, and a description of the manner and effect of the initial implementation, if at all:

1. **Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedge**, classification and measurement of financial instruments, cash flow statement and additiopnal matters

A circular letter was published on August 30, 2018, in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedge, classification and measurement of financial instruments, cash flow statement and additional matters.

Derivative instruments and hedge

In August 2017, the US Financial Accounting Standards Board (FASB) published ASU 2017-12, which updates Item 815 of the Codification in the matter of derivative instruments and hedge accounting. The update contains changes in measurement guidelines and in the purpose of qualified hedge relations, and in the presentation requirements regarding hedge results. The update increases the ability of banking corporations to hedge risk components, and creates similarity between the recognition and presentation of the hedge instruments and the hedged items in the financial statements. The update eliminates the need to refer separately to the "ineffective part" of hedge relations. In cases where amounts are eliminated from the assessment of hedge effectiveness, the update allows the deferral of these amounts to other comprehensive profit, though, when recognized, these amounts are to be stated in the same line of the profit and loss statement in which are stated the effects of the hedged instrument. Furthermore, the amendments included in the update simplify the application the accounting guidelines in the matter of hedge, by mitigating the hedge effectiveness assessment and the documentation requirements. The amendment of the instructions adopts in the public reporting

instructions the accounting principles accepted by US banks, as determined in the update. Likewise, the disclosure format has been modified to that applied in financial statements of US banks.
The new rules are adopted by the Bank as from January 1, 2019. The new rules had no effect on the financial statements, save for the changes required in disclosure in the financial statements.

Classification and measurement of financial instruments

The circular letter contains amendments to the rules, which adopt in the public reporting instructions the accounting principles accepted by US banks, as stated in the update of ASU 2016-01 and update of ASU2018-03. The principal changes in the public reporting instructions regarding the matter of classification and measurement of financial instruments are: changes in fair value of investments in available-for-sale shares that have an available fair value and which have not yet been realized, shall be recognized directly in profit and loss on a current basis instead of in other comprehensive profit; investments in shares that do not have an available fair value and which at present are stated at cost (net of impairment in value), shall be stated as a general rule at cost (net impairment in value) adjusted for changes in observable prices of shares of that same issuer.
The new rules are being applied as from January 1, 2019 by way of retroactive application, while taking the cumulative effect thereof to the opening balance of retained earnings at date of initial application. The rules regarding investments in capital instruments that have no available fair value are being applied by way of "from now onwards". Changes in disclosure required in financial statements are applied by way of "from now onwards".
Application as from January 1, 2019, of the new rules regarding classification and measurement of financial instruments, resulted in reclassification of the net loss not yet realized, of NIS 8 million, previously recognized in other comprehensive profit, from other cumulative comprehensive profit to retained earnings.

2. Amendment No. 2017-08 of the Codification of the FASB regarding debtors - non-recoverable loans and other costs

In March 2017, the FASB published an update regarding the amortization of premium on purchased debt instruments having a a premature redemption option, comprising an amendment of Item 310-20 of the Codification regarding debtors - non-recoverable commission and other costs (hereinafter - "the Amendment").
In accordance with the Amendment, the period of amortization of the premium on debt instruments having a premature redemption option by the issuer, shall be shortened and computed according to the earliest redemption date.
The rules of the Amendment have been applied since January 1, 2019, by way of retroactive application while taking the cumulative effect thereof to the opening balance of retained earnings at date of initial application.
Application of the rules has had no material effect on the financial statements.

D. Accounting policy applied in the preparation of the financial statements

(1) Foreign Currency and Linkage

Transactions in foreign currency

On date of initial recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss produced by the transaction are translated into the functional currency of the Bank in accordance with the exchange rate prevailing on date of the transaction.

At any reporting date, monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date.

Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined.

Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.

Gains or losses on translation of transactions in foreign currency stemming from fluctuation in currency between the date of transactions and date of settlement/balance sheet date, including exchange differences on available-for-sale debt instruments, which in accordance with the public reporting instructions continue to be recognized in the statement of profit and loss until January 1, 2022 (as stated in the transitional instructions), are recognized in the statement of profit and loss as gains or losses on translation differences (non-interest financing income), excluding:

- The effective part of the gains or losses in respect of a hedge instrument hedging a net foreign operation investment or hedging cash flows;
- Exchange differences in respect of items comprising a part of a net investment;

Foreign operations

The functional currency of an entity is the currency of the principal economic environment in which the entity operates. Generally speaking, it is the currency of the environment in which the entity produces cash.

Assets and liabilities relating to foreign operations, including goodwill and adjustments to fair value created upon acquisition, are translated to NIS at the exchange rate prevailing at the reporting date. Any income, expenses, profit or loss of foreign operations are translated into NIS at the exchange rates prevailing upon the dates of the transactions.

Exchange differences arising on translation are recognized in other comprehensive income and are presented in capital under "Cumulative adjustments on translation of financial statements".

Upon realization of a foreign operation, the cumulative amount of exchange differences relating to such operation that had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the gain or loss on realization of the foreign operation has been recognized.

CPI-linked assets and liabilities not measured according to fair value

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

Following are details of representative exchange rates and of the consumer price index including the rates of change therein:

	December 31			Rate of change during		
	2019	2018	2017	**2019**	2018	2017
				%	%	%
Rate of exchange of the U.S. dollar (in NIS)	**3.456**	3.748	3.467	**(7.8)**	8.1	(9.8)
Rate of exchange of the Euro (in NIS)	**3.878**	4.292	4.153	**(9.6)**	3.3	2.7
Rate of exchange of the SFR (in NIS)	**3.575**	3.807	3.555	**(6.1)**	7.1	(5.6)
Consumer Price Index -						
November (in points)	**100.8**	100.5	99.3	**0.3**	1.2	0.3
December (in points)	**100.8**	100.2	99.4	**0.6**	0.8	0.4

(2) Basis of consolidation

Consolidated subsidiaries

Consolidated subsidiaries are entities controlled by the Group. The financial statements of consolidated subsidiaries are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist. The accounting policy of consolidated subsidiaries has been changed, where required, in order to modify it to the accounting policy adopted by the Group.

Non-controlling interest

Non-controlling interest comprises the capital of a consolidated subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Measurement of non-controlling interests at date of a business combination - non-controlling interests are measured at fair value at date of the business combination.

Allocation of the comprehensive income among the shareholders - Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. The total profit, loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, even if this results in a negative balance of the non-controlling interests.

Transactions with non-controlling interests while maintaining control are treated as capital transactions. Any difference between the consideration paid or received and the change in the non-controlling interest is taken directly to the share in equity of the owners of the Bank.

Furthermore, upon changes in the rate of holdings in a subsidiary while maintaining control, the Bank reallocates the cumulative amounts recognized in other comprehensive profit between the owners of the Bank and the non-controlling interest.

A PUT option granted to the non-controlling interest with respect to shares of a consolidated subsidiary is not treated as a separate instrument, but the Bank treats the shares of the consolidated subsidiary held by the non-controlling interests, and with respect to which the non-controlling interests have a PUT option, as redeemable non-controlling rights, and accordingly reflects them as temporary equity excluded from equity capital. The non-controlling rights, which, as stated, are excluded from equity capital, are measured on a periodic basis at the higher of the amount of the minority's share in profit or the redemption value of the shares. At each period, the Bank attributes profits to the non-controlling rights in accordance with their share in the earnings of the subsidiary company, to the extent that adjustments are required in order to state the non-controlling rights at the higher of the amount of the minority's share in profits or the redemption value of the shares, as above. These adjustments are reflected in the retained earnings item.

Loss of control in a consolidated subsidiary

Upon loss of control, the Bank deletes the assets and liabilities of the subsidiary as well as any non-controlling interest and other capital components attributed to the subsidiary, including amounts recognized in the past in other cumulative comprehensive income, including in respect of a foreign subsidiary. If the Bank remains with any investment in the former subsidiary, then the balance of the investment is measured at fair value at date of loss of control.

The difference between the amount of consideration received and the fair value of the remaining balance in the former subsidiary and the amount of the deleted balances is recognized in profit and loss. As from that date, the remaining investment is treated by the equity value method or as a financial asset, in accordance with the extent of influence over the relevant company remaining with the banking corporation. The amounts relating to the former consolidated subsidiary that previously had been recognized in equity by way of other comprehensive income are reclassified to profit and loss.

Transactions eliminated upon consolidation

Intercompany balances as well as income and expenses not yet realized, derived from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

(3) Investments in equity based investees

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs.

The investment in an equity basis investee is tested for impairment as a whole, when events or changes in circumstances indicate that the book value of the investment is not recoverable. Impairment is recognized when it is considered to be of a nature other than temporary.

The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, from the date on which the significant influence first existed and until the date on which it ceased to exist.

(4) Basis of Recognition of Income and Expenses

- Interest income and expenses are recognized on an accrual basis, except for:
  interest accrued on troubled debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.
- Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto.
- Certain commission income, such as commission in respect of guarantees, and certain commissions regarding the finance of building projects, is recognized proportionally over the period of the transaction.

- Credit formation commissions and direct credit formation expenses are recognized over the period of the loan as adjustment of return on the loan, except in cases of restructure of a troubled loan. Where the commitment to grant the loan expires without materializing, commissions are recognized at date of expiry.
- Credit allocation commission is treated in accordance with the probability of materialization of the commitment to grant credit. Where the probability is remote, the commission is recognized by the straight-line method over the period of commitment. Otherwise, the Bank defers the recognition of income from such commission until the commitment materializes or until it expires, whichever is earlier. Upon realization of the commitment, the commission is recognized by way of adjustment of the return over the period of the loan, as stated above. Where the commitment expires without being materialized, the commission is recognized at date of expiry.
- Change in terms of a debt - in the event of refinancing or the restructure of performing debts, the Bank examines whether the terms of the loan had been changed materially. Accordingly, the Bank examines whether the present value of future cash flows in accordance with the new terms of the loan has changed by at least 10% from the present value of the remaining cash flows according to the present terms (with the addition of a premature redemption commission). In such cases, all yet unamortized commissions and premature redemption commissions charged to the borrower in respect of the change in credit terms are recognized in profit and loss. Otherwise, these commissions are included as part of the net investment in the new loan and recognized as adjustment of return, as stated above.
- Premature redemption commission - Premature redemption commissions are immediately recognized as part of interest income, except for commissions, as stated, which are included as part of the net investment in the new loan and recognized as adjustment of return.
- Securities - see Item (6) below.
- Derivative financial instruments - see Item (7) below.
- Other income and expenses - recognized on an accrual basis.

(5) Impaired debts, credit risk and provision for credit losses

In accordance with the Directive of the Supervisor of Banks in the matter of the "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the Bank implements as from January 1, 2011, the US accounting standards in this matter (ASC 310) and the statements of position of the US bank supervisory bodies and the US Securities and Exchange Commission, as adopted in the public reporting directives and in positions and guidelines of the Supervisor of Banks. In addition, as from that date, the Bank implements the guidelines of the Supervisor of Banks in the matter of the treatment of impaired debts. Moreover, starting on January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of the update of disclosure of credit quality of debts and the provision for credit losses.

Furthermore, from time to time, the Supervisor of Banks revises the public reporting instructions and the guiding FAQ file regarding the manner of application of the instructions in the matter of impaired debts and the provision for credit losses, this with the view of integrating therein the rules applying to US banks, including guidelines of the Regulatory authorities in the United States. As from 2016, the guidelines relating to the treatment of the restructure of a troubled debt, the guidelines relating to the manner of classification of debts based on the primary repayment source and certain guidelines regarding the manner of examination of the debts have, inter alia, been revised.

Credit to the public and other debt balances

The guideline is implemented with respect to all debt balances, such as: deposits with banks, bonds, securities on loan or acquired within the framework of "buy-back" agreements, credit to the public, credit to government, etc. Credit to the public and other debt balances, in respect of which the public reporting directives do not contain specific principles regarding the measurement of the provision for credit losses (such as: credit to government, deposits with banks, etc.) are reported in the books of the Bank at the stated balance of the debt. The stated balance of the debt is defined as the outstanding balance of the debt, net of accounting write-offs, but before provision for credit loss in respect of such debt. The stated balance of the debt does not include non-recognized accrued interest, or interest which had been recognized in the past but cancelled later. As regards other debt balances, in respect of which specific principles exist regarding measurement and the recognition of provisions for impairment (such as: bonds) the Bank continues to apply the same measurement principles, see Item (9) below.

Identification and classification of impaired debts

The Bank has determined procedures for the identification of troubled credit and for the classification of debts as impaired. According to these procedures, the Bank classifies all its troubled debts as well as the off-balance sheet credit items under the following classifications: "special supervision", "inferior" or "impaired".

A debt is classified as impaired when, based on information and current events, it is anticipated that the Bank would not be able to collect all the amounts due to it under the contractual terms of the loan agreement. The decision regarding the classification of the debt is based, among other things, on the default situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence and condition of collateral, the financial position of guarantors, where these exist, and their obligation to support the debt, as well as the ability of the borrower to obtain third party finance.

In any event, a debt is classified as an impaired debt if the principal amount or the interest thereon is in arrear for ninety days or more. For this purpose, the Bank monitors the period of arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are considered in arrear when payments on account of principal or interest have not been made on their due dates. In addition, revolving debit accounts or current accounts are reported as debts in arrear for thirty days or more, when these accounts deviate continuously from the approved credit facility for over thirty days or more, or where within the framework of the credit facility, no amounts have been credited to such account covering the amount of the debt within a period of 180 days. Starting with the date of classification of a debt as impaired, it is treated as a debt not accruing interest income ("nonperforming debt").

Moreover, any debt the terms of which have been changed as part of a restructuring of a troubled debt, shall be classified as an impaired debt, unless prior to the restructuring and thereafter, a minimum provision has been recorded in respect of which in accordance with the extent of arears, in accordance with the Appendix to Proper Management of Banking Business Directive 314 in the matter of "proper assessment of credit losses and proper measurement of debts".

Definition of a primary repayment source upon classification of a troubled debt

As from July 1, 2017, the Bank applies the update of the FAQ file of the Supervisor of Banks in the matter of "application of the public reporting instructions regarding impaired debts, credit risk and provision for credit losses".

The update principally refers to the classification of a debt, the definition of an impaired debt and the measurement of a specific provision for credit loss. Determination of the proper classification of a debt until it becomes totally non-performing or until such an event becomes highly probable, is based upon the repayment ability of the debtor, namely, the expected financial stability of the primary repayment source, notwithstanding the support of secondary and thirdly repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Among other things, the FAQ file included a question relating to the definition of the primary repayment source.

Primary repayment source - a sustainable source of cash over a period, which must be under the control of the debtor and must be explicitly or in substance set apart for the repayment of the debt. The FAQ file clarifies that as a general rule, in order for the source to be considered as a primary repayment source, the Bank must demonstrate that high probability exists that the debtor is expected to produce, within a reasonable period of time, an appropriate cash flow from continuing business operations, which would serve in full all required repayments and on their due dates as stated in the loan agreement.

The policy regarding the identification and classification of troubled debts includes the testing of the existence of a primary repayment source as an additional tool for the identification of troubled debts.

Reinstatement of an impaired debt as non-impaired

An impaired debt reverts to the classification of a non-impaired debt if one of the following two situations exists:

- No principal or interest components of the debt, which are due for payment, remain unpaid, and the Bank expects the payment in full of the remaining principal sum and interest in accordance with the terms of the loan agreement (including amounts written off accounting wise or provided for).
- When the debt becomes well collateralized and collection proceeding are in effect.

The said rules for the reversal of an impaired debt classification shall not apply to debts classified as impaired following the restructuring of a troubled debt.

Reinstatement of an impaired debt as impaired and accruing

A debt, which has formally been restructured, so that following the restructuring thereof reasonable assurance exists that the debt would be repaid and would perform in accordance with its new terms, is reinstated as a debt that accrues interest income, on condition that the restructuring and any accounting write off made in respect of the debt are supported by an updated and well documented credit evaluation of the financial position of the borrower and of the repayment forecast according to the new terms. The evaluation is based on the consistent historical repayments of the borrower in cash and cash equivalents during a reasonable period of at least six months, and only after the receipt of payments that significantly reduced the stated balance of the debt, as determined after the restructuring.

Debt arrangement policy and the treatment of a restructured troubled debt

With a view of improving the management of credit and its collection, as well as with a view of preventing failure situations and the seizure of pledged assets, the Bank has adopted and is implementing a policy for arriving at arrangements in respect of troubled debts and for making changes in the terms of debts not identified as troubled. Methods for the changing of terms of debts may include, among other, the deferment of repayment dates, reducing the rate of interest payable or the amount of the periodic repayments, changing the terms of the debt in order to match them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debts to other borrowers belonging to a borrower group under joint control, review of the financial covenants applying to the borrower, and more.

The Bank's policy is based upon criteria that enable the Management of the Bank to apply judgment as to whether the repayment of the debt is expected, and which is applied only if the borrower shows proven ability and intention to repay the debt and is expected to comply with the terms of the new arrangement.

A debt that has formally been restructured as a troubled debt, is defined as a debt in respect of which, due to economic or legal grounds related to the financial difficulties of the borrower, the Bank granted a waiver by way of a change in the terms of the debt with a view of alleviating the burden of cash payments by the borrower in the near future (a reduction or deferral of cash payments demanded from the borrower) or by way of accepting other assets in settlement of the debt (in whole or in part).

In order to establish whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances in the framework of which it had been made, this with a view of determining whether: (1) the borrower has financial difficulties and (2) as part of the arrangement the Bank has granted a waiver to the borrower.

In order to establish that the borrower has financial difficulties, the Bank looks for signs indicating financial difficulties of the borrower at date of the arrangement, or a reasonable probability that the borrower will encounter financial difficulties if not for the arrangement. Among other things, the Bank examines the existence of one or more of the following circumstances:

- The borrower is at present in default regarding the repayment of any of his debts. Moreover, the banking corporation has to assess whether it is expected that the borrower will be in default in the foreseeable future regarding the repayment of any of his debts, unless a change is made. Namely, the banking corporation may reach the conclusion that the debtor is in financial difficulties even though he is not in default at the present time.
- The borrower informed that he is in a bankrupt or is under another type of receivership, or that he is under bankruptcy proceedings or under other receivership proceedings.
- Material doubt exists as to the ability of the borrower to continue as a going concern.
- Securities issued by the borrower had been delisted, are under delisting proceedings, or are under threat of being delisted from trade on the Stock exchange.
- According to assessments and forecasts that include only the present financial capabilities of the borrower, the banking corporation expects that the cash flows specific to the entity of the borrower in the foreseeable future, would not be sufficient to serve any debt of the borrower's debts (principal and interest) in accordance with the contractual terms of the existing agreement.
- Were it not for the existing change, the borrower would not be able to obtain finance from sources other than the existing lenders at an effective rate of interest equal to the market interest rate applying to a similar debt of a non-troubled borrower.

The Bank concludes that within the framework of the arrangement the borrower had been granted a waiver, even if the arrangement specified a rise in the contractual interest rate, if one or more of the following situations exist:
- As a result of the restructuring, the Bank does not anticipate to collect all amounts of the debt (including accrued interest according to the contractual terms);
- The updated fair value of the collateral in the case of a secured debt does not cover the contractual balance of the debt and indicates the inability to collect the full amount of the debt;
- The borrower does not have the possibility of raising funds at accepted market rates in respect of a debt having terms and characteristics such as those of the debt subject to the arrangement.
- Where a banking corporation does not perform an additional underwriting procedure, as stated, upon the renewal of an inferior debt, or where there is no change in the pricing of the debt or that the pricing had not been modified so as to match the risk prior to the renewal, or where the borrower does not provide additional means in order to compensate the increase in the risk stemming from his financial difficulties, it is strongly considered that the renewal constitutes a restructure of troubled debt.

The Bank does not classify a debt as a restructured troubled debt, if within the framework of the arrangement, the borrower had been granted a payment deferral that is not material in relation to the frequency of the payments, in the contractual repayment period and during the anticipated average maturity of the original debt. In this respect, where several arrangements had been made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of prior arrangements in order to establish whether the payments deferral is not material.

Treatment of restructured debts and following restructuring

Restructured debts, the terms of which had been changed in the restructuring of an impaired debt, including debts, which prior to their restructuring were assessed on a collective basis, are classified as impaired debts, which will be assessed on a specific basis for the purpose of the provision for credit losses. As a general rule, a restructured troubled debt shall continue to be measured and classified as an impaired debt until fully repaid. Nevertheless, under certain circumstances, when a debt had been restructured as a troubled debt and at a later date, the banking corporation and the borrower entered into an additional agreement for the restructure of the debt, the banking corporation is no longer required to treat the debt as a restructured troubled debt, if the following two conditions exist:

(a) The borrower no longer has financial difficulties at date of the following restructure;

(b) In accordance with the terms of the following restructure, the banking corporation had not granted the borrower a waiver (including a waiver regarding the principal amount on a cumulative basis since the original date of the loan).

A debt as above, which had undergone a following restructure and the classification thereof as an impaired debt has been removed, is assessed on a collective basis for the purpose of quantifying of the provision for credit losses and the stated balance of the debt will not change upon the following restructure (except if cash has been received or paid).

If in following periods the said debt is specifically examined and found impaired or if it is restructured as a troubled debt, then the Bank reclassifies it as an impaired debt and treats it as a restructure of a troubled debt.

Provision for credit losses

The Bank has determined procedures for the classification of credit and for the measuring of the provision for credit losses in order to maintain a provision at a proper level to cover anticipated credit losses in relation to the Bank's credit portfolio. In addition, the Bank has determined procedures required for the maintenance of a provision at a proper level to cover anticipated credit losses related to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, non-utilized credit facilities and guarantees).

The provision covering anticipated credit losses in relation to the credit portfolio is assessed according to one of the two ways: "specific provision" and "collective provision".

The said assessment of the debts for the purpose of determining the provision and the treatment of the debts is applied consistently to all debts, in accordance with their quantitative minimum and the credit management policy of the Bank, and no changes are made in the assessment classification of the debt as "specific" or "on a collective basis" during the life of the debt, unless a restructure of a troubled debt has been in respect of the debt, as stated above.

Specific provision for credit losses

For the purpose of the specific examination, the Bank elected to identify debts, the total contractual balances of which exceed NIS 1 million. A specific provision for credit losses shall be recognized in respect of any debt examined on a specific basis and classified as impaired. Moreover, any debt the terms of which have been changed as a result of a restructuring of a troubled debt, shall be classified as an impaired debt, unless if prior to the restructuring and thereafter, a minimum provision for credit losses had been created in respect of which by the extent of arrears period method, in accordance with the Annex to Proper Conduct of Banking Business Directive No. 314 regarding proper assessment of credit risk and the proper measurement of debts.

The specific provision for loan losses is assessed based upon the estimated future cash flows discounted by the original effective interest rate of the debt. Where the loan is collateralized or where the Bank expects a foreclosure of an asset, the specific provision is assessed based on the fair value of the collateral pledged as security for that loan, taking into consideration conservative and consistent coefficients, which among other things reflect the volatility in the fair value of the collateral, the period until actual realization of the collateral and the costs involved in its sale.

In this respect, the Bank defines a collateral conditioned debt as a debt the repayment of which is expected to depend exclusively upon the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the proceeds of an asset owned by the borrower even if it is not specifically pledged in favor of the Bank, all this when the borrower has no other available and reliable material sources for the repayment of the debt.

Provision for credit losses on a collective basis

Housing loans

The minimum provision in respect of housing loans is computed based on a formula determined by the Supervisor of Banks, taking into consideration the length of the default period, so that the rate of the provision increases in accordance with the length of the period of default. On the date of the initial implementation of the new directive, an amendment of the Appendix to Proper Conduct of Banking business Directive No. 314 "Proper assessment of credit risk and proper measurement of debts" entered into effect. This amendment extends the application of computing the provision based on the extent of the default period to all housing loans, with the exclusion of loans that are not repayable in periodic installments and loans which finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the mater of "Limitations on the granting of housing loans".

The Bank has formed a policy designed to ensure that it complies with the new requirements and that the balance of the collective provision for credit losses arising on housing loans shall not fall below a rate of 0.35% of the total outstanding balance of these loans at the reporting date.

Other credit

The collective provision for credit losses - this provision is assessed in order to reflect provisions for impairment in respect of credit losses not specifically identified, inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found to be not impaired. The provision for credit losses in respect of debts assessed on a group basis is computed in accordance with the rules determined in FAS 5 (ASC 450), "accounting for contingencies" and in accordance with instructions of the Supervisor of Banks, based on historical loss rates in various economic sectors, divided between troubled and non-troubled credit within a range of years during the period beginning on January 1, 2011 and ending at the date of the report.

In addition to the computation of the range of the historical loss rates in the various economic sectors, as stated above, for the purpose of determining of the proper rate of provision, the Bank takes into consideration relevant environmental factors, including trends in the volume of credit in each sector and sector conditions, macro-economic data, a general assessment of the quality of credit granted to the sector, changes in volume and trend of balances in arrears and impaired balances, as well as the effect of changes in the concentration of credit.

On February 20, 2017, the Supervisor of Banks issued a letter regarding provisions for credit losses. The letter states that banking corporations are required to continue and include the year 2011 in the "range of years" item presented in their reports to the public, such item being a component in determining the collective provision for credit losses (as defined in Section 29.B(3.2), page 632-18 of the public reporting instructions).

In accordance with instructions of the Supervisor of Banks, the Bank has formed a method for the measurement of the collective provision, which takes into consideration both past loss rates as well as adjustments in respect of the relevant environmental factors. As regards credit to private individuals, the rate of adjustment in respect of environmental factors shall not be lower than 0.75% of the non-troubled balance of credit at each reporting date in relation to the average loss rates within the range of years. Excluded from the above is non-interest-bearing credit stemming from transactions by bank credit card holders. It was further determined in the directives of the Supervision that banks which their annual loss rate is lower than 0.3% in each of the five years ended at the report date may consider using the rate of adjustment in respect of environmental factors which will not be lower than 0.5%. In respect of credit to private individuals who are customers of a former consolidated company, which had been merged with and into the Bank, the Bank is acting in accordance with the approval received from the Bank of Israel in the framework allowed for banks with the loss rate as above.

The Supervisor of Banks issued a letter on July 10, 2017, amending Proper Conduct of Banking Business Directives No. 314 and 315, applied as from January 1, 2018, which, inter alia, are intended to remove the mechanism for the additional provision in respect of restriction on concentration of credit, the absence of up-to-date financial information and other characteristics contained in other directives. Upon the cancellation of the additional provision, the Bank is required to take into account risk characteristics pertaining to the absence of up-to-date financial statements, when forming the method of determining the provision for credit losses.

Off-balance sheet credit

The required provision in respect of off-balance sheet credit instruments is assessed in accordance with the rules determined in Item 450 of the Codification. The provision assessed on a collective basis in respect of off-balance sheet credit instruments is based on the rates of the provision determined for the balance sheet credit (as explained above) taking into account the anticipated rate of realization into credit of the off-balance sheet credit risk. The rate of realization into credit is computed by the Bank based on conversion into credit coefficients as detailed in Proper Conduct of Banking Business Directive No. 203, measurement and capital adequacy - credit risk - the standard approach.

In addition, the Bank examines the overall propriety of the provision for credit losses. The said evaluation is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and the methods of valuation applied by the Bank for assessment of the provision.

Accounting write-off

The Bank writes-off accounting wise any debt or part thereof assessed on specific basis, which is not considered collectible and of a low value so that its remaining as an asset is not justified, or a debt in respect of which the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). Regarding debts the collection of which depends on collateral, the Bank immediately performs an accounting write-off against the balance of the provision for credit losses, of that part of the stated balance of the debt exceeding the fair value of the collateral.

Regarding debts assessed on a collective basis, write-off principles have been determined based on their period of default (in most cases over 150 consecutive default days) and on other problem parameters. In respect of housing loans, where the minimal provision is based on the extent of the default period, the Bank writes-off accounting wise balances of debts remaining after the realization of the collateral where no other sources for the repayment of the debt are available, or in cases of difficulty in the realization of the collateral, or in cases where a collateral covering all or a part of the debt exists but has not been realized during a period of five years for humane reasons.

It should be clarified that accounting write-offs do not involve legal waiver and they reduce the reported debt balance for accounting purposes only, creating a new cost basis for the debt in the books of the Bank.

Notwithstanding the above, concerning debts assessed on a collective basis and classified as impaired due to the restructure of a troubled debt, the need for an immediate write-off is being examined. In any event, such debts are being written-off accounting wise no later than the date on which the debt has become a debt in arrears of sixty days or over, in relation to the terms of the restructure.

Income recognition

At date of classification of the debt as impaired, the Bank defines the debt as nonperforming and ceases to accrue interest income in respect thereof, except as stated below regarding certain restructured debts. Furthermore, at date of classification of the debt as impaired, the Bank cancels all interest income accrued and not yet collected, which had been recognized in profit and loss. The debt continues to be classified as nonperforming so long as its classification as impaired has not been removed. A debt which has formally been restructured as a troubled debt and following such restructuring reasonable assurance exists that the debt will be repaid and will perform according to its new terms, is treated as a performing impaired debt. See Item (4) above for details regarding the recognition of income on a cash basis in respect of debts classified as impaired.

The Bank does not cease to accrue interest income on debts that are assessed and provided for on a collective basis, which are in arrear for ninety days or over. Such debts are subject to assessment methods for the provision for credit losses which ensure that the profit of the Bank is not inclined upwards. Charges in respect of arrears regarding such debts are recognized as income when the right to such charges is established on condition that collection thereof is reasonably assured.

Disclosure requirements

The Bank implements the disclosure requirements regarding credit quality of debts and provision for credit losses as determined in the updated accounting standard ASU 2010-20. These require the Bank to provide a wider disclosure of outstanding debts, movement in the balance of provision for credit losses, indication as to the credit quality, any material purchase or sale of debt portfolios during the reported period.

Furthermore, in accordance with the instructions of the Supervisor of Banks regarding the change in the format of the financial statements, the Bank presents condensed principal information regarding credit risk, credit to the public and the provision for credit losses (see Note 13) and additional information regarding credit risk, as stated (see Note 29).

(6) Securities

- The bank's investments in securities are classified, into three portfolios, as follows:
    - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover substantially all of its recorded investment therein. Held to maturity bonds are stated at cost together with exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss on impairment considered to be of a nature other than temporary.
    - Available-for-Sale Bonds - bonds not classified as bonds held to maturity or as trading securities. Available for sale bonds are stated in the balance sheet at their fair value on the reporting date. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax provision, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits, except for losses in respect of impairment considered to be of a nature other than temporary.
    - Trading Securities - securities purchased and held for sale in the near future or securities which the Bank elects to measure at fair value through profit and loss, according to the fair value alternative, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
    - Shares not held for trading
        - Shares in respect of which fair value is readily available, are stated in the balance sheet at fair value as of the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
        - Shares in respect of which no readily available fair value exists, are stated in the balance sheet at cost, net of impairment and with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of that same issuer. Unrealized gains or losses on adjustment to changes in observable prices, as stated, are reflected in the statement of income.
- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of a nature other than temporary are reflected in profit and loss.
- Interest income in respect of purchased beneficiary rights (such as asset backed financial instruments of the MBS class), as well as beneficiary rights continued to be held by the Bank as part of securitization of financial instruments, excluding beneficiary rights of a high credit quality, are recognized by the prospective interest method, while adjusting the rate of interest used for the recognition of interest income to changes in assessment of future cash flows. In this respect, high credit quality of beneficiary rights are beneficiary rights issued under guarantee of the US Government or by US Government agencies, as well as asset backed securities the international credit rating of which is at least "AA".
- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.

- The cost of realized securities is based on the "first in first out" method.
- See Item (7) hereunder regarding the computation of fair value.
- See Item (9) hereunder regarding the treatment of impairment of a nature other than temporary.

(7) **Derivative Financial Instruments including hedge accounting**

The Bank holds derivative financial instruments for the purpose of hedging exposure to certain risks (such as: interest risk, foreign currency risk) as well as derivatives not used as hedge, including separated embedded derivatives. As a general rule, derivatives are initially recognized at fair value. Following initial recognition, the derivatives are measured at fair value, changes in fair value being treated as described hereunder:

Hedge accounting

The Bank is exposed to interest risk stemming from its investments in fixed interest bonds. As part **of** the general strategy of the Bank for the management of exposure level to this risk, the Bank designates certain financial instruments as **fair value** hedge.

At date of beginning the hedge relations, the Bank formally documents the hedge relations and the purpose of its risk management and strategy for conducting the hedge. Documentation includes identification of each of the following: the hedge instrument, the hedged item or transaction, the substance of the hedged risk, and the method to be used by the Bank for the assessment of the effectiveness of the hedge relations, offsetting exposure to changes in fair value of the hedged item (in a fair value hedge) attributed to the hedged risk.

Fair value hedge

The Bank designates derivative instruments as hedge for exposure to changes in fair value of an asset or liability, or an identified part thereof, which may be attributed to a certain risk.

Where a derivative instrument is used as a hedge instrument for fair value, the changes in its fair value included in the assessment of the effectiveness of the hedge, are recognized on a current basis in profit and loss and are presented in the same item in which the effect of the hedged item is presented. The profit or loss (namely, the changes in fair value) in respect of the hedged item that is attributed to the hedged risk, is treated as adjustment to the book value of the hedged item, and is recognized on a current basis in profit and loss. The adjustment to the book value of the hedged item shall be treated in a similar manner to other components of its book value.

The Bank ceases to apply hedge accounting when: the criteria for the application of hedge accounting no longer exist, the derivative instrument expires, is sold, cancelled or is realized, or when the Bank cancels the designation the hedge relations.

Economic hedge

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur and are presented in the item "non-interest financing income".

Derivative instruments not used for hedge standing on their own

Derivative instruments not used for hedge purposes and which are standing on their own, are measured at fair value and presented in the balance sheet in items of assets or liabilities in respect of derivative instruments. Changes in their fair value are recognized on a current basis in profit and loss and presented in the item "non-interest financing income".

Embedded derivative instruments that were separated and not used for hedge

Embedded derivative instruments are separated from the host contract and treated separately as derivative instruments in accordance with sub-item 815-10 of the Codification, when: (1) the economic characteristics and the risks of the embedded derivative instrument are not clearly and closely connected to the economic characteristics and risks of the host contract; (2) the instrument involved is not remeasured on the basis of its fair value in accordance with other suitable accepted accounting principles, together with the recognition of changes in fair value in profit and loss as they occur; and (3) a different instrument having the same terms of the embedded derivative instrument agrees with the definition of a derivative.

In certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss. The said election is made upon acquisition of the hybrid instrument or when certain events occur in which the instrument is subject to remeasurement (a remeasurement event), such as a business combination or material changes taking place in the debt instrument. Election of measurement according to fair value, as stated, is irrevocable and is made in respect of each instrument separately.

(8) Fair value determination of financial instruments

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. Sub-item 820-10 of the Codification details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

Securities

The fair value of trading securities, available-for-sale bonds and of shares not held for trading is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that same quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the position of the Bank relatively to the volume of trading (the block holding factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like). Excluding shares not held for trading that have no readily available fair value and are measured as detailed in item (6) above.

Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and nonmarketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts.

Evaluation of credit risk and of nonperformance risk

FAS 157 (ASC 820) requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

(9) Impairment of financial instruments

Securities - bonds available for sale or which are held to maturity

As of each reporting date, the Bank examines whether impairment of a nature other than temporary has occurred with respect to the fair value of bonds classified to the available-for-sale portfolio and to the held to redemption portfolio.

During a reporting period, the Bank recognizes impairment of a nature other than temporary, at least regarding any bond to which one or more of the following conditions apply:

- A bond that had been sold prior to date of publication of the report for the relevant period;
- A bond, which proximate to the date of publication of the report for the relevant period, the Bank intends to sell within a short period of time;
- A bond, the rating in respect of which was significantly lowered from its level at date of purchase by the Bank to its rating level at date of publication of the report for the relevant period. For this purpose, a material downgrade will be considered if the security's rating was lowered below investment rating;
- A bond, which subsequent to its purchase has been classified by the Bank as "troubled";
- A bond, in respect of which a default in payment occurred subsequent to its purchase;
- A bond, the fair value of which at the end of the reporting period and at a date proximate to the publication of the financial report was lower at the rate of over 40% than its cost (in case of a bond - its written-down cost), and the period in which the fair value of the bond was lower than its cost exceeds three consecutive quarters. This, unless the Bank has objective and solid evidence as well as a careful analysis of all relevant factors, which indicate at a high level of assurance, that the decrease in value is of a temporary nature.

Furthermore, the examination as to whether the impairment is of a nature other than temporary is based on the following considerations:

- Deterioration in the condition of the issuer or in market condition as a whole;
- The intention and ability of the Bank to hold the bond for a long enough period allowing the recovery of fair value of the bond or until maturity;
- The rate of return to maturity;

When impairment of a nature other than temporary occurs, the written down cost of the bond is written-down to its fair value, which serves as a new cost basis. The cumulative loss pertaining to a bond classified as available-for-sale, which in the past was reflected in a separate item of shareholders' equity within the framework of other comprehensive profit, is recorded in profit and loss when in respect of which, impairment that is not of a nature other than temporary is recognized. Increases in value in subsequent periods are recognized as a separate item of shareholders' equity within the framework of other cumulative comprehensive profit and are not reflected in profit and loss (new cost basis).

Securities - shares that have no readily available fair value

In each reporting period, the Bank performs a qualitative assessment, which takes into account impairment indicators in order to estimate whether impairment has occurred regarding the investment in shares that have no readily available fair value. Where, according to such assessment, impairment of the investment in shares has occurred, the Bank assesses the fair value of the investment for the purpose of determining the amount of loss on impairment.

Credit to the public and outstanding debt

See Item (5) above.

(10) Offsetting of financial assets and liabilities

The Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

a. In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
b. Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
c. Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

Furthermore, the Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

(11) Transfers and service of financial assets and the settlement of liabilities

The Bank applies the measurement and disclosure rules determined within the framework of the instructions of Sub-Item 860-10 of the Codification in the matter of transfer and service of financial assets for the purpose of treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: the transfer of a financial asset in entirety, of a group of financial assets in entirety, or of a participating interest in a financial asset in entirety, by which the transferor bank waives control over the said financial assets, is recorded as a sale, if and only if, all the following conditions exist: (1) the transferred financial assets had been isolated from the transferor and are beyond the reach of the transferor and his creditors also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset has the right to pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which also grants the transferor a larger than just a trivial benefit; and (3) the transferor does not retain effective control over the transferred financial assets.

In the event that the Bank performs a transfer of a part of an entire financial asset, the Bank examines as to whether such transfer conforms to the definition of a participating interest. A participating interest has all the following characteristics: (a) from date of transfer onwards, it represents a pro-rata ownership right in the entire asset; (b) from date of transfer onwards, all cash flows received from the entire financial asset are divided proportionately among holders of the participating interest, in amounts equal to their share in ownership; (c) the rights of all holders of participating interests (including the transferor in his role as a holder of a participating interest) have identical priority, and no right of any holder of a participating interest is inferior to the right of another holder of a participating interest;

and (d) no party has the right to pledge or change the entire financial asset, unless all holders of participating interest agree to pledge or exchange the entire financial asset.

To the extent that the transfer fulfills the conditions for recording it as a sale, the Bank removes the transferred financial assets and recognizes at fair value the assets received and the liabilities created as a result of the sale (assets received and liabilities created). The difference between the fair value of the net receipt and the book value of the financial assets sold is recognized in the statement of profit and loss.

In the event that the transfer does not conform to the terms of a sale, as stated above, or if a transfer of a part of an entire financial asset does not conform to the definition of a participating interest, then the said transfer is treated as a secured borrowing with a pledge of collateral. The Bank continues to record in the balance sheet the financial assets transferred, with no change in the measurement thereof.

Furthermore, in accordance with an update to Bank of Israel instructions regarding the improved use of financial statements for the years 2017 and 2018, the disclosure requirements regarding syndication transactions were updated. See Note 29 regarding "Additional information regarding credit risk, credit to the public and provision for credit losses".

Settlement of liabilities

The Bank deletes a liability if, and only if, that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

Transactions regarding the lending of securities managed as credit transactions

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

Treatment of non-secured lending of securities held in the available-for-sale portfolio or in the trading portfolio.

On the day that the Bank lends securities to cover short sales by the borrower, the Bank deletes the securities on loan, recognizing credit granted in the amount of the market value of the securities on the lending day. In following periods, the Bank measures the credit granted in the same manner in which the securities had been measured prior to the lending thereof. The credit is measured at market value. Income on an accrual basis in respect of such securities is recognized as interest income from credit and changes in market value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the trading portfolio, or as part of other comprehensive profit, in the case of available-for-sale bonds. Upon the termination of lending, the Bank recognizes again the securities and deletes the credit.

Treatment of non-secured borrowing of securities

The non-secured borrowing of securities by the Bank is recorded on the borrowing date as a deposit, at the fair value of the securities received on the borrowing day. The securities received are recognized in the "Securities" item and are classified to the trading portfolio. So long as the Bank does not short sell the security borrowed, the Bank records at each reporting period the difference, whether positive or negative, between the market value of the security at the reporting date and the balance recorded as a deposit from the public (or other deposit if the borrowing was not from the public). Changes in this item in the reported period stemming from changes in market value of the security are recorded as "non-interest financing income" (these changes offset the gains or losses recorded in profit and loss in respect of the security which was not as yet short sold).

When the Bank short sells a borrowed security, the Bank examines at any reporting date, whether the difference between the market value of the short sold security at the reporting date and the balance in respect of the non-secured borrowing transaction included in deposits from the public (or in other deposits if the borrowing was not from the public) is positive. In the case that the said difference is positive, it is recognized and reported as "non-interest financing income" in profit and loss.

(12) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items, including investment real estate, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.

Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.

Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item "Other income" in the statement of profit and loss.

Depreciation

Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the useful lives of the assets. Land owned by the Bank is not depreciated.

An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.

Assessment of the useful lives of assets for the reported and comparative periods is as follows:

- Buildings, lands and investment real estate - 25-50 years
- Furniture and equipment - 7-17 years
- Motor vehicles - 5 years
- Leasehold improvements - 7-18 years
- Information technology equipment - 3-8 years

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined when events or changes in circumstances indicate that the present assessments are no longer applicable, and are modified, where required.

Impairment

The Bank tests noncurrent assets (or group of assets) for impairment when events or changes in circumstances indicate that the written down cost may not be recoverable.

For the purpose of examination and measurement of impairment, the Bank groups together an asset (or a group of assets) with other assets and liabilities at the lowest level possible which produces cash flows that are not dependent on cash flows produced by other groups of assets and liabilities. Recognized losses on impairment are taken only to the asset (or group of assets) to which Item 360 of the Codification applies.

Losses on impairment are recognized only if the book value of a noncurrent asset (or group of assets) is not recoverable and exceeds its fair value.

Book value is considered irrecoverable if it exceeds the total noncapitalized cash flow expected to be derived from use of the noncurrent asset (group of assets) and its disposal.

Loss on impairment amounts to the difference between the book value of the noncurrent asset (or group of assets) and its fair value, and is reflected in the statement of profit and loss.
When a loss on impairment is recognized, the adjusted book value of the noncurrent asset (or group of assets) comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the noncurrent asset occurs.

(13) Leasing

All lease transactions are treated as operating leases, the leased assets not being reflected in the balance sheet of the Group.
Lease fees paid in advance to the Israel Lands Administration in respect of leased land classified as operating leases, are stated in the balance sheet as prepaid expenses and are recognized in profit and loss over the lease period. The lease period and the amounts of amortization take into consideration the option for extension of the lease period if at date of entering the lease transaction it was reasonably certain that the option will be exercised.
Payments with respect to operating leases, except for conditional lease payments, are recognized in profit and loss by the "straight-line" method over the period of the lease. Lease incentives received are recognized as an integral part of all lease expenses by the "straight-line" method over the period of the lease.

(14) Intangible assets

Costs of software for own use

Software purchased by the Group is measured at cost, which generally includes the cost of the transaction, less accumulated amortization and losses on impairment.
The Bank capitalizes costs related to software development for internal use only when: (1) the preliminary stage of the project had been completed; and (2) Management, having the appropriate authority, has approved and has committed to finance, directly or indirectly, the project for the development of software and it is expected that the development would be completed.
Upon development or obtaining software for own use, the Bank capitalizes the following costs: direct costs of materials and services consumed, cost of payroll for employees directly connected with the development or obtaining the software. Other costs incurred in respect of development work and costs in the preliminary stage of the project, are recognized in profit and loss as incurred.

Subsequent costs

The cost of upgrading and improvement of software for internal use are capitalized only if it is expected that the incurred costs would lead to additional functionality. Other subsequent costs are recognized as an expense as incurred.

Amortization

Intangible assets created by software projects are amortized to profit and loss by the "straight-line" method over the estimated useful life of the software, beginning with the date on which the software is ready for its intended use. In this respect, software is ready for its intended use when all material examinations thereof have been completed.

Assessment of the useful lives of software costs for the reported and comparative periods is five years.
The assessments regarding the useful lives of intangible assets having a defined lifespan are re-examined on a periodic basis in order to determine whether events or circumstances justify a change in the remaining amortization period, which is accordingly adjusted, where required.

Impairment

The Bank tests for impairment intangible assets having a determinable lifespan, when events or changes in circumstances occur, indicating that the written down cost may not be recoverable. Losses on impairment are recognized only if the book value of the intangible asset is irrecoverable and exceeds its fair value. The book value is considered irrecoverable if it exceeds the total cash flows in noncapitalized values, expected to be derived from the use of the asset and its final disposal.

Loss on impairement amounts to the difference between the book value of the intangible asset and its fair value, and is reflected in the statement of profit and loss.

When a loss on impairment is recognized, the adjusted book value of the intangible asset comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the intangible asset occurs.

Hereunder are examples of events or changes in circumstances indicating impairment of in-house development costs of computer software:

1. It is not anticipated that the software will provide significant potential services;
2. A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
3. A material change in the software was performed or would be performed in the future;
4. The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;

When It is no longer expected that development of the software would be completed, the Bank adjusts the book value of the software so that its amount would be the lower of its book value or its fair value, net of sale costs. In this respect, a disputable assumption exists that the fair value of the software in such a case is worthless.

(15) Employee rights

Post-retirement benefits - pension, severance compensation and other benefits (hereinafter -"compensation") - defined benefits plans

Pension benefits comprise a part of the compensation payable to an employee in return for his services. In a defined benefit pension plan, the Bank is committed to provide, in addition to current wages, severance compensation upon retirement or termination of employment. On a general level, the amount of benefit payable is dependent on certain future events included in the benefit formula of the plan, which often includes the number of years of service of the employee and the compensation earned by him in the years immediately prior to his retirement or termination.

The net cost of pension for a period is the amount recognized in the financial statements of the Bank as the cost of the pension plan for a given period. The component of the net cost of pension for the period are the cost of service, the cost of interest, the actual return on assets of the plan, profit or loss, amortization of cost or credit in respect of prior service, and the amortization of an asset or liability in respect of the transition existing at date of initial implementation, in accordance with the public reporting instructions. The term "net pension cost for the period" is used instead of "net pension expense for the period", due to the fact that a part of the recognized cost for the period might be capitalized together with additional costs as part of an asset, for example: software for internal use.

In this respect, profit or loss is the amount of (1) the difference between the actual return on assets of the plan and the forecasted return on the assets of the plan, and of (2) the deduction of the net profit or loss recognized in other cumulative comprehensive earnings.

Pension benefits are generally attributed to periods of service of an employee, based on the benefit formula of the plan, to the extent that the formula states such attribution or that attribution is inferred there from.

The Bank computes the forecasted long-term return on the assets of the plan using historical rates of return over a long period of time relating to a portfolio having a similar composition of assets. For this purpose, the Bank uses available market data as regards each of the significant categories of assets in the portfolio, and averages them in accordance with the composition of the plan's assets.

The commitment in respect of the forecasted benefit reflects the present actuarial value of all benefits attributed to the service of the employee provided prior to balance sheet date. The measurement of this commitment is based on appropriate actuarial assumptions at date of the balance sheet of the Bank (for example: replacement, mortality, discounting rates etc.) as well as population census data as of that date.

In the event that the commitment in respect of the forecasted benefit exceeds the fair value of the plan's assets, the Bank recognizes in the balance sheet a liability equal to the amount of the unfunded commitment in respect of the forecasted benefit. Where the fair value of the assets of the plan exceed the commitment in respect of the forecasted benefit, the Bank recognizes in the balance sheet an asset in an amount equal to the overfunded amount in respect of the forecasted benefit.

The Bank collects together the positions of all overfunded plans and recognizes this amount as an asset in the balance sheet. Similarly, the Bank collects together the positions of all under-funded plans and recognizes this amount as a liability in the balance sheet.

The Bank reviews its assumptions on a quarterly basis and revises such assumptions accordingly.

A change in the value of a commitment in respect of a forecasted benefit or in the value of assets of a plan, stemming from actual experience, which is different from the forecast, or which stems from a change in the actuarial assumptions, constitutes "profit or loss" (hereinafter - "actuarial profit or loss"). Actuarial profits or losses are not recognized as part of the net cost of pension for the period when incurred, but are recognized in other comprehensive earnings. In following periods, such profits or losses are later recognized in profit and loss as a component of the net cost of pension for the period according to the "straight line" method over the remaining average period of service of the employees expected to enjoy the benefits under the plan.

The Bank recognizes losses in respect of settlements effected under its defined benefit programs, when the expected one-time payments related to the program would be higher than the total cost of the service and the cost of the annual interest. The amount of the loss is calculated in accordance with the percentage of the rate in which the actuarial liability declined as a result of the settlement, multiplied by the balance of the actuarial profits and losses accumulated in other comprehensive earnings.

The discounting rate regarding the benefits to employees is computed on the basis of the return on Israeli government bonds with the addition of the average spread on corporate bonds rated AA (international) and above, at reporting date. For practical considerations, the spread is determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity, for the same maturity periods, on US government bonds, everything at date of reporting.

The Bank follows the guidelines of the Supervisor of Banks regarding internal control over the financial reporting process in the matter of employee rights, including the matter of examining a "commitment in substance" to grant its employees benefits in respect of enlarged severance compensation.

Post-retirement benefits - defined deposit plan

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, and defines the manner of deposits made to the account of the employee instead of determining the amount of benefits to be paid to the employee. In the post-retirement defined deposit plan, the benefits that the participant in the plan would receive are dependent only on the amount deposited into the account of the participant in the plan, on the return accumulated of the assets of such deposits, and on the forfeiture of benefits of other participants that might be allocated to the account of that participant.

Where it is required that the defined deposits of a plan to the account of a person shall be made for periods in which this person provides services, the net cost of pension or the net cost of other post-retirement benefit for the period, shall be the required deposit for that period.

The commitment of the Bank for the payment of severance compensation in accordance with Section 14 of the Severance Compensation Act is treated as a defined deposit plan.

Other post-retirement benefits

The Bank recognizes the non-discounted amount of the current benefit at the date of granting the service. In addition, the Bank accumulates the liability during the relevant period, which is determined in accordance with the rules applying to other post-retirement benefits.

Paid leave of absence

The Bank accumulates a liability in respect of compensation of employees during future periods of leave of absence, if all the following conditions exist: (a) the commitment of the Bank regarding the right of employees to receive compensation in respect of future periods of leave of absence is attributed to services already provided by the employees; (b) the commitment relates to vesting or accumulated rights; (c) payment of the compensation is expected; (d) the amount may be reasonably estimated.

Vacation - the Bank accumulates the liability over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are not taken into account. All components of the cost of the benefit for the period are immediately recognized in profit and loss.

Sick leave - no liability is being accumulated in respect of paid sick leave.

Award payable at termination of employment in respect of unutilized sick leave

The Bank accumulates this liability as leave of absence entitled to compensation over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss. In determining the discounting rate of interest and the manner of allocation to periods of cost of the service, the Bank applies the rules applying to defined benefits pension plans, with the required modifications.

Other long-term benefits to active employees - seniority awards

The liability is accumulated over the period entitling to the benefit. For the purpose of computing the liability in respect of such benefit, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss.

(16) Contingent Liabilities

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

1. Probable - prospects of risk materializing are of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
2. Reasonably possible - prospects of risk materializing are between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.
3. Remote - prospects of risk materializing are below 20%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, the Bank does not include a provision in this respect.

Note 25 regarding contingent liabilities and special commitments include a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Furthermore, disclosure is provided in respect of any claim the amount of which exceeds 1% of the equity of the Bank.

Disclosure is also provided in respect of claims, the results of which cannot be estimated at this stage, and which amount exceed 0.5% of the equity of the Bank.

(17) Guaranties

A guaranty constitutes a contract contingently requiring the guarantor to make payments to the guarantee when conditions which require the realization of the guaranty materialize. A liability in respect of a guaranty is recognized in the books in the amount of its fair value, even if it is not expected that the guaranty would be realized in the future. In cases where upon initial recognition, the Bank is required to recognize a provision for a contingent loss in respect of a guaranty, in accordance with Item 450 of the Codification, the liability in respect of the guaranty is measured at date of initial recognition at the higher of the fair value and the amount of the provision according to the rules of Item 450 of the Codification.

The liability is removed from the books at date on which the Bank is released from the risk. The date of release from risk in respect of the guaranty depends on the substance of the guaranty. In general, the Bank removes the liability on date of settlement of the liability. Where the guarantee is measured at date of initial recognition in accordance with the rules of Item 450 of the Codification, the following measurement is also performed in accordance with the rules of Item 450 of the Codification.

The rules with respect to the recognition and measurement at date of initial recognition do not apply to guaranties issued between a parent company and a subsidiary, between two sister companies or between the owner of a company and the company.

(18) Income Tax Expense

The financial statements of the Bank include current and deferred taxes.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

The Bank allocates the tax expense or the tax benefits between continuing operations, discontinued operations, other comprehensive income and other items directly recognized in equity.

Current taxes

Current taxes are the amount of taxes on income paid or payable (or refundable) in respect of the current period, as determined by the tax laws enacted with respect to taxable income. The current tax expense includes also changes in tax payments relating to prior years.

Deferred taxes

Deferred tax liabilities and deferred tax assets represent the future implications on taxes on income stemming from temporary differences and carry forward losses at end of a period.

The Bank recognizes deferred tax liabilities with respect to all taxable temporary differences except for the following temporary difference: retained earnings of a domestic subsidiary, which in substance are for a permanent period of time; and differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all tax-deductible temporary differences and carry forward losses, and concurrently recognizes a separate valuation allowance in respect of that amount included in the value of an asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assets by the amount of any tax benefits that are not expected to be realized, based on available evidence - both positive evidence supporting recognition of a deferred tax asset and the negative evidence supporting the creation of a valuation allowance in respect of a deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

Deferred tax liabilities or deferred tax assets are measured using the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.

The Bank classifies interest income and expenses with respect to taxes on income and penalties payable to the Tax Authorities to the Item "Taxes on income".

Offsetting deferred tax assets and liabilities

The Bank offsets all deferred tax assets against all deferred tax liabilities as well as all valuation allowances related to a particular taxable component and within the jurisdiction of a particular tax authority.

Uncertain tax positions

The Bank applies the recognition, measurement and disclosure rules stated within the framework of FIN 48. In accordance with these rules, the Bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

(19) Earnings per share

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

(20) Segment Reporting

(a) Regulatory segments of operation

A regulatory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the Supervisor of Banks. The format of reporting on the regulatory segments of operation of the Bank was set in the Public Reporting Directives of the Supervisor of Banks.

A regulatory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between minute and small businesses, middle market and corporate businesses), institutional bodies and the financial management segment. In addition, the Bank is required to implement the disclosure requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the regulatory business segments.

(b) Segments of operation according to Management's approach

In addition to the uniform reporting in accordance with regulatory segments of operation, the letter requires disclosure on segments of operation according to Management's approach in accordance with accounting principles accepted by US banks in the matter of business segments (included in ASC 280) (see note 28A to the report).

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The classification of business segments at the Bank is based on the characterization of customer segments. Such segments include also banking products.

(21) Transactions with controlling parties

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

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

(1) Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of leasing

On July 1, 2018, the Supervisor of Banks issued a letter in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of leasing, which adopts the accounting principles accepted by US banks in the matter of leasing, and inter alia, the presentation, measurement and disclosure rules contained in Item 842 of the Codification regarding "Leasing".

The essence of the expected changes in the accounting treatment in financial statements of banking corporations, following the application of Item 842 of the Codification, as stated in the letter, are, inter alia: banking corporations that lease assets for a period exceeding twelve months, shall reflect them in the balance sheet, even if the leasing is classified as an operating lease; in operating lease transactions, a "right of use" asset would be recorded in the balance sheet, which reflects the right of the corporation to use the leased assets. On the other hand, a liability in respect of an operating lease would be recorded. Furthermore, transactions in which the banking corporation sells an asset and leases it back, may under certain conditions be considered as accounting sale transactions, subject to fulfillment of certain conditions detailed in Item 842.

The standard will be implemented starting with January 1, 2020, and thereafter. Upon initial application, the Bank will act in accordance with the transitional instructions determined in the accounting principles accepted by US banks regarding this matter, mutatis mutandis. The above stated includes the retroactive restatement of the comparative data, where it is required with respect to these issues.

It is the intention of the Bank to apply the new rules in respect of leasing as from January 1, 2020, by way of adjusted retroactive application, recording in retained earnings the cumulative effect thereof at date of initial application. Furthermore, the Bank intends to adopt at date of initial application, certain relief granted in the transitional instructions, including maintaining the estimates regarding identification of existence of a lease and its classification as an operating or as a financial lease, as well as maintaining the estimate regarding the qualification for capitalization of primary direct expenses, which had been determined prior to the date of initial application, in accordance with the instructions of the present Standards.

The assessment of the Bank is that the application of the new rules is expected to result in an increase of NIS 430 million, in the balance of "right of use" assets, and a parallel increase of NIS 430 million, in the balance of liabilities in respect of leasing, at date of initial application. Furthermore, the Bank assesses that the application of the new rules is expected to cause a decrease in the ratio of Tier I equity capital and in the comprehensive equity capital at the rate of 0.06% and 0.08%, respectively, this as a result of the averaging the risk assets in respect of " right of use " assets stemming from operating leases recognized in the balance sheet at the rate of 100%. In addition, application of the new rules is expected to lead to a decrease in the leverage ratio of the Bank at the rate of 0.02%.

(2) Adoption of updates to accounting principles accepted by US banks - provision for credit losses and additional instructions

On March 28, 2018, the Supervisor of Banks issued a letter in the matter of "adoption of updates of accounting principles accepted by US banks - provisions for credit losses and additional instructions". In accordance with the letter, it is required to apply the accounting principles accepted by US banks in the matters of: provisions for credit losses; financial instruments, including derivative instruments and hedge operations; as well as leasing. The initial application shall be made in accordance with transitional instructions determined in the US principles.

The letter adopts the US accepted accounting principles in the matter of provisions for expected credit losses, published within the framework of updating the ASU 2016-13 Standard. The aim of the new rules is to improve the reporting quality regarding the financial condition of banking corporations, by means of advancing the recording of provisions for credit losses, in a manner that fortifies the anti-recurrence in the conduct of the provisions for credit losses, supporting a quicker response by the banks to the quality of credit to borrowers, and to strengthen the bond between credit risk management and the manner in which such risks are reflected in the Financial statements, while being based on existing systems and processes.

The principal changes expected in the accounting treatment in financial statements of banking corporations following the application of the above rules, are, inter alia: the provision for credit losses would be computed according to the expected loss over the life of the debt, instead of assessment of the loss incurred but not yet identified; in assessing the provision for credit losses, significant use is to be made of forward looking information reflecting reasonable forecasts of future economic events; disclosure would be expanded regarding the effect of the date on which credit had been granted on the credit quality of the credit portfolio; the way in which impairment of available-for-sale bonds is recorded would be changes; as well as the new rules for the computation of the provision for credit losses would apply to credit (including residential loans), bonds held to maturity, and of certain off-balance sheet credit exposure.

The Standard shall be implemented as from January 1, 2021 and thereafter. As a general rule, the new rules shall be applied by way of recording in retained earnings the cumulative effect of the application of these rules as of the initial date of application.

The Bank is preparing for the implementation of the letter. These preparations include, inter alia: the mapping of the new instructions and their possible implications on the Bank; review of the practices in effect at present for the management of credit risk and for the assessment of the provision for credit losses, in order to identify processes that might be used for the purpose of the implementation of the new rules. Identification of the challenges and the way to face them, as well as examination of the changes required to adapt the model for the assessment of credit losses.

On July 4, 2019, the Supervisor of Banks issued a draft letter regarding the "application of US accepted accounting principles in the matter of anticipated credit losses", which includes integration of the new rules in the public reporting instructions, deferral of the initial application date of the new rules to January 1, 2022, and a parallel run as from January 1, 2021. Furthermore, the Supervisor of Banks has published a draft "questions and answers file in the matter of application of the new rules regarding anticipated credit losses", which is intended to assist banking corporations in the process of preparations for the implementation of the new rules.

(3) ASU 2018-14 in the matter of changes in disclosure requirements regarding defined benefit plans

On August 28, 2018, the US Financial Accounting Standard Board ("FASB") published Amendment ASU 2018-14 regarding the disclosure framework - changes in disclosure requirements regarding defined benefit plans, comprising an update of Item 715-20 of the Codification in the matter of compensation - retirement benefits - defined benefits plans- general (hereinafter - "the Amendment"). The aim of the Amendment is to improve the effectiveness of disclosure provided in notes to financial statements, as well as reduce the costs involved in the preparation of the required notes.

The changes contained in the Amendment abolish disclosures that are useless, clarify specific disclosure requirements, as well as add disclosure requirements identified as relevant.

The principal changes are, inter alia, as follows: it is no longer required to present an assessment of the amounts included in other comprehensive income expected to be removed from other cumulative comprehensive income in the following year and charged to profit and loss as an expense; it is no longer required to present the amount of the future annual benefits that are covered by insurance contracts, including pension contracts, as well as any significant transactions between the entity, or related parties and the plan; a new requirement is added for the provision of details regarding the reasons for material profits or losses related to changes during the period in the liability regarding defined benefit; also clarified are the disclosure requirements in respect of entities having two or more plans.

The provisions of the Amendment apply to public entities in the United States starting with annual periods beginning after December 15, 2020. Earlier adoption of the rules is permitted also for interim periods. Upon initial application it is required to implement the changes by way of retroactive application.

On February 13, 2020, The Supervisor of Banks published a circular letter in the matter of "improving use of reports to the public by banking corporations for the years 2019 and 2020", which states that the instructions of the amendment shall apply to reports to the public as from January 1, 2021 and thereafter.

The Bank is studying the effect of the new rules upon its financial statements.

(4) Amendment of Standard ASU 2018-13 regarding changes in disclosure requirements for fair value measurement

On August 28, 2018, the US Financial Accounting Standards Board (FASB) published ASU 2018-13 regarding the disclosure framework - changes in disclosure requirements of fair value valuation, which comprises an update of Item 820 of the Codification in the matter of fair value measurement (hereinafter -"the Update").

The purpose of the Update is to improve effectiveness of disclosure in notes to the financial statements, as well as reduce the costs involved in the preparation of the required notes.

The changes contained in the Update delete useless disclosure, clarify specific disclosure requirements and add disclosure requirements identified as relevant.

The principal changes are, inter alia, as follows: the requirement for the presentation of amounts and reasons for the transfer between levels 1 and 2 in the fair value hierarchy was abolished; the requirement for information regarding the entity's policy as to the time on which transfers between levels are considered existing was abolished; the requirement for the presentation of the process regarding the fair value valuation at level 3 was abolished; within the framework of the requirement for a written description of the sensitivity to changes in unobservable data for the recurring measurement of fair value classified to level 3 in the fair value grading, the term "sensitivity" has been changed to "uncertainty" in order to emphasize that the required information refers to uncertainty; a requirement has been added, according to which the changes made to other comprehensive income (OCI) yet unrealized in the reported period, have to be presented for assets held at the end of the period.

The rules of the Update shall apply to public entities in the United States, starting with the annual periods beginning after December 15, 2019. Earlier adoption is permitted, including in interim periods. Upon initial application it is required to apply the changes by way of retroactive application, except for the added requirements as well as the updated disclosure requirement regarding uncertainty in the measurement of fair value at level 3, in respect of which application is by way of "from now onwards".

On February 13, 2020, The Supervisor of Banks published a circular letter in the matter of "improving use of reports to the public by banking corporations for the years 2019 and 2020", which states that the instructions of the amendment shall apply to reports to the public as from January 1, 2021 and thereafter.

The Bank estimates that the application of the Update is not expected to have a material effect upon the financial statements.

(5) Update of Standard ASU 2019-12 in the matter of simplifying the accounting treatment of taxes on income

On December 18, 2019, the US Financial Accounting Standards Board (FASB) published ASU 2018-13 in the matter of simplifying the accounting treatment of taxes on income, comprising an update of Item 740 of the Codification regarding taxes on income (hereinafter - "the Amendment"). The purpose of the Amendment is a reduction in the complexity of the US generally accepted accounting principles, while maintaining the usefulness of information provided to users of financial statements.

The changes made within the framework of the Amendment simplify the accounting treatment of taxes on income by eliminating exceptions, changing guidelines existing in the Standards, as well as addition of new guidelines.

The principal items updated within the framework of the Amendment are, inter alia, as follows: allocation of income tax expenses or income tax benefits among continuing operations, discontinued operations, other comprehensive income and items directly recorded in equity; recognition of deferred tax liabilities in respect of taxable temporary timing differences in respect of investment in a foreign affiliated company; computation of tax income on accumulated losses in interim financial statements; the manner of recognizing the effect of changes in tax laws or in tax rates in interim financial statements; assessment of the increase in the tax base of goodwill when determining whether it should be treated as part of a business combination or as a separate transaction.

The rules of the Amendment shall apply to public entities in the United States, starting with the annual periods beginning after December 15, 2020. Earlier adoption is permitted, including in interim periods. Upon initial application it is required to apply the changes by way of "from now onwards", except for the recognition of deferred tax liabilities in respect of taxable temporary timing differences in respect of investment in a foreign affiliated company, in respect of which application is by way of adjusted retroactive application, while recording the cumulative effect of the change in the opening balance of retained earnings.

The Bank is studying the implications of the new rules on its financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

		Consolidated			The Bank		
		For the year ended December 31			For the year ended December 31		
		2019	2018	2017	2019	2018	2017
A.	**Interest income**(1)						
	From credit to the public	**2,797**	2,764	2,532	**2,565**	2,102	1,909
	From credit to the Government	**2**	4	-	**-**	-	-
	From deposits with banks	**23**	14	14	**25**	18	12
	From deposits with Bank of Israel and from cash	**68**	32	26	**66**	27	21
	From securities which were borrowed	**1**	1	1	**1**	1	1
	From bonds(2)	**194**	186	131	**190**	156	112
	From Investees companies	**-**	-	-	**-**	8	5
	Total interest income	**3,085**	3,001	2,704	**2,847**	2,312	2,060
B.	**Interest expenses**						
	On deposits from the public	**366**	320	222	**367**	313	225
	On deposits from the Government	**4**	4	5	**4**	4	4
	On deposits from banks	**4**	4	5	**21**	40	27
	On bonds and subordinated capital notes	**106**	184	165	**96**	151	136
	On other liabilities	**3**	3	5	**3**	3	5
	Total interest expenses	**483**	515	402	**491**	511	397
	Total interest income, net	**2,602**	2,486	2,302	**2,356**	1,801	1,663
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**						
	Interest expenses(3)	**(10)**	(3)	(19)	**(9)**	(8)	(20)
D.	**Details of interest income from bonds on cumulative basis**						
	Held to maturity	**33**	34	34	**33**	29	29
	Available for sale	**160**	148	92	**156**	123	78
	Held for trading	**1**	4	5	**1**	4	5
	Total included in interest income	**194**	186	131	**190**	156	112

(1) Including effect of hedging relations (2018 and 2017 - effective component in hedging relations).

(2) Including Interest income on mortgage-backed securities (MBS) in the amount of NIS 9 million consolidated and the Bank in 2019 (2018 - Interest income in the amount of NIS 8 million, consolidated and the Bank, 2017 - Interest income in the amount of NIS 4 million, consolidated and the Bank).

(3) Details of effect of hedging derivative instruments on subsection (A).

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019(6)	2018	2017	2019(6)	2018	2017
A. Non-interest financing income (expenses) in respect of non-trading activities						
1. From activity in derivative instruments						
Non-effective part of hedging ratios (see C below)	**-**	-	3	**-**	-	3
Net income (expense) in respect of ALM derivative instruments	**(421)**	571	(531)	**(420)**	525	(460)
Total from activity in derivative instruments(1)	**(421)**	571	(528)	**(420)**	525	(457)
2. From investments in bonds						
Profits from sale of bonds available for sale(2)	**27**	7	28	**23**	5	21
Losses from sale of bonds available for sale(2)	**(1)**	-	-	**(1)**	-	-
Total from investment in bonds	**26**	7	28	**22**	5	21
3. Net exchange differences	**561**	(439)	573	**572**	(418)	522
4. Gains from investment in shares						
Gains from sale of shares available for sale(5)	**2**	(4)79	2	**2**	(4)74	2
Losses from sale of shares available for sale(5)	**-**	(9)	(2)	**-**	(3)	(2)
Dividend from shares available for sale	**10**	10	12	**10**	10	12
Unrealized gains(3)	**59**	-	-	**59**	-	-
Total from investment in shares	**71**	80	12	**71**	81	12
Total non-interest financing income in respect of non-trading activities	**237**	219	85	**245**	193	98

(1) Excluding effect of hedging relations (2018 and 2017 - excluding effective component in hedging relations).
(2) Reclassified from other comprehensive income.
(3) Including profits and losses from measurement according to fair value of shares in respect of which fair value exist and adjustment of shares in respect of which fair value does not exist.
(4) Including gain from the sale of the Stock Exchange shares - see Note 12.E.
(5) Until December 31, 2018 shares available for sale.
(6) As from 2019, the Bank changed classification of derivative financial instruments between trading activities and not for trading activities.

NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019(6)	2018	2017	2019(6)	2018	2017
B. Net income (expenses) in respect of non-interest financing activity for trading(3)						
Net income in respect of other derivative instruments	**2**	11	8	**2**	10	8
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading(1)	**(14)**	2	(9)	**(14)**	1	(10)
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading(2)	**-**	(1)	(1)	**-**	(1)	(2)
Total non-interest financing income (expenses) from trading activities(4)	**(12)**	12	(2)	**(12)**	10	(4)
Total non-interest financing income	**225**	231	83	**233**	203	94
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure						
Interest rate exposure	**-**	3	(8)	**-**	1	(10)
Foreign currency exposure	**(18)**	1	1	**(18)**	1	1
Exposure to shares	**6**	8	5	**6**	8	5
Total	**(12)**	12	(2)	**(12)**	10	(4)
C. Non-effective part of hedging ratios - foreign operation(5)						
Non-effectiveness of hedges	**-**	-	1	**-**	-	1
Income component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**-**	-	2	**-**	-	2
Total	**-**	-	3	**-**	-	3

(1) Of which: losses in respect of trading bonds on hand at balance sheet date NIS 1 million, consolidated and the Bank (2018 - non, 2017 - NIS 1 million).
(2) No gains/losses in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expense.
(6) As from 2019, the Bank changed classification of derivative financial instruments between trading activities and not for trading activities.

NOTE 4A - FEES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Account management	**228**	244	250	**205**	175	178
Credit cards	**102**	108	101	**91**	70	66
Securities and certain derivative instruments activity	**405**	420	428	**388**	349	349
Financial products distribution commissions[1]	**110**	102	81	**105**	72	55
Management, operation and trust to institutional entities	**95**	96	95	**32**	33	35
Credit handling	**19**	19	15	**17**	15	12
Conversion differences	**148**	148	141	**144**	127	121
Foreign-trade activity	**45**	47	51	**44**	43	45
Commissions from financing activities	**86**	90	92	**83**	81	81
Other fees	**48**	51	51	**35**	30	31
Total Fees	**1,286**	1,325	1,305	**1,144**	995	973

(1) Mutual and provident funds distribution fees.

Note 4B - INCOME FROM CONTRACTS WITH CUSTOMERS

(NIS million)

The income below is divided according to commission from main services. Also, following is the reconciliation of the income divided to segements of activity according to Management approach:

Consolidated	For the year ended December 31, 2019					
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	**183**	**36**	**5**	**23**	**(19)**	**228**
Credit cards	**89**	**4**	**1**	**11**	**(3)**	**102**
Securities and certain derivative instruments activity	**281**	**80**	**388**	**20**	**(364)**	**405**
Financial products distribution commissions[(1)]	**104**	**2**	**104**	**6**	**(106)**	**110**
Management, operation and trust to institutional entities	**-**	**-**	**95**	**-**	**-**	**95**
Credit handling	**3**	**13**	**-**	**10**	**(7)**	**19**
Conversion differences	**64**	**54**	**144**	**4**	**(118)**	**148**
Foreign-trade activity	**25**	**30**	**1**	**1**	**(12)**	**45**
Commissions from financing activities	**24**	**69**	**1**	**3**	**(11)**	**86**
Other fees	**37**	**9**	**1**	**6**	**(5)**	**48**
Total Fees from contracts with customers	**810**	**297**	**740**	**84**	**(645)**	**1,286**

Consolidated	For the year ended December 31, 2018					
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	154	35	5	69	(19)	244
Credit cards	68	4	1	38	(3)	108
Securities and certain derivative instruments activity	225	88	349	76	(318)	420
Financial products distribution commissions[(1)]	71	2	72	30	(73)	102
Management, operation and trust to institutional entities	-	-	96	-	-	96
Credit handling	3	13	-	55	(52)	19
Conversion differences	56	58	128	20	(114)	148
Foreign-trade activity	23	29	1	5	(11)	47
Commissions from financing activities	21	68	1	11	(11)	90
Other fees	34	6	1	12	(2)	51
Total Fees from contracts with customers	655	303	654	316	(603)	1,325

(1) Mutual and provident funds distribution fees.

NOTE 5 - OTHER INCOME

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Capital gains from the sale of building and equipment	**3**	69	45	**3**	4	44
Other	**6**	12	17	**51**	147	132
Total other income	**9**	81	62	**54**	151	176

NOTE 6 - SALARIES AND RELATED EXPENSES

(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Salaries	**1,087**	1,190	1,074	**1,012**	928	810
Other related expenses including study funds, vacation and sick days	**120**	109	104	**115**	86	80
Long-term benefits	**11**	4	4	**6**	1	(1)
National insurance and VAT on salaries	**284**	291	293	**265**	222	222
Pension expenses (including severance pay and allowances)(1):						
Defined benefit - cost of service	**17**	21	22	**13**	12	12
Defined deposit	**69**	69	69	**65**	47	48
Other post-employment benefits and non-pension post-retirement benefits(1)(2)	**13**	12	13	**11**	7	8
Total salaries and related expenses	**1,601**	1,696	1,579	**1,487**	1,303	1,179
Of which salaries and related expenses abroad	**-**	-	14	**-**	-	-

(1) See note 23 regarding "employees benefits".

(2) Of which: cost of service in respect of other post-employment benefits and post-retirement benefit, which are not pension in the amount of NIS 4 million and NIS 3 million consolidated and the bank, respectively (2018 - amounted to NIS 4 million and NIS 2 million, consolidated and the Bank, respectively, 2017 - amounted to NIS 5 million and NIS 2 million, consolidated and the Bank, respectively).

NOTE 7 - OTHER EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Pension expenses (including severance pay and allowances), defined benefit (excluding cost of service)	**24**	23	32	**23**	19	24
Reductions, Dismissals(1)	**50**	113	16	**49**	12	12
Marketing and advertising	**63**	53	51	**56**	31	29
Communications	**65**	*66	*70	**62**	*57	*58
Computer	**129**	119	109	**126**	114	103
Office	**9**	*11	*10	**8**	*7	*7
Insurance	**5**	5	4	**4**	3	2
Legal, audit and consultancy	**56**	58	61	**48**	35	34
Directors' fees and fees for participation in meetings	**6**	8	9	**4**	4	5
Professional instruction and training	**3**	5	4	**3**	3	3
Commissions	**112**	111	106	**118**	156	141
Other	**86**	*84	*82	**82**	*67	*68
Total other expenses	**608**	656	554	**583**	508	486

* Reclassified.

(1) See note 23 regarding "employees benefits".

NOTE 8 - PROVISION FOR TAXES ON PROFIT
(NIS million)

A. Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Current taxes in respect of the current year	**508**	439	404	**449**	344	316
Current taxes in respect of prior years	**(5)**	(7)	(44)	**(6)**	(2)	(41)
Total current taxes	**503**	432	360	**443**	342	275
Addition (deduction):						
Deferred taxes in respect of the current year	**(4)**	(27)	(5)	**(4)**	(23)	6
Deferred taxes in respect of prior years	**(21)**	3	3	**(21)**	-	3
Total deferred taxes*	**(25)**	(24)	(2)	**(25)**	(23)	9
Total provision for taxes	**478**	408	358	**418**	319	284
(*) Deferred taxes						
Expenses (income) of deferred taxes before effect of items detailed below	**(26)**	(25)	(9)	**(26)**	(24)	2
Decrease from carry forward losses	**1**	1	7	**1**	1	7
Total deferred taxes	**(25)**	(24)	(2)	**(25)**	(23)	9

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

(NIS million)

B. Reconciliation of provision for taxes to the theoretical tax expense

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Profit before taxes	**1,330**	1,138	1,024	**1,175**	854	833
Prevailing tax rate	**34.2%**	34.2%	35.0%	**34.2%**	34.2%	35.0%
Tax at the prevailing tax rate	**455**	389	358	**402**	292	292
Tax (saving) in respect of:						
Non-deductible expenses	**17**	16	13	**15**	13	11
Amortization of excess of cost	**-**	1	3	**-**	-	-
Elimination of taxes computed in respect of the Bank's share in earnings of investee companies.	**-**	(2)	9	**-**	6	5
Adjustment of statutory tax rate to the tax rate applicable on income of consolidated companies	**(1)**	(1)	-	**-**	-	-
Additional amounts to be paid in respect of impaired debts	**24**	16	16	**24**	16	16
Adjustment and differences of depreciation and amortization	**1**	(18)	(7)	**1**	(10)	(6)
Taxes in respect of prior years	**(26)**	(4)	(41)	**(27)**	(2)	(38)
Other differences	**8**	11	7	**3**	4	4
Provision for taxes on profit	**478**	408	358	**418**	319	284

C. Tax assessments and additional matters relating to the provision for taxes

(1) The Bank has final tax assessments for the tax years up to and including the year 2013.
In respect of the tax year 2014, the Bank was submitted with a tax assessment according to the best judgment of the tax office.
According to the Bank management, adequate provision was made in the financial statements.

(2) The investee companies have final tax assessments up to and including the tax year 2013.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities - Consolidated

	Balance as at December 31, 2018	Changes allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2019	Average tax rate 2019
Deferred tax assets					
Provision for credit losses	**271**	**4**	**-**	**275**	**34.2%**
Provision for vacation pay and other benefits to employees	**110**	**7**	**-**	**117**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**162**	**(1)**	**24**	**185**	**34.2%**
Carry forward loss for tax purposes	**2**	**(1)**	**-**	**1**	**23.0%**
Other	**4**	**(1)**	**-**	**3**	**34.2%**
Balance of deferred tax assets, gross	**549**	**8**	**24**	**581**	
Provision for deferred tax asset	**(2)**	**1**	**-**	**(1)**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**547**	**9**	**24**	**580**	
Balance of available for setoff against deferred tax assets				**(67)**	
				513	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	**59**	**2**	**-**	**61**	**34.2%**
Investments in affiliates	**65**	**(18)**	**-**	**47**	**11.2%**
Balance of deferred tax liability, gross	**124**	**(16)**	**-**	**108**	
Balance of available for setoff against deferred tax liabilities				**(67)**	
				41	
Balance of deferred tax assets, net	**423**	**25**	**24**	**472**	

	Balance as at December 31, 2017	Changes allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2018	Average tax rate 2018
Deferred tax assets					
Provision for credit losses	257	14	-	271	34.2%
Provision for vacation pay and other benefits to employees	102	7	1	110	34.2%
Excess liabilities in respect of employee benefits over assets of the scheme	155	5	2	162	34.2%
Carry forward loss for tax purposes	3	(1)	-	2	23.0%
Other	6	(2)	-	4	34.2%
Balance of deferred tax assets, gross	523	23	3	549	
Provision for deferred tax asset	(3)	1	-	(2)	
Balance of deferred tax assets after deduction of provision for deferred taxes	520	24	3	547	
Balance of available for setoff against deferred tax assets				(84)	
				463	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	57	2	-	59	34.2%
Investments in affiliates	56	9	-	65	11.2%
Balance of deferred tax liability, gross	113	11	-	124	
Balance of available for setoff against deferred tax liabilities				(84)	
				40	
Balance of deferred tax assets, net	407	13	3	423	

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities - The bank

	Balance as at December 31, 2018	Merging a subsidiary	Changes allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2019	Average tax rate 2019
Deferred tax assets						
Provision for credit losses	**196**	**58**	**2**	**-**	**256**	**34.2%**
Provision for vacation pay and other benefits to employees	**80**	**26**	**6**	**-**	**112**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**120**	**33**	**-**	**21**	**174**	**34.2%**
Carry forward loss for tax purposes	**2**	**-**	**(1)**	**-**	**1**	**23.0%**
Other	**2**	**1**	**(1)**	**-**	**2**	**34.2%**
Balance of deferred tax assets, gross	**400**	**118**	**6**	**21**	**545**	
Provision for deferred tax asset	**(2)**	**-**	**1**	**-**	**(1)**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**398**	**118**	**7**	**21**	**544**	
Balance of available for setoff against deferred tax assets					**(67)**	
					477	
Deferred tax liabilities						
Adjustment of depreciable non-monetary assets	**60**	**1**	**-**	**-**	**61**	**34.2%**
Investments in affiliates	**60**	**5**	**(18)**	**-**	**47**	**11.2%**
Balance of deferred tax liability, gross	**120**	**6**	**(18)**	**-**	**108**	
Balance of available for setoff against deferred tax liabilities					**(67)**	
					41	
Balance of deferred tax assets, net	**278**	**112**	**25**	**21**	**436**	

	Balance as at December 31, 2017	Changes allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2018	Average tax rate 2018
Deferred tax assets					
Provision for credit losses	182	14	-	196	34.2%
Provision for vacation pay and other benefits to employees	73	7	-	80	34.2%
Excess liabilities in respect of employee benefits over assets of the scheme	125	(3)	(2)	120	34.2%
Carry forward loss for tax purposes	3	(1)	-	2	23.0%
Other	3	(1)	-	2	34.2%
Balance of deferred tax assets, gross	386	16	(2)	400	
Provision for deferred tax asset	(3)	1	-	(2)	
Balance of deferred tax assets after deduction of provision for deferred taxes	383	17	(2)	398	
Balance of available for setoff against deferred tax assets				(80)	
				318	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	58	2	-	60	34.2%
Investments in affiliates	56	4	-	60	11.2%
Balance of deferred tax liability, gross	114	6	-	120	
Balance of available for setoff against deferred tax liabilities				(80)	
				40	
Balance of deferred tax assets, net	269	11	(2)	278	

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

E. See Note 10B regarding taxes on income recognized outside profit and loss.

F. Changes in tax legislation

1. **Corporation tax**

   Following are the relevant corporation tax rates for the years 2017-2019:

   2017 - 24%

   2018 - 23%

   2019 - 23%

   On January 4, 2016, the Knesset passed the Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, which among other things, lowered the rate of corporation tax as from the tax year 2016 and thereafter, by 1.5%, so that the tax rate would be 25%.

   In addition, on December 22, 2016, the Knesset passed the Economic Efficiency Law (amendment legislation to achieve the budget targets for 2017-2018), 2016. In this framework the reduction of the corporate tax rate was approved from a level of 25% to 23% in two steps. The first step to 24%, starting with January 1, 2017 and the second step to 23% from January 1, 2018 and onwards.

2. **Updating of the Value Added Tax rate and of the profit tax and payroll tax rates**

   On October 12, 2015, the Knesset passed the Value Added Tax Order (The tax rate applying to not-for-profit organizations and to financial institutions) (Amendment), 2015, which reduced the profit tax and payroll tax rates applying to financial institutions from 18% to 17%, with effect as from October 1, 2015. As a result of the said change, the statutory tax rate applying to financial institutions was reduced from 37.71% to 37.58% in 2015. In addition, as a result of reducing the corporate tax rate to 25% in 2016, 24% in 2017 and 23% from January 2018 and onwards, the statutory tax rate declined to 35.9% in 2016, 35% in 2017 and 34.2% in 2018 and onwards.

The current taxes for the reported periods are calculated in accordance with the tax rates presented above.

NOTE 9 - PROFIT PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

	Number of shares for the years 2019, 2018 and 2017
Shares of NIS 0.05 par value	**100,330,040**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to non-controlling interests					
	Adjustment in respect of reporting available for sale securities in fair value(3)	Translation adjustments(1) net after the effect of hedges(2)	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
Balance as of January 1, 2017	(13)	(2)	(174)	(189)	(12)	(177)
Net changes during the year	58	2	-	60	3	57
Balance as of January 1, 2018	45	-	(174)	(129)	(9)	(120)
Net changes during the year	(67)	-	24	(43)	(4)	(39)
Balance as of January 1, 2019	(22)	-	(150)	(172)	(13)	(159)
Cumulative effect in respect of initial application of US accepted accounting standards*	8	-	-	8	-	8
Adjusted balance as of January 1, 2019 after initial application	**(14)**	**-**	**(150)**	**(164)**	**(13)**	**(151)**
Net changes during the year	**67**	**-**	**(49)**	**18**	**(2)**	**20**
Balance as of December 31, 2019	**53**	**-**	**(199)**	**(146)**	**(15)**	**(131)**

* Cumulative effect in respect of initial application of US accepted accounting standards for banks in respect of financial instruments (ASU 2016-01), see also note 1.C.(1).

(1) Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

(2) Net gains (losses) in respect of hedging net investment in foreign currency.

(3) 2018 and 2017- available for sale securities.

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

B. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31, 2019			For the year ended December 31, 2018			For the year ended December 31, 2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to non-controlling interests									
Adjustments in respect of available for sale securities presentation according to fair value(3)									
Unrealized net gains (losses) from adjustments to fair value	**238**	**(81)**	**157**	(92)	32	(60)	114	(41)	73
Gains in respect of available for sale securities reclassified to income statement(1)(3)	**(137)**	**47**	**(90)**	(10)	3	(7)	(24)	9	(15)
Net changes during the period	**101**	**(34)**	**67**	(102)	35	(67)	90	(32)	58
Translation adjustments*									
Adjustments from translation of financial statements	**-**	**-**	**-**	-	-	-	(12)	4	(8)
Hedges**	**-**	**-**	**-**	-	-	-	12	(4)	8
Losses in respect of translation adjustments of financial statements reclassified to income statement	**-**	**-**	**-**	-	-	-	4	(2)	2
Net changes during the period	**-**	**-**	**-**	-	-	-	4	(2)	2
Employee benefits:									
Net actuarial loss for the period	**(139)**	**47**	**(92)**	(10)	3	(7)	(28)	9	(19)
Net losses reclassified to the statement of profit and loss(2)	**65**	**(22)**	**43**	47	(16)	31	29	(10)	19
Net change during the period	**(74)**	**25**	**(49)**	37	(13)	24	1	(1)	-
Changes in the components of cumulative other comprehensive income (loss) attributed to non-controlling interests									
Total changes during the period	**(4)**	**2**	**(2)**	(6)	2	(4)	6	(3)	3
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the period	**31**	**(11)**	**20**	(59)	20	(39)	89	(32)	57

* Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

** Net gains (losses) in respect of hedging net investment in foreign currency.

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item of expenses in respect of employee benefits, see note 23.

(3) 2018 and 2017- available for sale securities.

NOTE 11 - CASH AND DEPOSITS WITH BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2019	**2018**	**2019**	**2018**
Cash and deposits with Central banks	**35,396**	28,387	**34,174**	27,385
Deposits with commercial banks	**2,134**	2,916	**2,354**	3,520
Total (1)	**37,530**	31,303	**36,528**	30,905
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	**37,275**	31,126	**35,964**	30,299

NOTE 12 - SECURITIES

(NIS million)

Composition:

					Consolidated
					December 31, 2019
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**1,751**	**1,751**	**93**	**-**	**1,844**
Of financial institutions in Israel	**56**	**56**	**1**	**-**	**57**
Of others in Israel	**241**	**241**	**30**	**-**	**271**
Total debentures held to maturity	**2,048**	**2,048**	**124**	**-**	**2,172**

			Cumulative other comprehensive income		
B. Bonds available for sale	**Book value**	**Amortized cost**	**Profits**	**Losses**	**Fair value** (1)
Of Israeli government	**4,577**	**4,508**	**69**	**-**	**4,577**
Of foreign governments	**1,956**	**1,955**	**1**	**-**	**1,956**
Of financial institutions in Israel	**43**	**42**	**1**	**-**	**43**
Of foreign financial institutions	(6)**640**	**639**	**1**	**-**	**640**
Mortgage backed (MBS) securities	(5)**378**	**377**	**2**	**1**	**378**
Of others in Israel	(7)**431**	**424**	**10**	**3**	**431**
Of foreign others	**478**	**477**	**1**	**-**	**478**
Total bonds available for sale	**8,503**	**8,422**	(2)**85**	(2)**4**	**8,503**

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1) (4)
Not for trading shares	**339**	**263**	(3)**76**	(3)**-**	**339**
Of which: shares, the fair value of which is not ready determinable	**129**	**129**	**-**	**-**	**129**
Total not for trading securities	**10,890**	**10,733**	**285**	**4**	**11,014**

D. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Bonds -					
Of Israeli government	**95**	**95**	**-**	**-**	**95**
Of financial institutions in Israel	**4**	**4**	**-**	**-**	**4**
Of others in Israel	**6**	**6**	**-**	**-**	**6**
Total trading bonds	**105**	**105**	**-**	**-**	**105**
Shares	**-**	**-**	**-**	**-**	**-**
Total trading securities	**105**	**105**	(3)**-**	(3)**-**	**105**
Total securities	**10,995**	**10,838**	**285**	**4**	**11,119**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 377 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities of corporations owned by government in the amount of NIS 453 million and securities of corporations owned and have specified government guarantee in the amount of NIS 162 million.

(7) Including impaired bonds accruing interest income in amount of NIS 4 million.

NOTE 12 - SECURITIES (CON'T)
(NIS million)

	Consolidated				
	December 31, 2018				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,495	1,495	11	4	1,502
Of financial institutions in Israel	52	52	-	-	52
Of others in Israel	252	252	25	-	277
Total debentures held to maturity	1,799	1,799	36	4	1,831

			Cumulative other comprehensive income		
B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Profits**	**Losses**	**Fair value (1)**
Bonds -					
Of Israeli government	5,778	5,785	23	30	5,778
Of foreign governments	2,050	2,051	-	1	2,050
Of financial institutions in Israel	49	52	-	3	49
Of foreign financial institutions	(6)597	597	-	-	597
Mortgage backed (MBS) securities	(5)436	442	2	8	436
Of others in Israel	(7)348	351	3	6	348
Of foreign others	777	777	-	-	777
Total debentures and bonds available for sale	10,035	10,055	28	48	10,035
Shares -	(4)224	237	1	14	224
Total securities available for sale	10,259	10,292	(2)29	(2)62	10,259

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	419	419	-	-	419
Of financial institutions in Israel	58	58	-	-	58
Of foreign financial institutions	33	34	-	1	33
Of others in Israel	2	2	-	-	2
Of foreign others	22	22	-	-	22
Total trading debentures and bonds	534	535	-	1	534
Shares -	3	3	-	-	3
Total trading securities	537	538	(3)-	(3)1	537
Total securities	12,595	12,629	65	67	12,627

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.
(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".
(3) Recorded in the Statement of Income.
(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 135 million. Of which: investments in private equity funds in amount of NIS 123 million.
(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 432 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.
(6) Including securities of corporations owned by government in the amount of NIS 74 million and securities of corporations owned and have specified government guarantee in the amount of NIS 457 million.
(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

Composition:

					The Bank
					December 31, 2019
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	**1,751**	**1,751**	**93**	**-**	**1,844**
Of financial institutions in Israel	**56**	**56**	**1**	**-**	**57**
Of others in Israel	**236**	**236**	**30**	**-**	**266**
Total debentures held to maturity	**2,043**	**2,043**	**124**	**-**	**2,167**

B. Bonds available for sale	**Book value**	**Amortized cost**	**Cumulative other comprehensive income**		**Fair value (1)**
			Profits	**Losses**	
Of Israeli government	**4,329**	**4,260**	**69**	**-**	**4,329**
Of foreign governments	**1,956**	**1,955**	**1**	**-**	**1,956**
Of financial institutions in Israel	**38**	**38**	**-**	**-**	**38**
Of foreign financial institutions	(6)**640**	**639**	**1**	**-**	**640**
Mortgage backed (MBS) securities	(5)**378**	**377**	**2**	**1**	**378**
Of others in Israel	(7)**430**	**423**	**10**	**3**	**430**
Of foreign others	**478**	**477**	**1**	**-**	**478**
Total bonds available for sale	**8,249**	**8,169**	(2)**84**	(2)**4**	**8,249**

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1) (4)**
Not for trading shares	**339**	**263**	(3)**76**	(3)**-**	**339**
Of which: shares, the fair value of which is not ready determinable	**129**	**129**	**-**	**-**	**129**
Total not for trading securities	**10,631**	**10,475**	**284**	**4**	**10,755**

D. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	**95**	**95**	**-**	**-**	**95**
Of financial institutions in Israel	**4**	**4**	**-**	**-**	**4**
Of others in Israel	**6**	**6**	**-**	**-**	**6**
Total trading debentures and bonds	**105**	**105**	**-**	**-**	**105**
Shares -	**-**	**-**	**-**	**-**	**-**
Total trading securities	**105**	**105**	(3)**-**	(3)**-**	**105**
Total securities	**10,736**	**10,580**	**284**	**4**	**10,860**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 377 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities of corporations owned by a government in the amount of NIS 453 million and securities of corporations owned and have specified government guarantee in the amount of NIS 162 million.

(7) Including impaired bonds accruing interest income in amount of NIS 4 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

	The Bank				
	December 31, 2018				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,398	1,398	9	4	1,403
Of financial institutions in Israel	52	52	-	-	52
Of others in Israel	213	213	20	-	233
Total debentures held to maturity	1,663	1,663	29	4	1,688

			Cumulative other comprehensive income		
B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Profits**	**Losses**	**Fair value (1)**
Bonds -					
Of Israeli government	3,956	3,959	16	19	3,956
Of foreign governments	2,050	2,051	-	1	2,050
Of financial institutions in Israel	39	41	-	2	39
Of foreign financial institutions	(6)597	597	-	-	597
Mortgage backed (MBS) securities	(5)436	442	2	8	436
Of others in Israel	(7)344	348	3	7	344
Of foreign others	777	777	-	-	777
Total debentures and bonds available for sale	8,199	8,215	21	37	8,199
Shares -	(4)221	235	-	14	221
Total securities available for sale	8,420	8,450	(2)21	(2)51	8,420

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	419	419	-	-	419
Of financial institutions in Israel	58	58	-	-	58
Of foreign financial institutions	33	34	-	1	33
Of others in Israel	2	2	-	-	2
Of foreign others	22	22	-	-	22
Total trading debentures and bonds	534	535	-	1	534
Shares -	3	3	-	-	3
Total trading securities	537	538	(3)-	(3)1	537
Total securities	10,620	10,651	50	56	10,645

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 135 million. Of which: investments in private equity funds in amount of NIS 123 million.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 432 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.

(6) Including securities owned by more than one government in the amount of NIS 74 million and securities owned and have specified government guarantee in the amount of NIS 457 million.

(7) Including impaired bonds accruing interest income in amount of NIS 2 million.

NOTE 12 - SECURITIES (CONT'D)
(NIS million)

E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

Consolidated	As of December 31, 2019							
	Less than 12 months (1)				12 months and above (2)			
		Unrealized losses				Unrealized losses		
	Fair Value	(3)0-20%	(4)20-40%	Total	Fair Value	(3)0-20%	(4)20-40%	Total
								(NIS million)
Securities available for sale								
Mortgage backed (MBS) securities	**-**	**-**	**-**	**-**	**77**	**1**	**-**	**1**
Of others in Israel	**-**	**-**	**-**	**-**	**42**	**3**	**-**	**3**
Total securities available for sale	**-**	**-**	**-**	**-**	**119**	**4**	**-**	**4**

Consolidated	As of December 31, 2018							
	Less than 12 months (1)				12 months and above (2)			
		Unrealized losses				Unrealized losses		
	Fair Value	(3)0-20%	(4)20-40%	Total	Fair Value	(3)0-20%	(4)20-40%	Total
								(NIS million)
Held to maturity bonds of Israeli government (5)	619	4	-	4	-	-	-	-
Securities available for sale								
Bonds								
Of Israeli government	3,342	30	-	30	-	-	-	-
Of foreign governments	1,759	1	-	1	-	-	-	-
Of Israeli financial institutions	21	1	-	1	19	2	-	2
Mortgage backed (MBS) securities	-	-	-	-	259	8	-	8
Of others in Israel	222	5	-	5	12	1	-	1
Shares	62	5	5	10	21	4	-	4
Total securities available for sale	5,406	42	5	47	311	15	-	15

(1) Investments in an unrealized loss position less than 12 months.
(2) Investments in an unrealized loss position more than 12 months.
(3) Investments which their unrealized loss constitutes up to 20% of their amortized cost.
(4) Investments which their unrealized loss constitutes between 20% to 40% of their amortized cost.
(5) 31.12.18 Amortized cost of bonds held for redemption amounts to NIS 623 million.

NOTE 12 - SECURITIES (CONT'D)
(NIS million)

F. On September 7, 2017, the Court approved an arrangement plan, submitted by the Tel Aviv Stock Exchange Ltd. (hereinafter - "TASE"), in terms of a process in accordance with Section 350 of the Companies Act. According to the arrangement plan, shares in the TASE were allotted to the present TASE members, the share of the Bank Group amounting to 20.3%.

On December 29, 2017, the TASE applied to its shareholders requesting offers for the sale of the shares held by them to the TASE or to a third party, to whom, at its sole discretion, (hereinafter - "the Purchaser") the TASE shall assign its rights, at a price reflecting the value of NIS 500 million, for all the shares in the TASE.

On January 18, 2018, the Bank Group concurred with the request of the TASE, offering to sell shares held by the Bank Group amounting to 15.4% of the share capital of the TASE.

On August 27, 2018, the transaction for the sale of the Group's holdings amounting to 15.4% of the share capital of the TASE was consummated, in consideration for an amount of approximately NIS 77 million, reflecting, as stated, a value of NIS 500 million for all the share capital of the TASE.

In respect of this transaction, the Bank recorded in the third quarter of 2018, a net after tax profit in the amount of NIS 65 million.

Following the consummation of the transaction, the Bank remained holding 4.9% of the share capital of the TASE, which according to the Securities Act (Amendment 63), 2017 (hereinafter - "Amendment 63 to the Securities Act"), the Bank may continue to hold without a time limit. On August 1, 2019, the TASE shares were listed for trade on the Tel Aviv Stock Exchange.

In view of Amendment 63 to the Securities Act, the remaining TASE shares held by the Bank are stated in the balance sheet in accordance with the equity value of the TASE as stated in its financial statements for the year 2015, which amounted to NIS 508 million, and not according to their fair value.

Following the listing for trade of the TASE shares, as stated above, the Bank recorded in the third quarter of 2019 a profit in the amount of NIS 16 million, net after tax.

To the extent that the Bank would decide in the future to realize the remaining TASE shares held by it, the Bank shall examine the conditions applying to such realization in accordance with the law and with the chosen manner of realization.

It is clarified, that as of date of publication of these financial statements, a decision as above has not been made.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

1. Debts, credit to the public and provision for credit losses

Consolidated						December 31, 2019
				Credit to the public		
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**36,094**	**-**	**340**	**36,434**	**3,173**	**39,607**
Debts examined on an collective basis	**5,483**	**25,583**	**21,329**	**52,395**	**-**	**52,395**
Of which: according to the extent of arrears	**233**	**25,566**	**-**	**25,799**	**-**	**25,799**
Total	**41,577**	**25,583**	**21,669**	**88,829**	**3,173**	**92,002**
Of which:						
Debts restructuring	**140**	**-**	**108**	**248**	**-**	**248**
Other impaired debts	**413**	**10**	**38**	**461**	**-**	**461**
Total impaired debts	**553**	**10**	**146**	**709**	**-**	**709**
Debts in arrears of 90 days or more	**37**	**186**	**26**	**249**	**-**	**249**
Other problematic debts	**518**	**32**	**143**	**693**	**-**	**693**
Total problematic debts	**1,108**	**228**	**315**	**1,651**	**-**	**1,651**
Provision for credit losses:						
In respect of debts examined on an individual basis	**485**	**-**	**38**	**523**	**-**	**523**
In respect of debts examined on an collective basis	**60**	**121**	**226**	**407**	**-**	**407**
Of which: according to the extent of arrears	**2**	**121**	**-**	**123**	**-**	**123**
Total	**545**	**121**	**264**	**930**	**-**	**930**
Of which: in respect of impaired debts	**169**	**-**	**35**	**204**	**-**	**204**

Consolidated						December 31, 2018
				Credit to the public		
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	34,961	-	306	35,267	3,616	38,883
Debts examined on an collective basis	5,098	24,319	20,476	49,893	-	49,893
Of which: according to the extent of arrears	309	24,312	-	24,621	-	24,621
Total	40,059	24,319	20,782	85,160	3,616	88,776
Of which:						
Debts restructuring	150	-	83	233	-	233
Other impaired debts	217	6	11	234	-	234
Total impaired debts	367	6	94	467	-	467
Debts in arrears of 90 days or more	28	185	30	243	-	243
Other problematic debts	652	7	237	896	-	896
Total problematic debts	1,047	198	361	1,606	-	1,606
Provision for credit losses:						
In respect of debts examined on an individual basis	420	-	30	450	-	450
In respect of debts examined on an collective basis	69	119	230	418	-	418
Of which: according to the extent of arrears	2	119	-	121	-	121
Total	489	119	260	868	-	868
Of which: in respect of impaired debts	121	-	23	144	-	144

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

1. Debts, credit to the public and provision for credit losses

The Bank						December 31, 2019
				Credit to the public		
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**35,225**	**-**	**308**	**35,533**	**2,769**	**38,302**
Debts examined on an collective basis	**5,371**	**25,583**	**17,226**	**48,180**	**-**	**48,180**
Of which: according to the extent of arrears	**233**	**25,566**	**-**	**25,799**	**-**	**25,799**
Total	**40,596**	**25,583**	**17,534**	**83,713**	**2,769**	**86,482**
Of which:						
Debts restructuring	**135**	**-**	**81**	**216**	**-**	**216**
Other impaired debts	**408**	**10**	**33**	**451**	**-**	**451**
Total impaired debts	**543**	**10**	**114**	**667**	**-**	**667**
Debts in arrears of 90 days or more	**33**	**186**	**20**	**239**	**-**	**239**
Other problematic debts	**499**	**32**	**129**	**660**	**-**	**660**
Total problematic debts	**1,075**	**228**	**263**	**1,566**	**-**	**1,566**
Provision for credit losses:						
In respect of debts examined on an individual basis	**472**	**-**	**33**	**505**	**-**	**505**
In respect of debts examined on an collective basis	**59**	**121**	**186**	**366**	**-**	**366**
Of which: according to the extent of arrears	**2**	**121**	**-**	**123**	**-**	**123**
Total	**531**	**121**	**219**	**871**	**-**	**871**
Of which: in respect of impaired debts	**164**	**-**	**30**	**194**	**-**	**194**

The Bank						December 31, 2018
				Credit to the public		
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	31,704	-	64	31,768	3,527	35,295
Debts examined on an collective basis	3,475	23,948	7,655	35,078	-	35,078
Of which: according to the extent of arrears	309	23,941	-	24,250	-	24,250
Total	35,179	23,948	7,719	66,846	3,527	70,373
Of which:						
Debts restructuring	109	-	40	149	-	149
Other impaired debts	172	6	4	182	-	182
Total impaired debts	281	6	44	331	-	331
Debts in arrears of 90 days or more	11	185	17	213	-	213
Other problematic debts	514	5	128	647	-	647
Total problematic debts	806	196	189	1,191	-	1,191
Provision for credit losses:						
In respect of debts examined on an individual basis	352	-	17	369	-	369
In respect of debts examined on an collective basis	38	116	131	285	-	285
Of which: according to the extent of arrears	2	116	-	118	-	118
Total	390	116	148	654	-	654
Of which: in respect of impaired debts	89	-	13	102	-	102

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

Consolidated	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governments	Total
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2016	501	115	231	847	-	847
Expenses from credit losses	66	1	64	131	-	131
- Accounting write-offs	(211)	(2)	(120)	(333)	-	(333)
- Collection of debts written off in accounting in previous years	115	1	77	193	-	193
Net accounting write-offs	(96)	(1)	(43)	(140)	-	(140)
Provision for credit losses at December 31, 2017	471	115	252	838	-	838
Expenses from credit losses	94	4	65	163	-	163
- Accounting write-offs	(188)	(3)	(127)	(318)	-	(318)
- Collection of debts written off in accounting in previous years	112	3	70	185	-	185
Net accounting write-offs	(76)	-	(57)	(133)	-	(133)
Provision for credit losses at December 31, 2018	**489**	**119**	**260**	**868**	**-**	**868**
Expenses from credit losses	**73**	**3**	**69**	**145**	**-**	**145**
- Accounting write-offs	**(185)**	**(2)**	**(138)**	**(325)**	**-**	**(325)**
- Collection of debts written off in accounting in previous years	**168**	**1**	**73**	**242**	**-**	**242**
Net accounting write-offs	**(17)**	**(1)**	**(65)**	**(83)**	**-**	**(83)**
Provision for credit losses at December 31, 2019	**545**	**121**	**264**	**930**	**-**	**930**

Consolidated	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governments	Total
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2016	57	-	14	71	-	71
Decrease in provision	(9)	-	(1)	(10)	-	(10)
Provision at December 31, 2017	48	-	13	61	-	61
Increase (decrease) in provision	5	-	(2)	3	-	3
Provision at December 31, 2018	**53**	**-**	**11**	**64**	**-**	**64**
Decrease in provision	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Provision at December 31, 2019	**46**	**-**	**11**	**57**	**-**	**57**

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

The Bank	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2016	407	113	133	653	-	653
Expenses in respect of credit losses	17	-	38	55	-	55
- Accounting write-offs	(151)	(2)	(69)	(222)	-	(222)
- Collection of debts written off in accounting in previous years	83	1	37	121	-	121
Net accounting write-offs	(68)	(1)	(32)	(101)	-	(101)
Provision for credit losses at December 31, 2017	356	112	139	607	-	607
Expenses from credit losses	60	4	50	114	-	114
- Accounting write-offs	(107)	(2)	(79)	(188)	-	(188)
- Collection of debts written off in accounting in previous years	81	2	38	121	-	121
Net accounting write-offs	(26)	-	(41)	(67)	-	(67)
Provision for credit losses at December 31, 2018	**390**	**116**	**148**	**654**	**-**	**654**
Merging a subsidiary	**87**	**3**	**70**	**160**	**-**	**160**
Expenses from credit losses	**71**	**3**	**60**	**134**	**-**	**134**
- Accounting write-offs	**(183)**	**(2)**	**(125)**	**(310)**	**-**	**(310)**
- Collection of debts written off in accounting in previous years	**166**	**1**	**66**	**233**	**-**	**233**
Net accounting write-offs	**(17)**	**(1)**	**(59)**	**(77)**	**-**	**(77)**
Provision for credit losses at December 31, 2019	**531**	**121**	**219**	**871**	**-**	**871**

The Bank	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2016	53	-	9	62	-	62
Decrease in provision	(7)	-	(1)	(8)	-	(8)
Provision at December 31, 2017	46	-	8	54	-	54
Increase (decrease) in provision	4	-	(1)	3	-	3
Provision at December 31, 2018	**50**	**-**	**7**	**57**	**-**	**57**
Merging a subsidiary	**4**	**-**	**1**	**5**	**-**	**5**
Increase (decrease) in provision	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Provision at December 31, 2019	**47**	**-**	**8**	**55**	**-**	**55**

NOTE 14 - CREDIT TO THE GOVERNMENT

(NIS million)

Composition:	Consolidated		The Bank	
	December 31,		December 31,	
	2019	2018	2019	2018
Total credit to the Government	**1,039**	700	**415**	7

NOTE 15 - INVESTEE COMPANIES

(NIS million)

A. Composition:

	Consolidated		The Bank					
	December 31, 2019	December 31, 2018	December 31, 2019			December 31, 2018		
	Equity basis investee	Equity basis investee	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	**605**	606	**605**	**668**	**1,273**	606	1,997	2,603
Other investments:								
Capital notes and subordinated capital notes	**-**	-	**-**	**5**	**5**	-	275	275
Total investments in investee companies	**605**	606	**605**	**673**	**1,278**	606	2,272	2,878
Earnings accumulated since acquisition, net	**351**	356	**351**	**922**	**1,273**	356	1,235	1,591
Items accrued in equity capital since purchase date:								
Adjustments in respect of presenting available-for-sale bonds (2018- securities) at fair value	**-**	-	**-**	**-**	**-**	-	(8)	(8)
Employee benefits	**(9)**	(7)	**(9)**	**(4)**	**(13)**	(7)	(29)	(36)

B. The Bank's share in profits of equity-basis investees:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2019	2018	2017	2019	2018	2017
						NIS millions
The Bank's share in operating profits of equity-basis investees	**57**	41	60	**114**	202	146
Current taxes	**(6)**	-	-	**(6)**	-	-
Provision for deferred taxes	**-**	(4)	(6)	**-**	(4)	(17)
The Bank's share in operating profits of equity-basis investees, after tax	**51**	37	54	**108**	198	129

NOTE 15 - INVESTEE COMPANIES (CONT'D)

C. Details regarding major investee companies:

Name of investee	Major activity	Bank's share in equity		Bank's voting right		Carrying value of the investment on equity basis(3)	
		December 31		December 31		December 31	
		2019	2018	2019	2018	2019	2018
		%	%	%	%	NIS million	
Israeli consolidated subsidiaries:							
Bank Otsar Hahayal Ltd.(5)	Commercial Bank	**-**	100.0	**-**	100.0	**-**	1,361
Bank Massad Ltd.	Commercial Bank	**51.0**	51.0	**51.0**	51.0	**370**	333
UBank trust company Ltd.	Trust services	**100.0**	100.0	**100.0**	100.0	**40**	41
Foreign consolidated subsidiaries:							
F.I.B.I. Switzerland (registered in Switzerland) (in voluntary liquidation)(6)	Commercial Bank	**100.0**	100.0	**100.0**	100.0	**178**	188
Equity basis investee:							
Israel Credit Cards Ltd.	Credit Cards	**28.2**	28.2	**21.0**	21.0	**605**	606

(1) The above list does not include wholly owned and controlled consolidated companies that are property companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.
(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.
(3) Including balance of excess cost attributed to customers relation.
(4) Including amortization of goodwill attributed to customers relation: Bank Massad Ltd. - NIS 2 million in 2018.
(5) See Sections "E" below regarding the merger of Otsar Hahayal with and into the Bank.
(6) See Section "F" below regarding the agreement for the sale of the operations of FIBI Bank (Switzerland).

D. Condensed information regarding an equity basis investee, without adjustment to the rate of ownership held by the Group

1. Condensed information regarding the financial condition

	Bank's share in equity	Total assets	Total liabilities	Capital attributed to the company's shareholders
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2019	**28.2**	**19,159**	**17,339**	**1,820**
31 December 2018	28.2	16,015	14,177	1,838

2. Condensed information regarding the results of operation

	Bank's share in equity	Net profit for the year
	%	NIS millions
Israel Credit Cards Ltd.		
31 December 2019	**28.2**	**201**
31 December 2018	28.2	157
31 December 2017	28.2	211

	Other capital investments		Bank's equity earnings		Dividend recorded		Other items accumulated in shareholders' equity	
	December 31							
	2019	2018	2019	2018	2019	2018	2019	2018
		NIS million		NIS million		NIS million		NIS million
	-	-	**-**	75	**-**	-	**-**	(5)
	5	5	**39**	(4)33	**-**	-	**(2)**	(4)
	-	-	**21**	22	**(22)**	-	**-**	-
	-	-	**(10)**	25	**-**	(36)	**-**	-
	-	-	**57**	41	**(56)**	-	**(2)**	-

E. Merger of Otsar Hahayal

On January 1, 2019 the merger was completed between the Bank and Otsar Hahayal, a wholly owned subsidiary of the Bank, according to which, Otsar Hahayal would merge with and into the Bank (under the provisions of the first Chapter of Part VIII of the Companies Act, 1999 and in accordance with the provisions of Chapter II of Part E(2) of the Income Tax Ordinance, 1961) in a way that the assets and liabilities of Otsar Hahayal on record at date of merger, would pass to the Bank with no consideration, and Otsar Hahayal would be eliminated without liquidation, and removed from the Register of Companies.

For details regarding the merger process see note 15 to the financial statements for 2018.

NOTE 15 - INVESTEE COMPANIES (CONT'D)

Following are condensed pro-forma statements reflecting the results of operation for the period of the two years ended December 31, 2018 and financial position as of December 31, 2018 of the Bank and Otsar Hahayal (in NIS millions):

Condensed pro-forma profit and loss statements:

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	As reported in these statements	Including Otsar Hahayal data	Pro-forma data	As reported in these statements	Including Otsar Hahayal data	Pro-forma data
Interest Income	2,312	469	2,781	2,060	447	2,507
Interest Expenses	511	7	518	397	7	404
Interest Income, net	1,801	462	2,263	1,663	440	2,103
Expenses from credit losses	117	42	159	47	67	114
Net Interest Income after expenses from credit losses	1,684	420	2,104	1,616	373	1,989
Non-Interest Income						
Non-Interest Financing income	203	14	217	94	8	102
Fees	995	188	1,183	973	189	1,162
Other income	151	(52)	99	176	(87)	89
Total non-Interest income	1,349	150	1,499	1,243	110	1,353
Operating and other expenses						
Salaries and related expenses	1,303	282	1,585	1,179	282	1,461
Maintenance and depreciation of premises and equipment	282	68	350	278	71	349
Amortizations and impairment of intangible assets	86	-	86	83	-	83
Other expenses	508	112	620	486	23	509
Total operating and other expenses	2,179	462	2,641	2,026	376	2,402
Profit before taxes	854	108	962	833	107	940
Provision for taxes on profit	319	33	352	284	36	320
Profit after taxes	535	75	610	549	71	620
The bank's share in profit of equity-basis investee, after taxes	198	(75)	123	129	(71)	58
Net profit attributed to shareholders of the Bank	733	-	733	678	-	678

NOTE 15 - INVESTEE COMPANIES (CONT'D)

Condensed pro-forma balance sheet:

	For the year ended December 31, 2018		
	As reported in these statements	Including Otsar Hahayal data	Pro-forma data
Assets			
Cash and deposits with banks	30,905	(180)	30,725
Securities	10,620	1,333	11,953
Securities which were borrowed	863	-	863
Credit to the public	66,846	13,620	80,466
Provision for Credit losses	(654)	(160)	(814)
Credit to the public, net	66,192	13,460	79,652
Credit to the government	7	70	77
Investment in equity-basis investees	2,878	(1,631)	1,247
Premises and equipment	960	27	987
Intangible assets	226	-	226
Assets in respect of derivative instruments	1,416	9	1,425
Other assets	929	120	1,049
Total assets	114,996	13,208	128,204
Liabilities and Shareholders' Equity			
Deposits from the public	87,038	19,467	106,505
Deposits from banks	10,852	(8,177)	2,675
Deposits from the Government	777	205	982
Bonds and subordinated capital notes	3,455	169	3,624
Liabilities in respect of derivative instruments	1,298	20	1,318
Other liabilities	3,483	1,524	5,007
Total liabilities	106,903	13,208	120,111
Capital attributed to the shareholders of the Bank	8,093	-	8,093
Total liabilities and shareholders' equity	114,996	13,208	128,204

F. FIBI (Switzerland) Ltd., a wholly owned subsidiary of the Bank (hereinafter - "the Extension"), signed on December 19, 2016, an agreement for the sale of its operations to a third party (hereinafter - "the Agreement"). On June 2, 2017, and in accordance with the Agreement, the operations of the Extension (which included most of the customer assets of the Extension) were transferred to the Purchaser. On March 4, 2018, the parties completed the signing of an Amendment to the Agreement, according to which, the consideration for the sale of the operations of the Extension would be a total and final amount of CHF 4.6 million.

The Extension terminated all its banking operations and on February 28 2018, returned its banking license to the Swiss regulatory authorities. The Bank is now proceeding with the liquidation of the Extension. Upon return of the Banking license of the Extension and within the framework of the Agreement, the Bank guarantees all commitments of the Extension and replaces it with respect to its obligations under the Agreement and the said Amendment.

On January 2020 the share capital of the extension was distributed to the Bank.

NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	Bank premises (1)	Furniture, equipment and vehicles	Total	Bank premises (1)	Furniture, equipment and vehicles	Total
Cost of assets						
Balance as at December 31, 2017	1,610	736	2,346	1,320	547	1,867
Additions	19	28	47	15	27	42
Disposals	(195)	(170)	(365)	(40)	(10)	(50)
At December 31, 2018	1,434	594	2,028	1,295	564	1,859
Additions	**12**	**37**	**49**	**12**	**37**	**49**
Disposals	**(15)**	**(60)**	**(75)**	**(15)**	**(60)**	**(75)**
Merging a subsidiary	**-**	**-**	**-**	**71**	**15**	**86**
At December 31, 2019	**1,431**	**571**	**2,002**	**1,363**	**556**	**1,919**
Accumulated depreciation (2)						
Balance as at December 31, 2017	619	632	1,251	425	451	876
Depreciation	45	30	75	35	28	63
Disposals	(151)	(170)	(321)	(30)	(10)	(40)
At December 31, 2018	513	492	1,005	430	469	899
Depreciation	**39**	**30**	**69**	**36**	**29**	**65**
Disposals	**(8)**	**(60)**	**(68)**	**(8)**	**(60)**	**(68)**
Merging a subsidiary	**-**	**-**	**-**	**48**	**11**	**59**
At December 31, 2019	**544**	**462**	**1,006**	**506**	**449**	**955**
Amortized balance as at December 31, 2017	991	104	1,095	895	96	991
Amortized balance as at December 31, 2018	921	102	1,023	865	95	960
Amortized balance as at December 31, 2019	**887**	**109**	**996**	**857**	**107**	**964**
Weighted average depreciation rate in % as at 31.12.19	**3.6%**	**15.5%**		**3.5%**	**15.6%**	
Weighted average depreciation rate in % as at 31.12.18	4.1%	15.6%		3.5%	16.2%	

(1) Including fixtures and improvements in the rental.
(2) Depreciation accrued including losses accrued from impairment.

B. The Bank and its subsidiaries own rental or leasehold rights in different properties in a total amount of NIS 390 million (December 31, 2018 - NIS 410 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 314 million (December 31, 2018 - NIS 325 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 336 million (December 31, 2018 - NIS 344 million).

C. Land rights totaling NIS 323 million (31.12.18 - NIS 334 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.

D. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 10 million (31.12.18 - NIS 2 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2019 amounted to NIS 576 million (31.12.18 - NIS 540 million).

NOTE 17 - INTANGIBLE ASSETS
(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
At December 31, 2017	533	975	1,508	974
Addition	5	90	95	90
Disposals	-	-	-	-
At December 31, 2018	538	1,065	1,603	1,064
Addition	**-**	**101**	**101**	**101**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2019	**538**	**1,166**	**1,704**	**1,165**
Amortization				
At December 31, 2017	520	753	1,273	752
Amortization for the year	5	86	91	86
Disposals	-	-	-	-
At December 31, 2018	525	839	1,364	838
Amortization for the year	**3**	**89**	**92**	**89**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2019	**528**	**928**	**1,456**	**927**
Book value				
At December 31, 2017	13	222	235	222
At December 31, 2018	13	226	239	226
At December 31, 2019	**10**	**238**	**248**	**238**

NOTE 18 - OTHER ASSETS
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
Deferred taxes, net (see Note 8)	**513**	463	**477**	318
Income tax advances, net of provisions and other institutions	**3**	31	**3**	2
Assets relating to MAOF market activity	**42**	426	**42**	426
Other receivables and debit balances	**140**	180	**145**	183
Total other assets	**698**	1,100	**667**	929

NOTE 19 - DEPOSITS FROM THE PUBLIC

(NIS million)

A. Classes of deposits by place of origin and type of depositor

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
Demand				
- Non-bearing interest	**47,692**	48,901	**44,272**	34,044
- Bearing interest	**17,765**	16,217	**17,765**	16,024
Total demand	**65,457**	65,118	**62,037**	50,068
Fixed-term	**54,595**	46,579	**52,799**	36,970
Total deposits in Israel*	**120,052**	111,697	**114,836**	87,038
* Of which:				
Deposits of private individuals	**59,306**	58,329	**53,333**	35,820
Deposits of institutional entities	**25,080**	21,187	**25,010**	21,080
Deposits of corporates and others	**35,666**	32,181	**36,493**	30,138

B. Deposits of the public by size

	December 31	
Maximum amount of deposit	2019	2018
Up to 1	**46,064**	44,859
From 1 to 10	**27,842**	27,755
From 10 to 100	**14,703**	14,498
From 100 to 500	**6,146**	6,221
Over 500	**25,297**	18,364
Total	**120,052**	111,697

NOTE 20 - DEPOSITS FROM BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
In Israel				
Commercial Banks:				
Demand deposits	**1,069**	1,067	**1,180**	4,673
Fixed-term deposits	**23**	10	**1,414**	6,105
Acceptances	**45**	73	**46**	74
Total deposits from banks	**1,137**	1,150	**2,640**	10,852

NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES
(NIS million)

A. Composition:

	Duration (1)	Internal rate of return (1)	Consolidated		The Bank	
			December 31		December 31	
	Years	%	2019	2018	2019	2018
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	**0.56**	**2.32**	**476**	712	**11**	-
- Israeli currency linked to the CPI	**4.56**	**1.66**	**3,198**	4,277	**2,044**	3,455
Total bonds and non-convertible subordinated capital notes(2)			**3,674**	4,989	**2,055**	3,455
Including: subordinated capital notes			**2,055**	3,624	**133**	296

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.
Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.
The data as to the internal rate of return and the duration to maturity are as at December 31, 2018, and related to the consolidated statements.

(2) Of which: registered for trade at the Tel Aviv Stock Exchange, bonds in the amount of NIS 1,619 million and subordinated capital notes in the amount of NIS 1,922 million (December 31, 2018- bonds in the amount of NIS 1,364 million and subordinated capital notes in the amount of NIS 3,159 million).

NOTE 22 - OTHER LIABILITIES
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
Deferred tax liabilities, net (see Note 8)	**41**	40	**41**	40
Provision for current taxes, net of advance tax payments	**204**	153	**196**	146
Excess of provision for severance pay over amounts funded (see note 23)	**512**	454	**503**	347
Income received in advance	**70**	72	**66**	64
Creditors in respect of credit cards activity	**4,073**	3,520	**3,520**	1,707
Liabilities relating to MAOF market activity	**42**	426	**42**	426
Salaries and related costs (see also Note 23)	**539**	502	**483**	358
Short selling of securities	**5**	160	**5**	160
Other creditors and Credit balances	**237**	268	**218**	235
Total other liabilities	**5,723**	5,595	**5,074**	3,483

NOTE 23 - EMPLOYEE BENEFITS

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates. Additional provision for severance pay in respect of additional efficiency measures (such as organizational structural changes) were recorded as an expense on non-actuarial basis.

2. Staff Long-Service Awards

Part of the employees in the Group are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Certain senior officers are entitled upon their retirement for a non-competition award.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapers, vacations, etc. Employees of a consolidated subsidiary are entiltled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

6. Vacation pay

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.f. regarding employment agreements with the CEO and the Chairman of the Board.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

C. Composition of benefits:

	Consolidated		The Bank	
	December 31,		December 31,	
	2019	2018	2019	2018
	(NIS million)		(NIS million)	
Pension and severance pay				
Amount of liability	**927**	1,109	**826**	826
Fair value of assets of the scheme	**(415)**	(655)	**(323)**	(479)
Excess liabilities over assets of the scheme	**512**	454	**503**	347
Excess liabilities of the scheme included in the item "other liabilities"	**512**	454	**503**	347
Long-service awards - amount of liability	**18**	18	**17**	-
Benefit regarding unused sick leave - amount of liability	**35**	31	**35**	31
Other post-employment benefits	**11**	9	**11**	9
Other post-retirement benefits	**207**	152	**184**	90
Vacation pay	**65**	68	**60**	55
Other	**203**	224	**176**	173
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	**1,051**	956	**986**	705

E. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

		Severance pay, and pension schemes		Other post-retirement benefits	
		For the year ended December 31,		For the year ended December 31,	
		2019	2018	2019	2018
		(NIS million)		(NIS million)	
A.	**Change in liability regarding anticipated benefits**				
	Liability regarding anticipated benefit at beginning of period	**1,109**	1,166	**152**	153
	Cost of service	**20**	24	**4**	4
	Cost of interest	**24**	34	**6**	6
	Actuarial loss (profit)	**125**	(11)	**50**	(8)
	Update of liability**	**17**	-	**-**	-
	Benefits paid	**(370)**	(182)	**(5)**	(3)
	Other, including loss from reduction and structural changes	**2**	78	**-**	-
	Liability regarding anticipated benefit at end of period	**927**	1,109	**207**	152
	Liability regarding cumulative benefit at end of period	**855**	1,051	**205**	152
B.	**Change in fair value of assets of the scheme and the financing situation of the scheme**				
	Fair value of assets of the scheme at beginning of period	**655**	732	**-**	-
	Actual return on assets of the scheme	**54**	(8)	**-**	-
	Update of assets of the scheme **	**17**	-	**-**	-
	Deposits in the scheme by the Bank	**9**	10	**-**	-
	Benefits paid	**(320)**	(79)	**-**	-
	Fair value of assets of the scheme at end of period	**415**	655	**-**	-
	Financing situation - net liability recognized at end of period*	**512**	454	**207**	152

* Included in the item "Other liabilities".

** Deriving from actuarial addition in respect of assets in excess of 100% of severance pay provisions.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

	Severance pay, and pension schemes		Other post-retirement benefits	
	December 31,		December 31,	
	2019	2018	2019	2018
		(NIS million)		(NIS million)
C. Amounts recognized in the consolidated balance sheet				
Amounts recognized in the item "other liabilities"	**512**	454	**207**	152
Net liability recognized at end of period	**512**	454	**207**	152
D. Amounts recognized in other cumulative comprehensive loss, before the tax effect				
Actuarial loss, net	**204**	181	**75**	28
Liability net, in respect of transition*	**-**	-	**-**	-
Closing balance in other cumulative comprehensive profit	**204**	181	**75**	28
E. Schemes in which the liability regarding cumulative benefits exceeds the assets of the scheme				
Liability regarding anticipated benefit	**927**	1,109	**207**	152
Liability regarding cumulative benefit	**855**	1,051	**205**	152
Fair value of assets of the scheme	**415**	655	**-**	-

* Actuarial loss deriving from the gap between the discounting rates as of January 1, 2013 deducted actuarial profits deriving from current changes in discounting rates offsetting the said loss.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(2) Expense for the period

		Severance pay, and pension schemes			Other post-retirement benefits		
		December 31,			December 31,		
		2019	**2018**	**2017**	**2019**	**2018**	**2017**
		(NIS million)			(NIS million)		
A.	**Cost components of net benefit recognized in profit and loss**						
	Cost of service	**20**	24	26	**4**	4	5
	Cost of interest	**24**	34	42	**6**	6	6
	Anticipated return on assets of the scheme	**(14)**	(21)	(21)	**-**	-	-
	Amortization of non-recognized amounts:						
	Net actuarial loss	**14**	10	11	**3**	2	2
	Other, including loss from reduction or dismissal and structural changes	**50**	113	16	**-**	-	-
	Capitalized cost of software	**(3)**	(3)	(4)	**-**	-	-
	Total cost of benefits, net	**91**	157	70	**13**	12	13
B.	**Changes in assets of the scheme and in liability for benefits recognized in other comprehensive loss (profit), before the tax effect**						
	Net actuarial loss (profit) for the period	**85**	18	20	**50**	(8)	6
	Amortization of actuarial loss	**(14)**	(10)	(11)	**(3)**	(2)	(2)
	Dismissal	**(48)**	(35)	(15)	**-**	-	-
	Total recognized in other comprehensive profit	**23**	(27)	(6)	**47**	(10)	4
	Total net cost of benefit	**91**	157	70	**13**	12	13
	Total net cost of benefit for the period recognized in other comprehensive profit	**114**	130	64	**60**	2	17

		Severance pay, and pension schemes	Other post-retirement benefits
			(NIS million)
C.	**Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense (income) in 2020, before the tax effect**		
	Net actuarial loss	**23**	**4**
	Total amount expected to be amortized from other cumulative comprehensive profit	**23**	**4**

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

	Severance pay, and pension schemes		Other post-retirement benefits	
	December 31,		December 31,	
	2019	2018	2019	2018
	percent		percent	
1. Principal guidelines used to determine the liability for benefits				
Discounting rate	**0.4**	1.9	**1.0**	2.4
Forecasted rate of rise in the CPI	**1.4**	1.6	**1.4**	1.8
Retirement rate	**2.0**	2.2	**2.0**	2.2
Rate of increase in real-term compensation	**1.6**	1.4	**0.2**	-

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the year ended December 31,			For the year ended December 31,		
	2019	2018	2017	2019	2018	2017
	percent			percent		
2. Principal guidelines used to measure the net cost of benefits for the period						
Discounting rate	**0.6-1.9**	1.1-1.5	1.4-1.7	**1.3-2.4**	1.7-2.1	2.0-2.2
Anticipated long-term return on assets of the scheme	**3.1-3.4**	3.1-3.4	3.3-3.4	**-**	-	-
Rate of increase in real-term compensation	**1.6**	1.4	1.5	**0.2**	-	-

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	Severance pay, and pension schemes				Other post-retirement benefits			
	One percentage point growth		One percentage point decline		One percentage point growth		One percentage point decline	
	December 31,		December 31,		December 31,		December 31,	
	2019	2018	2019	2018	2019	2018	2019	2018
	(NIS million)		(NIS million)		(NIS million)		(NIS million)	
Discounting rate	**(71)**	(53)	**88**	64	**(34)**	(24)	**46**	30
Retirement rate	**80**	72	**(111)**	(97)	**(2)**	(1)	**2**	-
Rate of increase in compensation	**85**	66	**(69)**	(55)	**2**	1	**(2)**	(1)

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(4) Assets of the scheme

A. Composition of the fair value of the assets of the scheme

	Severance pay, and pension schemes							
	December 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**24**	**9**	**-**	**33**	65	8	-	73
Shares	**121**	**-**	**-**	**121**	206	-	-	206
Bonds:								
Government bonds	**98**	**11**	**-**	**109**	142	7	-	149
Corporate bonds	**98**	**16**	**-**	**114**	170	17	-	187
Total	**196**	**27**	**-**	**223**	312	24	-	336
Other	**2**	**24**	**12**	**38**	5	28	7	40
Total	**343**	**60**	**12**	**415**	588	60	7	655

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2020

	Severance pay, and pension schemes		
	Allotment	% of scheme's assets	
	target	December 31,	
	2019	2019	2018
			percent
Cash and deposits with banks	**7.1**	**8.0**	11.1
Shares	**20.6**	**29.1**	31.5
Bonds:			
Government bonds	**37.1**	**26.3**	22.8
Corporate bonds	**25.2**	**27.4**	28.5
Total	**62.3**	**53.7**	51.3
Other	**10.0**	**9.2**	6.1
Total	**100.0**	**100.0**	100.0

C. Cash flows

(1) Deposits

	Severance pay, and pension schemes		
		Actual deposits	
	Forecast	For the year ended December 31,	
	*2020	2019	2018
			(NIS million)
Deposits	**9**	9	10

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2020.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(2) Benefits expected to be paid by the Bank in the future**

Year	Severance pay, and pension schemes	Other post-retirement benefits
		(NIS million)
2020	74	8
2021	44	7
2022	51	7
2023	44	7
2024	53	7
2025-2029	243	39
2030 and thereafter	473	186
Total	982	261

** Non-discounted values. Not including future service cost.

NOTE 24A - SHAREHOLDERS' EQUITY

(NIS million)

A. Share capital - Composition:

	Authorized	Issued and paid up
	December 31	December 31
	2019 and 2018	2019 and 2018
Ordinary shares of NIS 0.05 each	18	5

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.
Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles it's holder to participate in the distribution of profits and to participate in the distribution of the Bank's net assets in the event of liquidation, pro-rata to its par value.

B. Dividend distribution policy

On August 30, 2010, the Bank Board of Directors adopted a dividend distribution policy, and on June 9, 2015 it was amended. According to the amended distribution policy the Bank would distribute annual dividends up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements shall be no less than the regulatory targets and targets specified, or to be specified, by the Bank Board of Directors from time to time. Past retained earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business, provided that no adverse changes occur to Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.
Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and to statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all. It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.
In addition, on August 14, 2017 the Board of Directors resolved to update the dividend policy, thus the net annual profit of the Bank, qualified to be distributed will refer to the annual net profit of the current year. The remaining condition were unchanged. It is clarified the the implementation of the updated policy will take into account the dividend distribution starting with and including the dividend paid at June 14, 2017.

It is noted that a dividend distribution by the Bank is subject, in addition to provision of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Directive No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (unless the prior consent of the Supervisor of Banks is obtained): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.
- Proper Conduct of Banking Business Directives which include guidelines regarding the manner of calculation of minimal capital ratio requirements. Proper Conduct of Banking Business Directive No. 201 requires that as from

January 1, 2015, the minimal ratio of Tier 1 equity capital to risk assets will be 9% and the ratio of comprehensive capital to risk assets will be 12.5%. Other ratios and dates, which do not apply to the Bank, were determined for banking corporations with stated consolidated assets that equal or exceed 20% of total assets of the banking sector as a whole.

- "Restrictions on extending housing loans"- as a result of the application of the amendment to Proper Conduct of Banking Business Directive No. 329, it is required to raise the target of Tier 1 equity capital and the target of the comprehensive capital by a rate reflecting 1% of the outsatanding balance of housing loans. The increase of the target will be in fixed installment from January 1, 2015 until January 1, 2017.
- A letter addressed to the Bank by the Supervisor of Banks requires the Bank to inform the Supervisor in advance as to the intention to distribute a dividend in an amount exceeding 33% of the annual profit. It should be noted that during 2017 an updated letter from the Supervision of Banks was received by the Bank, according to which, dividend distribution in a rate of up to 50% of the annual profit of the Bank in the current year, no advance notice to the Supervisor is needed.
- The permit by the Governor of Bank of Israel issued in 2003 stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.
- Terms and conditions of subordinated capital notes issued by the Bank to institutional investors on May 25, 2009 with respect to a deposit amounting to NIS 235 million, which those institutional investors deposited with the Bank. In accordance with Bank of Israel permit, the aforementioned capital notes are considered upper secondary capital of the Bank. Determined in the capital notes is a mechanism for the absorption of losses on a current basis in accordance with the directives of the Supervisor of Banks. Under this mechanism, interest will not be paid if at the relevant date for its payment, suspending circumstances, as defined in the capital notes, exist. It was determined in this respect that the Bank will not pay a dividend for as long as the interest payments, which had been suspended, as stated, if at all, have not been paid in full.

Following are details regarding dividends distributed by the Bank, as from the year 2017:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
15 March 2017	2 April 2017	70	0.70
23 May 2017	14 June 2017	70	0.70
14 August 2017	31 August 2017	70	0.70
14 November 2017	3 December 2017	100	1.00
5 March 2018	21 March 2018	95	0.95
28 May 2018	5 June 2018	60	0.60
14 August 2018	2 September 2018	100	1.00
20 November 2018	9 December 2018	100	1.00
12 March 2019	20 March 2019	105	1.05
28 May 2019	17 June 2019	85	0.85
13 August 2019	29 August 2019	110	1.10
26 November 2019	12 December 2019	110	1.10

	For the year ended December 31,		
	2019	**2018**	**2017**
Dividend declared and paid by the Bank	**410**	355	410

Subsequent to balance sheet date, on March 15, 2020, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 125 million. The determining date for the distribution of the dividend is March 24, 2020, and the date of payment is March 31, 2020. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

A. Basel 3 guidelines

The bank implements Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as reported by the Supervision of Banks and within the framework of the file of questions and answers.

Basel 3 instructions were implemented from January 1, 2014, in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions. According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% (from their balance in the supervisory capital as of December 31, 2013) on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. Accordingly, in 2018, the maximum rate of instruments qualified as regulatory capital amounts to 40% and in 2019 the maximum rate of instruments qualified as regulatory capital amounts to 30%.

(1) Capital adequacy goals

In accordance with Proper Banking Management Directives regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis is up to 20% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%, and this as from January 1, 2017. In addition, as from January 1, 2015, a new capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of residential loans at date of reporting.

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.31% and 12.81%, respectively.

For the outstanding balance of residential loans, see Note 29.B.3.

The Group has capital targets approved by the Board of Director and reflect suitable capital level when taking into consideration the risk profile and risk apetite.

The internal capital goals, as determined by the Board of Directors, and which are not lower than the regulatory requirements, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.31% and comprehensive capital ratio of not lower than 12.81%.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, regarding "measurement and capital adequacy", and in accordance with Directive 299 regarding the "regulatory capital - transitional instructions":

	December 31,	
	2019	**2018**
a. Consolidated		
1. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**8,785**	8,321
Tier 2 capital after deductions	**2,345**	2,713
Total overall capital	**11,130**	11,034
b. Weighted balances of risk assets		
Credit risk	(2)**73,862**	(2)71,847
Market risk	**875**	889
Operational risk	**6,512**	6,401
Total weighted balances of risk assets	**81,249**	79,137
		percent
c. Ratio of capital to risk assets		
Ratio of tier 1 capital to risk assets	**10.81%**	10.51%
Total ratio of capital to risk assets	**13.70%**	13.94%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.31%**	(1)9.31%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.81%**	(1)12.81%

		percent
B. Significant Subsidiaries		
Bank Massad Ltd.		
Ratio of equity capital tier 1 to risk assets	**13.50%**	13.04%
Total ratio of capital to risk assets	**14.52%**	14.12%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.00%**	9.00%
Minimal ratio of capital required by the Supervisor of Banks	**12.50%**	12.50%

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	December 31, 2019	December 31, 2018
A. Equity capital tier 1		
Capital attributed to shareholders	**8,568**	8,093
Differences between capital attributed to shareholders and equity capital tier 1		
Non-controlling interests	**233**	211
Total equity capital tier 1 before regulatory adjustments and deductions	**8,801**	8,304
Regulatory adjustments and deductions:		
Intangible assets	**(100)**	(104)
Regulatory adjustments and other deductions- equity capital tier 1	**(5)**	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures- equity capital tier 1	**(105)**	(109)
Total adjustments in respect of efficiency measures - equity capital tier 1	**89**	126
Total equity capital tier 1 after regulatory adjustments and deductions	**8,785**	8,321
B. Tier 2 capital		
Tier 2 capital: instruments before deductions	**1,564**	1,931
Tier 2 capital: provisions before deductions	**781**	782
Total tier 2 capital before deductions	**2,345**	2,713
Deductions:		
Total deductions- tier 2 capital	**-**	-
Total tier 2 capital	**2,345**	2,713

(4) Effect of transitional instructions on equity capital tier 1

	December 31, 2019	December 31, 2018
Ratio of capital to risk assets		
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**10.68%**	10.34%
Effect of adjustments in respect of efficiency measures	**0.13%**	0.17%
Ratio of tier 1 equity capital to risk assets	**10.81%**	10.51%

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives are 9.0% and 12.5%, respectively. To these relations was added capital requirement of 1% of housing loans balance for the reporting date.

(2) An amount of NIS 121 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (31.12.18 - NIS 108 million).

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy". In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually over a five years period.
For additional details in respect of the effect of the efficiency measures see 4 above.

(NIS million)

(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiaries

(5a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank and the risk assets are subject to changes, inter alia, in respect of the factors detailed below:

- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.
- The effect of changes in interest rate and interest spread on the adjustments to fair value of available for sale securities.
- The effect of the changes in the CPI and exchange rates on the balances of assets.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of December 31, 2019:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.12**	**0.13**
Massad Bank	**1.87**	**2.13**

(6) Efficiency

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency. A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line" method over five years. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

(1) On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect. These efficiency measures include, inter alia, the continuation of expanding operations by digital means; the reduction in the number of branches and improvements in work processes at the branches and at head office. The efficiency measures include a reduction in the floor area used by the Bank as well as a gradual reduction in the workforce position of the Bank's group of an average of approximately 130 employees per year, in total, a reduction of approximately 650 employees until the end of 2020.

   The Bank has received from the Supervisor of Banks an approval in principle for the spreading of the cost of these measures over five years by the "straight line" method, for the purpose of computing the capital adequacy.

   The cost of benefits to employees within the framework of the efficiency measures implemented in the years 2016 and until 2020, is estimated at NIS 207 million, before the tax effect. The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2019, to be lower by 0.07%.

(2) In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of the year, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).

   The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2019, to be lower by 0.06%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

B. Leverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, for a banking corporation, the total stated consolidated assets of which comprises up to 20% of the total stated assets of the banking industry, including the Bank.

	December 31, 2019	December 31, 2018
		NIS million
A. Consolidated		
Tier 1 capital*	**8,785**	8,321
Total exposures	**151,120**	144,433
		percent
Leverage ratio	**5.81%**	5.76%
B. Significant Subsidiary		
Bank Massad Ltd.		
Leverage ratio	**7.68%**	7.25%
Minimal Leverage ratio required by the Supervisor of banks	**5.00%**	5.00%

* For the effect of transitional instruction and the effect of adjustments in respect of efficiency measures, see paragraph A(4) above.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

C. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days.

	For the three months ended December 31	
	2019	**2018**
		percent
A. Consolidated*		
Liquidity coverage ratio	**128%**	122%
B. The bank*		
Liquidity coverage ratio	**127%**	122%
Significant Subsidiary*		
Bank Massad Ltd.		
Liquidity coverage ratio	**213%**	180%
Minimal liquidity coverage ratio required by the Supervisor of banks	**100%**	100%

* In terms of simple averages of daily observations.

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

A. Off-balance sheet commitment in respect of activity based on the collection of loans(1) at the end of the year

	Consolidated and The Bank	
	December 31	
	2019	2018
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)		
Non-linked Israeli currency	**20**	23
CPI linked Israeli currency	**309**	356
Total	**329**	379

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).
(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 40 million, consolidated and in the Bank (December 31, 2018 - NIS 32 million consolidated and in the Bank), were not included in the above table.

Flows of collection commission and interest margins in respect of activity based on the collection of loans(1)

	Consolidated and The Bank						
	December 31						December 31
	2019						2018
	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Total	Total
Contractual future flows	**3**	**4**	**2**	**2**	**1**	**12**	16
Expected future flows, net of management's estimate of premature repayments	**3**	**4**	**2**	**1**	**-**	**10**	13
Discounted future flows, net of management's estimate of premature repayments(2)	**3**	**4**	**2**	**2**	**-**	**11**	13

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.
(2) The capitalization is based on a negative rate of 0.7% (2018 positive rate of 0.2%).

Information as to the granting of housing loans during the year

	December 31	
	2019	2018
Loans granted out of deposits repayable to the extent of collection of the loans	**21**	16
Standing loans	**11**	7

B. Other contingent liabilities and special commitments

		Consolidated		The Bank	
		December 31		December 31	
		2019	2018	2019	2018
1.	Improvements to premises and acquisition of new premises, equipment and software	**10**	18	**10**	15
	Commitments to invest in private investment funds	**46**	37	**46**	37

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)
(NIS million)

2. The Bank and its investees have leased premises and equipment on a long term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

	Consolidated		The Bank	
	December 31		December 31	
	2019	**2018**	**2019**	**2018**
First year	**73**	76	**67**	52
Second year	**67**	69	**61**	49
Third year	**59**	64	**54**	46
Fourth year	**52**	57	**47**	41
Fifth year	**47**	50	**42**	38
Sixth year and thereafter	**211**	251	**188**	182
Total	**509**	567	**459**	408

C. 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time, including directors who are controlling shareholders of the Bank (Mr. Tzadik Bino and Mr. Gill Bino) hereinafter: “Officers”). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders enlarged the scope of indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

On October 30, 2014, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to reapprove the granting of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letters granted to Directors in 2011, as detailed above, for a period of three additional years. On October 30, 2017, the General Meeting of Shareholders, following the approvals of the Compensation Committee and the Board of Directors, decided to reapprove the granting of indemnification letters to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the updated letter of indemnification, as approved by the General Meeting of Shareholders, as detailed below, for a period of three years beginning on date of reapproval of the resolution by the General Meeting of Shareholders held on October 30, 2017.

On November 29, 2016 the Board of Directors of the Bank approved, after obtaining the approval of the Audit Committee and the Compensation Committee, to grant letter of exemption and indemnification also to whoever acts from time to time as the CEO of MATAF Computer and Financial Operations Ltd., a wholly owned subsidiary of the Bank. The letter of exemption and indemnification obligation are in accordance with the principles, the scope and the policy approved at the Bank, as mentioned above, to officers at the Bank.

On February 23, 2017, and thereafter on February 26, 2020, the General Meeting of Shareholders approved a compensation policy, which determined that an exemption to office holders shall not apply in respect of an act of commission or omission of the office holder regarding a decision or transaction in which a controlling shareholder or any office holder has a personal interest therein. This restriction is not to be applied to office holders which were initially appointed prior to the approval of this compensation policy by the General Meeting held on February 23, 2017, and who are entitled to exemption in accordance with decisions that had been approved in the past by the Bank.

On October 30, 2017, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to grant exemption from responsibility to officers who were initially appointed or would be appointed after February 23, 2017, and which in their respect includes a qualification according to which the exemption shall not apply in respect to an act of commission or omission by the officer regarding a decision or transaction in which a controlling shareholder or any officer has a personal interest therein, and all in accordance with the compensation policy of the Bank, as stated above. It is noted that the Bank has not tabled for reapproval by the General Meeting of Shareholders the letters of exemption granted in 2004 to Directors holding a controlling interest in the Bank.

Likewise, obligations to indemnify and exemptions in accordance with the principles approved by the General Meeting of Shareholders of June 2004, have been granted also to the following persons:

- Directors who had officiated in the Provident Fund Management Company owned by the Bank, and to those who had officiated in the provident funds controlled by the Bank prior to the sale of their operations. The said company was voluntarily liquidated in December 2014.
- Directors who had officiated on behalf of the Bank in FIBI Bank (U.K.) during the period in which it had been a consolidated subsidiary of the Bank. The holdings in FIBI Bank (U.K.) were sold by the Bank to a third party in June 2014.
- Directors who had officiated on behalf of the Bank in its consolidated subsidiary FIBI (Suisse). It is noted that this subsidiary sold its operations in June 2017 and that during the year all its banking activity was terminated.
- Directors who had officiated on behalf of the Bank in International Underwriting during the period in which this company was engaged in underwriting business. It is noted that in December 2010 this company changed its status to "an inactive underwriter", and that in December 2015, it was voluntarily liquidated.

The amount of the indemnity obligation is in accordance with the policy of the Bank in this matter.

2. In accordance with decisions taken by UBank Ltd. (hereinafter - "UBank") exemption is granted to Directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) from responsibility regarding the violation of the duty of care towards UBank.

   Furthermore, UBank has committed to indemnify the said Directors and officers (as well as Directors appointed by UBank at UBank Finance (2005) Ltd. and who are not officers of UBank) in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders and in accordance with the principles approved in respect of officers of the First International Bank.

   Upon the merger of Ubank with and into the Bank in 2015, all Ubank's commitments and rights detailed in this section were transferred to the Bank.

3. Otsar Hahayal and Massad are committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal and Massad according to their latest financial statements published shortly prior to the date of the actual indemnification. Upon consummation of the merger of Otsar Hahayal with and into the Bank on January 1, 2019, the commitment of Otsar Hahayal towards its Officers, including in respect of an event related to the merger, has passed to the Bank.

4. In accordance with decisions taken at Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI") exemption had been granted to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI. Furthermore, PAGI is committed to grant the said Officers indemnity with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI, and everything as detailed in the commitment for indemnity of Officers, and in accordance with the principles approved in respect of officers of the First International Bank.

   Upon the merger of PAGI in 2015 with and into the Bank, all PAGI's liabilities and rights detailed in this section were transferred to the Bank.

D. The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - “the Clearing House”) established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated on March 1, in every year, being equal to the total average daily clearing turnover in the calendar year that ended prior to the updating date, and in any event shall not be less than NIS 150 million. The share of the Bank amounts to NIS 100 million (December 31, 2018 - NIS 69 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank is required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened an account in its name with the Clearing House for the Bank, in which the Bank deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened an account in its name with another bank on behalf of the Bank, in which it may deposit funds as collateral, and also the Clearing House will deposit cash payable to the Bank, as income on its securities deposited and pledged as aforesaid.

In order to improve the level of risk management of the clearing house in the framework of the process of approving the clearing house as a qualified central counterparty (QCCP), the clearing house opened a monetary account with the Bank of Israel, in which it is possible to deposit the monetary collateral that the clearing house members place in its favor, whether to secure the operations of the clearing house members or their liabilities to the risk funds. At this stage, the clearing house is entitled to decide in which of the monetary account- the one that is in another bank or the one with the Bank of Israel- the monetary collateral will be deposited.

As collateral for the due performance of the Bank's obligations towards the Clearing House as stated above, with no limitation on their total amount, the Bank registered on April 17, 2005, a first degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to the account of the Clearing House at the Clearing House and the account of the Clearing House with another bank. In addition, in April 2017, the Bank registered a first-degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to all the rights of the Bank in the account of the Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad, which is a Stock Exchange member but not a Clearing House member. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of its or its customers' operations.

As to the pledge to the Stock Exchange Clearing House see Note 26C below.

E. MAOF Clearing House formed a risk fund, the amount of which will be determined from time to time by the Board of Directors of the Clearing House. The initial amount determined for the risk fund is NIS 290 million linked to the consumer price index. Each member's share in the risk fund, including the Bank, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank in respect of the risk fund amounts to NIS 72 million as of December 31, 2019 in comparison with NIS 74 million on December 31, 2018.

Each of the member banks of the MAOF Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amounts at the balance sheet date relating to the Bank's customer transactions in respect of MAOF options are included in the balance sheet in the item "assets in respect of derivative instruments" and in the item "liabilities in respect of derivative instruments" in equal amounts based on the fair value. The balance of the liability of the Bank to the MAOF clearing house, over and above the amount stated in the balance sheet, based on the stock exchange models, is of NIS 317 million (December 31, 2018 - NIS 451 million).

The Bank registered in favor of the MAOF Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of MAOF securities managed in the name of the MAOF Clearing House at the Stock Exchange Clearing House (hereinafter - "the main account") as well as on rights in an account managed in the name of the MAOF Clearing House at another bank (hereinafter - "the monetary account"). In addition, the Bank registered in favor of the MAOF Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. A further floating pledge was registered also on all rights attaching to the monetary account. As aforesaid in section D above the MAOF clearing house also opened an account with the Bank of Israel, in which it is also possible to deposit the monetary collateral, which its members are placing in its favor. In April 2017 the Bank registered a first-degree fixed pledge and an assignment by way of a pledge in favor of the MAOF clearing house on all its rights in the account of the MAOF clearing house with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad, which is a Stock Exchange members but is not a MAOF Clearing House member. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of its or its customers' operations.

As to the pledge in favor of the MAOF Clearing House - see Note 26A below.

F. CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The CLS Clearing House elected the Bank as the third bank to serve as a provider of shekel liquidity, in addition to Bank Leumi and Bank Hapoalim. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank's rights to receive amounts and monetary charges in Israeli currency due and/or will be due from the Bank's customers comprising Israeli corporations.

G. The Bank Group (the Bank and its subsidiary companies) is a party to legal proceedings, including motions for approval of class actions. In the opinion of Management of the Bank and Managements of the subsidiary companies, based on legal opinions regarding the prospects of the actions, including the motions for approval of class actions, as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

Following are details of actions filed against the Bank and against a subsidiary company that had merged with and into the Bank (hereinafter - "the subsidiary company") where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

(1) On January 31, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit, in an amount of NIS 698 million, filed against the Bank, a subsidiary company and against three additional banks (hereinafter altogether - "the banks"), of which, NIS 658 million in respect of a nonmonetary damage and NIS 40 million in respect of a monetary damage.

The Plaintiffs claim that the banks do not maintain branches (or do not maintain a sufficient number of branches) in the Arab populated areas and do not provide this population with access to their banking services. Thus, as alleged by the Plaintiffs, the banks violate Section 3(a) of the Non-discrimination regarding Products, services and Entry into Places of Entertainment and Public Places Act, 2000, Section 2 of the Banking Act (Customer service), 1981 and the Human Dignity and Liberty Basic Act.

The class which the Plaintiffs propose to represent relates to all citizens of the State of Israel Moslems, Christians and Druze, who suffer from discrimination in accessing banking services provided by the banks, due to the absence of bank branches in the areas in which they reside.

On December 18, 2017, the Court decided to reject the motion for approval of the action as a class action. On February 14, 2018, the Bank received notice of the appeal filed by the Plaintiffs against the said decision of the Court. In the hearing of the appeal, held on December 11, 2019, the Plaintiffs withdrew from the appeal, which was then dismissed.

(2) On February 18, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Tel Aviv District Court against the Bank and four additional banks (hereinafter altogether -" the Respondents").

According to the Plaintiff, the Respondents discriminate on grounds of age between "young students" and "not-so-young" students, in a way which deprives "not-so-young" students from benefits and/or discounts offered to "young students" only.

The Plaintiff has defined the class as follows: "… all students discriminated against due to age in comparison with younger students, thus depriving them from benefits granted to students during the past seven years and at least as from July 15, 2014…".

The Plaintiff claims that the conduct of the banks caused monetary and nonmonetary damages to the class, and requests the charging of the banks, jointly and severally, with a payment to the class of NIS 219 million. On September 26, 2019, the Court issued a verdict rejecting the motion for approval of the action as a class action. On November 4, 2019, the Plaintiff filed an appeal against this verdict.

(3) On June 26, 2016, the Bank received notice of a motion for approval of an action as a class action, that had been filed against the Bank, a subsidiary company and two other banks (hereinafter together - "the banks"), in a total amount of NIS 167 million. According to the Plaintiffs, it would seem that the share of the Bank and of its subsidiary company in the said amount is NIS 82 million. The Plaintiffs argue that the banks caused the class both monetary and nonmonetary damage due to discriminating against handicapped persons, in that they advertise, offer and grant exemption from commission fees (and other benefits) to employed persons who open accounts and deposit therein a monthly salary of at least a certain amount, but at the same time, these banks do not offer and grant the same benefits to handicapped persons who are able to deposit a monthly allowance of the same amount or even higher. A compromise agreement signed between the parties was granted power of a Court verdict on November 24, 2019.

(4) On May 8, 2018, the Bank received notice of an action and a motion for approval of the action as a class action suit in the amount of NIS 146 million (hereinafter together - "the motion").
The Plaintiffs argue that the Bank concealed and did not disclose to its business customers the existing possibility of being classified as a "small business" and the practical significance of the classification of an account as a small business account as regards the retail price list, classified business customers under the default classification as a "large business" with no reasonable ground (thus applying to them the large business price list, which is the highest commission fee list), misled its customers and acted in order to hide both their classification as large business and their right to be defined as a small business, so that those of its customers who are entitled to be defined as a small business would continue to pay charges that do not apply to them or charges in amounts higher than those which should be payable by them.
The group which the Plaintiffs wish to represent comprises "all customers of the Bank, past and present, who were or are entitled to be defined as a "small business" under the Banking Rules (Customer service) (Commission fees), 2008, and who paid fees not in accordance with the pricelist applying to a small business, as from date of entry into effect of the commission fee rules and until this day".

The additional amount of exposure of the Bank and of the Bank's subsidiary companies as of December 31, 2019, in respect of pending legal actions, which according to estimates of the Bank, the possibility of their materialization, in whole or in part, is not remote, and in respect of which no provision has been recorded, totals NIS 57 million.

H. Moreover, pending against the Bank is a motion for approval of a class action, the amount claimed therein is material, as described hereunder. In the opinion of Management of the Bank, based on Counsel's opinion, it is not possible at this stage to assess the prospect of this action and no provision has been included in respect thereof.
On November 26, 2019, the Bank received an action brief together with a motion for approval of the action as a class action. The Plaintiff argues that an amendment to the commission fees rules entered into effect on November 1, 2017, which required banks in Israel to publish in Appendix "E" to the pricelist of the Bank a reduced pricelist applying to online transactions (namely, transactions made with no direct interface with a bank clerk). The Plaintiff further claims that Bank of Israel had instructed the banks that the discount required to be granted to the customer in respect of an online transaction, should be at least at the rate of 10% and alternatively 3%. The Plaintiff claims that as of date of filing of this action, and in respect of a part of the transactions detailed below, the Bank did not at all state in Appendix "E" to its pricelist, a commission rate applying to online transactions, and that in respect of all the online transactions detailed below, the Bank charges a commission fee as if the transaction had been made through a direct interface with a bank clerk, or charges a commission fee that is higher than the rate stated in the pricelist (for a transaction which is not

online), or does not grant the customer the said discount, as instructed by Bank of Israel. The transactions in question are as follows: (1) Transfer of foreign currency from or to an account (any kind of foreign currency transfer including transfers from an account in Israel and an account abroad). (2) Purchase/sale/redemption of securities (shares and bonds) traded on the Tel Aviv Stock Exchange and/or purchase/sale/ redemption of securities (shares, bonds, mutual funds and options traded abroad). The Plaintiff did not state the amount of the claim, but argues that it is a considerable amount in the region of millions of NIS, and probably even higher.

I. 1. Following are details of claims against an affiliated company, Israel Credit Cards Ltd. ("ICC"), including motions for approval of class actions, the amount claimed therein is material. In the opinion of the Management of ICC, based inter alia on legal opinions, adequate provisions in respect of such claims are included in the financial statements, where required.

(a) On June 8, 2016, an amended motion for approval of an action as a class action was filed with the Central District Court against three credit card companies including ICC (hereinafter - "the amended motion"). The amended motion replaces a previous motion submitted on April 28, 2014.

The motion refers to two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. The first binding arrangement, as argued by the Plaintiffs, is the arrangement for the charging of a cross commission in respect of transactions made by debit cards and prepaid cards. The second binding arrangement, as argued by the Plaintiffs, is the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money.

A review of the economic opinion, to which the amended motion refers, shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Competition Tribunal (formerly "Anti-Trust Tribunal"), and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Competition Tribunal.

On October 16, 2017, an action requesting declaratory relief was filed with the Competition Tribunal. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and prepaid cards. The credit card companies, including ICC, have filed a motion for the in limine dismissal of the action, and on October 16, 2018, the Court ruled that the motion for in limine dismissal of the action requesting declaratory relief Order is admitted.

On November 29, 2018, an appeal was filed with the Supreme Court against the verdict of the Competition Tribunal.

On December 23, 2018, the Plaintiffs filed a plea with the Supreme Court sitting as a high Court of Justice, against the Competition Commissioner (formerly "Anti-Trust commissioner"), in which the Court is requested to instruct the Commissioner to act in order to clarify, cancel or change the verdict of the Competition Tribunal. The State filed its response on May 22, 2019, and the hearing of the plea was fixed for March 19, 2020.

(b) On May 2, 2018, ICC received notice of an action and a motion for its approval as a class action suit, filed with the Tel Aviv-Yafo District Court.

It is alleged in the action that ICC had unlawfully increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Aviv District Court in a similar case, wherein a motion for approval of an action as a class action, filed against another company, had been approved.

The Plaintiffs assess their personal damage at NIS 4,036. They did not state an amount regarding the damage to the group, but assessed it at "tens of millions of NIS". ICC had responded to the motion for approval, and the Plaintiffs responded to ICC's response. A preliminary hearing of the case was held on January 15, 2020.

(c) On May 6, 2018, ICC received notice of an action together with a motion for approval of the action as a class action suit, filed with the Tel Aviv-Yafo District Court. As argued in the action, which was served against ICC and against an additional company and its owner bank, ICC did not provide proper disclosure of the interest charged by it. The plaintiff assesses his personal damage at NIS 38.54 and the total damage for the group at NIS 181 million. On March 5, 2019, ICC responded to the motion for approval.

(d) On July 22, 2018, an action was filed with the Tel Aviv District Court together with a motion for approval of the action as a class action, against ICC and against two additional credit card companies. The subject matter of the action is transactions considered "no document transactions" (mainly transactions effected by telephone) made by members of the class with trading houses operating in the "direct marketing" field. It is claimed in the action that such trading houses utilized the weakness of the senior citizen population, unlawfully charging their credit cards in respect of many transactions, as well as charging them with additional amounts that had not been approved by them. The Plaintiff argues that the credit card companies are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Plaintiff states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million. Preliminary hearing of the case was held on January 7, 2020.

(e) A Plea was filed on December 9, 2018, with the Supreme Court sitting as a High Court of Justice, against Bank of Israel, the Competition Commissioner and three credit card companies, including ICC, in which the Appellants seeks relief through the cancellation of the Banking Order (Customer service)(Supervision over cross-clearing service for transactions made by use of a charge card and of an immediate debit card), 2018. The Appellants argue that the Order should be abolished and that it should be determined that the credit card companies may not earn profits from the cross-commission, which is intended to cover only the costs of the issuer. ICC filed its response to the Plea on August 19, 2019. The hearing of the Plea is fixed for March 26, 2020.

2. The amount of exposure in respect of legal actions filed against ICC, the possibility of their materialization, in whole or in part, is reasonably possible, totals NIS 167 million.

3. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued to ICC VAT assessments for charge periods from January 2012 to August 2016. The sum charged in the assessments, including interest and linkage increments, amounts to NIS 48 million. ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position. On March 9, 2017, ICC filed an appeal against these assessments. To the best knowledge of ICC, assessments in this matter have also been received by its competitors.

   On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal and also increasing the amount charged in the assessments to NIS 75 million (including interest and linkage increments). If the position of ICC would be rejected by the Court, it may be liable in respect of the issues raised in the VAT assessment, also for periods following the period of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the District Court Central District. On November 3, 2019, the Supreme Court approved an agreed motion for the consolidation of the hearing of the appeal with those of the appeals filed by competitors of ICC. A preliminary hearing was held on March 5, 2020. ICC estimates the amount of exposure to this case, in respect of which no provision is included in its financial statements, at NIS 140 million.

J. Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.

As part of the market making activity, the Treasury has granted to the Bank a Government bond borrowing facility up to an amount of NIS 1 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26I.

K. The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers and liquidators, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for debt notes issued by them, subject to the terms of the relevant trust documents.

L. Within the framework of the agreement for the sale of operations of FIBI (Suisse) Ltd., a subsidiary of the Bank, FIBI (Suisse) Ltd. is committed to different indemnifications towards the Purchaser (to which the Bank itself had been committed since February 28, 2018), and which were in effect until June 2019.

Furthermore, upon appointment in August 2018, of Deloitte AG (hereinafter - "Deloitte") as liquidators of the Extension, different indemnifications granted to Deloitte by FIBI (Suisse) and by the Bank in connection with the liquidation, entered into effect. So did the commitment by the Bank towards Deloitte stating that the Extension would be liquidated on a solvent basis.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS

A. To secure liabilities to the MAOF Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the MAOF Clearing House.
Set out below is the balance of the collateral which the Bank provided to the MAOF Clearing House (in NIS million):

	December 31, 2019		Average balance for 2019		Highest balance for 2019	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	**54**	**223**	**55**	**279**	**57**	**347**
Cash deposited as collateral	**18**	**-**	**18**	**-**	**19**	**-**

	December 31, 2018		Average balance for 2018		Highest balance for 2018	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	56	352	50	266	56	352
Cash deposited as collateral	18	-	17	-	18	-

B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed USD 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.

C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged cash and securities in favor of the Stock Exchange Clearing House.
Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

	December 31		Average balance		Highest balance	
	2019	2018	2019	2018	2019	2018
Securities	**75**	52	**69**	61	**80**	73
Cash deposited as collateral	**25**	17	**23**	20	**27**	24

D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiary, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.

(2) Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

	December 31		Average balance		Highest balance	
	2019	2018	2019	2018	2019	2018
Securities	**107**	107	**106**	176	**107**	200

* The credit facility secured by this pledge was not in use in the years 2019 and 2018.
** See Note 11 regarding cash balances and deposits with Bank of Israel.

(3) See Note 25.F regarding a floating pledge in favor of Bank of Israel on rights to receive monetary sums and charges in Israeli currency due and/or will be due from customers comprising Israeli corporations as part of the Bank's operations as a supplier of CLS Clearing House services.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS (CONT'D)

E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.

As of December 31, 2019, the Bank has transferred deposits in favor of counterparties in the amount of NIS 193 million (December 31, 2018 - NIS 125 million). At December 31, 2019 the Bank has received deposits from counterparties in the amount of NIS 58 million (December 31, 2018 - NIS 86 million).

In addition, to secure the fulfillment of the obligation and/or the credit exposure of the Bank as above, the Bank deposited cash deposits with counterparties, as initial margins, that as of December 31, 2019 amounted to NIS 82 million (December 31, 2018- NIS 70 million).

F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engagements with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2019, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to US Dollar 15 million (December 31, 2018 - US Dollar 35 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of US Dollar 160 million (December 31, 2018 - US Dollar 246 million).

G. The Bank receives from a foreign bank foreign currency clearing services through the CLS clearing house. In order to secure the credit exposure of the foreign bank to the Bank with respect to the clearing of foreign currency transactions through the CLS, the Bank had deposited with the foreign bank a cash amount of US$ 50 million. The deposit serves as collateral and is subject to lien and offsetting rights of the foreign bank in connection with the clearing activity in the CLS clearing house.

H. Set out below are details of the securities that were pledged to lenders as stated in A, C and F where the lenders are not entitled to sell or pledge them (in NIS million):

	December 31,	
	2019	**2018**
Securities held to maturity	**352**	419
Bonds available for sale	**52**	172
Total	**404**	591

I. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

	December 31,	
	2019	**2018**
Securities received in securities lending transactions in return for cash	**9**	863
Securities received under non-collateralized securities lending transaction	**766**	905
Total	**775**	1,768

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis

1. Face value of derivative instruments

	December 31, 2019			December 31, 2018		
	Not trading derivatives	**Trading derivatives**	**Total**	**Not trading derivatives**	**Trading derivatives**	**Total**
Interest contracts						
Forward and Futures Contracts	**21**	**3,162**	**3,183**	15	9,757	9,772
Options written	**-**	**552**	**552**	-	-	-
Options purchased	**-**	**552**	**552**	-	-	-
SWAPS(1)	**3,859**	**13,144**	**17,003**	4,094	15,244	19,338
Total(2)	**3,880**	**17,410**	**21,290**	4,109	25,001	29,110
Of which: Hedging derivatives(3)	**2,911**	**-**	**2,911**	3,209	-	3,209
Foreign currency contracts						
Forward and Futures Contracts(4)	**12,605**	**35,127**	**47,732**	8,420	28,641	37,061
Options written	**31**	**13,215**	**13,246**	88	11,109	11,197
Options purchased	**31**	**13,703**	**13,734**	88	11,500	11,588
SWAPS	**215**	**-**	**215**	255	-	255
Total	**12,882**	**62,045**	**74,927**	8,851	51,250	60,101
Contracts on shares						
Forward and Futures Contracts	**-**	**12,347**	**12,347**	-	10,108	10,108
Options written	**-**	**16,030**	**16,030**	-	17,607	17,607
Options purchased(5)	**-**	**15,960**	**15,960**	-	17,512	17,512
Total	**-**	**44,337**	**44,337**	-	45,227	45,227
Commodities and other contracts						
Forward and Futures Contracts	**-**	**72**	**72**	-	63	63
Options written	**-**	**42**	**42**	-	-	-
Options purchased	**-**	**42**	**42**	-	-	-
Total	**-**	**156**	**156**	-	63	63
Credit contracts						
The Bank is a guarantor	**-**	**-**	**-**	37	-	37
Total	**-**	**-**	**-**	37	-	37
Total face value	**16,762**	**123,948**	**140,710**	12,997	121,541	134,538

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 10,338 million (31.12.18 - NIS 12,047 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 686 million (31.12.18 - NIS 682 million).
(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These transactions hedge the interest risk imbedded in foreign currency bonds having fixed interest and long duration.
(4) Of which: foreign currency swap spot contracts in an amount of NIS 2,677 million (31.12.18 - NIS 2,285 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 15,878 million (31.12.18 - NIS 17,336 million).

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

2. Gross fair value of derivative instruments

	December 31, 2019					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	**3**	**246**	**249**	**146**	**238**	**384**
Of which: Hedging derivatives	**1**	**-**	**1**	**122**	**-**	**122**
Foreign currency contracts	**77**	**314**	**391**	**22**	**392**	**414**
Contracts on shares	**-**	**450**	**450**	**-**	**450**	**450**
Commodities and other contracts	**-**	**1**	**1**	**-**	**1**	**1**
Total assets/liabilities in respect of derivatives gross(1)	**80**	**1,011**	**1,091**	**168**	**1,081**	**1,249**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**80**	**1,011**	**1,091**	**168**	**1,079**	**1,247**
Of which: not subject to net settlement arrangement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

	December 31, 2018					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	31	176	207	41	183	224
Of which: Hedging	28	-	28	36	-	36
Foreign currency contracts	57	484	541	19	403	422
Contracts on shares	-	650	650	-	650	650
Commodities and other contracts	-	1	1	-	1	1
Total assets/liabilities in respect of derivatives gross(1)	88	1,311	1,399	60	1,237	1,297
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	88	1,311	1,399	60	1,234	1,294
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

(1) Of which: Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 2 million (31.12.18 - NIS 3 million).

(NIS million)

B. Accounting hedge

General

The Bank is exposued to market risks, including basis risks and interest risks. Basis risk is the exsisting or future risk to the income or capital f the Groupwhich can materialize as a result from changes in the CPI or the exchange rates of foreign currency due to the difference beyween the value of the assets to the value of the liabilities. Interest risk is the risk to the earnings or capital deriving from flactuations in the interest rates.Changes in the interest rates affect the Bank's earnings by chabge in net earnings, and the value of the Bank's assets, its liabilities and off balance sheet instruments, since the present value of future cash flows (and even the cash flows themselves) changes when a change occur in the interest rates. As part of the overall strategy of the Bank to manage the level of exposure to basis and interest risks, the Bank uses derivative instruments such as foreign currencyand CPI forwards, foreign currency options and interest rate swaps (swaping fixed interest rate with variable interest rate. The Bank have derivativies ddesignated and qualified as fair value hedges.

If a derivative is not designated as qualified hedging, the derivative is stated according to fair value and changes in the fair value are stated on a current basis in the profit and loss statement.

Fair value hedges

The Bank designates certain derivatives as fair value hedges. The change in the fair value of the derivatives, hedging the exposure to changes in the fair value of the underlying of the asset, is recognized on a currect basis in the profit and loss statement, as well as the change in the fair value of the hedged instrument, which can be attributed to the hedged risk.

	For the year ended December 31, 2019
	Interest income (expenses)
1. Effect of accounting of fair value Hedge on profit (loss)	
Profit from fair value Hedge	
Interest contracts	
- Hedging items	**105**
- Hedging derivatives	**(115)**

		December 31, 2019
		Cumulative fair value adjustments increasing the book value
	Book value	**Existing hedge relation**
2. Items Hedged by fair value Hedge		
Securities- debt instruments classified as available for sale	**3,185**	**105**

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

	For the year ended December 31, 2019
	Loss recognized in income (expenses) from activity in derivative instruments(1)
3. Effect of derivatives which were not designated as hedging instruments on statement of income	
Derivatives which were not designated as hedging instruments	
- Interest contracts	**(15)**
- Foreign currency contracts	**(410)**
- Share contracts	**6**

(1) Included in the item non-interest financing income (expenses).

C. Credit risk in respect of derivatives instruments, according to transaction counterparty on a consolidated basis

	December 31, 2019					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	**120**	**446**	**141**	**1**	**383**	**1,091**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(269)**	**(17)**	**-**	**(142)**	**(428)**
Credit risk mitigation in respect of cash collateral received	**-**	**(25)**	**(4)**	**-**	**(115)**	**(144)**
Net amount of assets in respect of derivative instruments	**120**	**152**	**120**	**1**	**126**	**519**
Off balance sheet credit risk in respect of derivative instruments(2)	**-**	**315**	**39**	**-**	**1,040**	**1,394**
Off balance sheet credit risk mitigation	**-**	**(152)**	**(6)**	**-**	**(704)**	**(862)**
Net off balance sheet credit risk in respect of derivative instruments	**-**	**163**	**33**	**-**	**336**	**532**
Total credit risk in respect of derivative instruments	**120**	**315**	**153**	**1**	**462**	**1,051**
Balance sheet balance of liabilities in respect of derivative instruments(1)	**97**	**390**	**203**	**-**	**559**	**1,249**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(269)**	**(17)**	**-**	**(85)**	**(371)**
Cash collateral which was attached by a lien	**-**	**(64)**	**-**	**-**	**-**	**(64)**
Net amount of liabilities in respect of derivative instruments	**97**	**57**	**186**	**-**	**474**	**814**

(NIS million)

						December 31, 2018*
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	189	318	104	-	788	1,399
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments (1)	-	(223)	(10)	-	(335)	(568)
Credit risk mitigation in respect of cash collateral received	-	(59)	(22)	-	(144)	(225)
Net amount of assets in respect of derivative instruments	189	36	72	-	309	606
Off balance sheet credit risk in respect of derivative instruments(2)	-	292	45	1	913	1,251
Off balance sheet credit risk mitigation	-	(147)	(3)	-	(421)	(571)
Net off balance sheet credit risk in respect of derivative instruments	-	145	42	1	492	680
Total credit risk in respect of derivative instruments	189	181	114	1	801	1,286
Balance sheet balance of liabilities in respect of derivative instruments	209	483	204	10	391	1,297
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(223)	(10)	-	(38)	(271)
Cash collateral which was attached by a lien	-	(65)	-	-	-	(65)
Net amount of liabilities in respect of derivative instruments	209	195	194	10	353	961

* Reclassified.

(1) The fair value of derivative instruments subject to netting agreements, as well as derivative instruments received as collateral in government bonds and shares amounts to NIS 371 million, NIS 54 million and NIS 3 million, respectively (31.12.18 - derivative instruments subject to netting agreements NIS 271 million, derivative instruments received as collateral in government bonds NIS 146 million and in shares NIS 151 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, before credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

D. Maturity dates (stated value amounts): year-end balance on consolidated basis

					December 31, 2019
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**-**	**509**	**166**	**-**	**675**
- Other	**3,460**	**3,331**	**10,542**	**3,282**	**20,615**
Foreign currency contracts	**54,641**	**19,664**	**615**	**7**	**74,927**
Contracts of shares	**40,901**	**3,080**	**356**	**-**	**44,337**
Commodities and other contracts	**155**	**1**	**-**	**-**	**156**
Total	**99,157**	**26,585**	**11,679**	**3,289**	**140,710**

					December 31, 2018
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	86,807	26,732	16,264	4,735	134,538

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
    - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
    - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
    - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

A. Definitions (CON'T)

- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

B. Operational supervision segment information

Consolidated	For the year ended December 31, 2019							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
								(NIS million)
Interest income from external	1,669	14	670	164	265	16	287	3,085
Interest expense from external	172	52	87	17	67	77	11	483
Net interest income								
- From external	1,497	(38)	583	147	198	(61)	276	2,602
- Inter - segment	(253)	76	58	26	82	136	(125)	-
Total net interest income	1,244	38	641	173	280	75	151	2,602
Non-interest income	549	68	304	77	118	190	214	1,520
Total income	1,793	106	945	250	398	265	365	4,122
Expenses from credit losses	72	-	35	12	18	1	-	138
Operating and other expenses	1,443	65	622	114	167	184	59	2,654
Operating profit before taxes	278	41	288	124	213	80	306	1,330
Provision for taxes on operating profit	95	14	98	46	93	27	105	478
Operating profit after taxes	183	27	190	78	120	53	201	852
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	51	51
Net profit:								
Before attribution to non-controlling interests	183	27	190	78	120	53	252	903
Attributed to non-controlling interests	(24)	-	(5)	(3)	-	-	(6)	(38)
Net profit attributed to shareholders of the Bank	159	27	185	75	120	53	246	865
Average balance of assets(1)	45,476	50	15,925	5,675	17,275	1,039	50,865	136,305
of which: Investee Company(1)	-	-	-	-	-	-	605	605
of which: Average balance of credit to the public(1)	45,476	50	15,925	5,675	17,275	1,039	-	85,440
Balance of credit to the public	47,418	67	16,477	5,647	17,959	1,261	-	88,829
Balance of impaired debts	156	-	220	35	298	-	-	709
Balance in arrears over 90 days	212	-	20	4	13	-	-	249
Average balance of liabilities(1)	52,093	7,619	18,972	5,189	10,823	23,365	9,516	127,577
of which: Average balance of deposits from the public(1)	50,896	7,611	18,400	4,932	10,157	22,825	-	114,821
Balance of deposits from the public	51,572	7,734	18,859	5,536	11,271	25,080	-	120,052
Average balance of risk assets(1)(2)	31,559	213	15,591	6,867	17,092	1,070	7,627	80,019
Balance of risk assets(2)	31,758	218	16,275	6,730	17,521	1,159	7,588	81,249
Average balance of assets under management(1)(3)	35,493	17,337	15,884	3,883	13,366	236,423	-	322,386
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,046	-	562	157	270	10	-	2,045
- Earnings from deposits - taking activity	215	38	88	20	21	66	-	448
- Other	(17)	-	(9)	(4)	(11)	(1)	151	109
Total net interest income	1,244	38	641	173	280	75	151	2,602

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2018							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,524	1	677	191	358	14	236	3,001
Interest expense from external	183	34	106	34	65	59	34	515
Net interest income								
- From external	1,341	(33)	571	157	293	(45)	202	2,486
- Inter - segment	(196)	66	48	20	4	107	(49)	-
Total net interest income	1,145	33	619	177	297	62	153	2,486
Non-interest income	577	62	321	81	119	194	283	1,637
Total income	1,722	95	940	258	416	256	436	4,123
Expenses from credit losses	67	-	55	8	35	1	-	166
Operating and other expenses	1,545	63	653	120	188	178	72	2,819
Operating profit before taxes	110	32	232	130	193	77	364	1,138
Provision for taxes on operating profit	41	12	87	49	72	29	118	408
Operating profit after taxes	69	20	145	81	121	48	246	730
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	37	37
Net profit:								
Before attribution to non-controlling interests	69	20	145	81	121	48	283	767
Attributed to non-controlling interests	(20)	-	(5)	(4)	-	-	(5)	(34)
Net profit attributed to shareholders of the Bank	49	20	140	77	121	48	278	733
Average balance of assets(1)	43,802	51	15,426	5,739	17,855	764	51,675	135,312
of which: Investee Company(1)	-	-	-	-	-	-	585	585
of which: Average balance of credit to the public(1)	43,802	51	15,426	5,739	17,855	764	-	83,637
Balance of credit to the public	45,359	51	15,948	5,816	17,052	934	-	85,160
Balance of impaired debts	100	-	218	35	114	-	-	467
Balance in arrears over 90 days	215	-	23	5	-	-	-	243
Average balance of liabilities(1)	48,806	7,676	17,848	5,230	11,042	26,042	10,415	127,059
of which: Average balance of deposits from the public(1)	47,682	7,667	17,127	4,907	9,981	25,984	-	113,348
Balance of deposits from the public	50,300	8,029	17,802	5,167	9,212	21,187	-	111,697
Average balance of risk assets(1)(2)	30,158	189	15,106	6,926	17,857	1,042	8,039	79,317
Balance of risk assets(2)	30,725	190	15,404	7,053	16,329	1,517	7,919	79,137
Average balance of assets under management(1)(3)	36,170	15,501	13,444	3,922	15,054	243,650	-	327,741
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,007	-	560	164	292	12	-	2,035
- Earnings from deposits - taking activity	159	33	72	19	21	51	-	355
- Other	(21)	-	(13)	(6)	(16)	(1)	153	96
Total net interest income	1,145	33	619	177	297	62	153	2,486

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2017							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,351	1	648	166	355	14	167	2,702
Interest expense from external	155	27	78	27	60	36	19	402
Net interest income								
- From external	1,196	(26)	570	139	295	(22)	148	2,300
- Inter - segment	(185)	51	5	6	1	60	62	-
Total net interest income	1,011	25	575	145	296	38	210	2,300
Non-interest income	562	57	324	65	134	183	106	1,431
Total income	1,573	82	899	210	430	221	316	3,731
Expenses (income) from credit losses	64	-	45	27	(3)	(9)	-	124
Operating and other expenses	1,410	55	615	98	186	157	54	2,575
Operating profit (loss) before taxes	99	27	239	85	247	73	262	1,032
Provision for taxes on operating profit	33	9	83	29	86	26	92	358
Operating profit (loss) after taxes	66	18	156	56	161	47	170	674
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	54	54
Net profit (loss):								
Before attribution to non-controlling interests	66	18	156	56	161	47	224	728
Attributed to non-controlling interests	(19)	(1)	(7)	(4)	(1)	-	(10)	(42)
Net profit (loss) attributed to shareholders of the Bank	47	17	149	52	160	47	214	686
Average balance of assets(1)	40,711	50	14,331	5,414	17,630	578	50,468	129,182
of which: Investee Company(1)	-	-	-	-	-	-	536	536
of which: Average balance of credit to the public(1)	40,711	50	14,331	5,414	17,630	578	-	78,714
Balance of credit to the public	42,521	52	14,613	5,655	17,785	590	-	81,216
Balance of impaired debts	95	-	203	34	210	-	-	542
Balance in arrears over 90 days	181	-	23	1	-	-	-	205
Average balance of liabilities(1)	47,381	7,660	16,889	5,574	10,198	23,118	9,965	120,785
of which: Average balance of deposits from the public(1)	46,273	7,652	16,175	5,227	9,126	23,058	-	107,511
Balance of deposits from the public	46,371	8,028	15,439	5,309	11,683	26,681	-	113,511
Average balance of risk assets(1)(2)	28,105	170	14,216	6,603	17,915	1,013	8,546	76,568
Balance of risk assets(2)	29,095	170	14,463	6,661	17,408	941	8,625	77,363
Average balance of assets under management(1)(3)	35,241	15,097	12,644	3,749	16,304	210,228	-	293,263
Segmentation of net interest income:								
- Earnings from credit - granting activity	912	1	549	139	303	11	-	1,915
- Earnings from deposits - taking activity	124	24	43	13	15	28	-	247
- Other	(25)	-	(17)	(7)	(22)	(1)	210	138
Total net interest income	1,011	25	575	145	296	38	210	2,300

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

(2) Risk assets - as computed for the purpose of capital adequacy.

(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2017	
	Activity abroad	
	Total activity abroad	Total
		(NIS million)
Interest income from external	2	2,704
Interest expense from external	-	402
Net interest income		
- From external	2	2,302
- Inter - segment	-	-
Total net interest income	2	2,302
Non-interest income	19	1,450
Total income	21	3,752
Expenses (income) from credit losses	(3)	121
Operating and other expenses	32	2,607
Operating profit (loss) before taxes	(8)	1,024
Provision for taxes on operating profit	-	358
Operating profit (loss) after taxes	(8)	666
Bank's share in operating profit of investee companies after tax effect	-	54
Net profit (loss):		
Before attribution to non-controlling interests	(8)	720
Attributed to non-controlling interests	-	(42)
Net profit (loss) attributed to shareholders of the Bank	(8)	678
Average balance of assets (1)	111	129,293
of which: Investee Company (1)	-	536
of which: Average balance of credit to the public (1)	-	78,714
Balance of credit to the public	-	81,216
Balance of impaired debts	-	542
Balance in arrears over 90 days	-	205
Average balance of liabilities (1)	290	121,075
of which: Average balance of deposits from the public (1)	-	107,511
Balance of deposits from the public	-	113,511
Average balance of risk assets (1)(2)	207	76,775
Balance of risk assets (2)	8	77,371
Average balance of assets under management (1)(3)	-	293,263
Segmentation of net interest income:		
- Earnings from credit - granting activity	-	1,915
- Earnings from deposits - taking activity	2	249
- Other	-	138
Total net interest income	2	2,302

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2019							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	670	15	984	1,669	-	14	14	1,683
Interest expenses for externals	-	-	172	172	-	52	52	224
Net interest income								
- From externals	670	15	812	1,497	-	(38)	(38)	1,459
- Inter-segmental	(349)	(2)	98	(253)	-	76	76	(177)
Total net interest income	321	13	910	1,244	-	38	38	1,282
Non-interest income	14	84	451	549	1	67	68	617
Total income	335	97	1,361	1,793	1	105	106	1,899
Expenses from credit losses	3	-	69	72	-	-	-	72
Operating and other expenses	156	57	1,230	1,443	-	65	65	1,508
Profit before taxes	176	40	62	278	1	40	41	319
Provision for taxes on profit	60	14	21	95	-	14	14	109
Net profit:								
Before attribution to non-controlling interests	116	26	41	183	1	26	27	210
Attributed to non-controlling interests	-	(1)	(23)	(24)	-	-	-	(24)
Net profit attributed to shareholders of the Bank	116	25	18	159	1	26	27	186
Average balance of assets(1)	24,871	2,798	17,807	45,476	25	25	50	45,526
Of which: average balance of credit to the public (1)	24,871	2,798	17,807	45,476	25	25	50	45,526
Balance of credit to the public at the end of the reported period	25,583	3,639	18,196	47,418	34	33	67	47,485
Balance of impaired debts	10	-	146	156	-	-	-	156
Balance of debts in arrears of more than 90 days	186	-	26	212	-	-	-	212
Average balance of liabilities(1)	525	106	51,462	52,093	1	7,618	7,619	59,712
Of which: average balance of deposit from the public (1)	-	-	50,896	50,896	-	7,611	7,611	58,507
Balance of deposits from the public at the end of the reported period	-	-	51,572	51,572	-	7,734	7,734	59,306
Average balance of risk-adjusted assets(1)(2)	13,620	3,151	14,788	31,559	29	184	213	31,772
Balance of risk-adjusted assets at the end of the reported period(2)	14,056	3,805	13,897	31,758	38	180	218	31,976
Average balance of assets under management(1)(3)	-	-	35,493	35,493	-	17,337	17,337	52,830
Segmentation of net interest income:								
- Spread from credit granting activity	330	13	703	1,046	-	-	-	1,046
- Spread from deposit taking activity	-	-	215	215	-	38	38	253
- Other	(9)	-	(8)	(17)	-	-	-	(17)
Total net interest income	321	13	910	1,244	-	38	38	1,282

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2018							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	685	16	823	1,524	-	1	1	1,525
Interest expenses for externals	-	-	183	183	-	34	34	217
Net interest income								
- From externals	685	16	640	1,341	-	(33)	(33)	1,308
- Inter-segmental	(400)	(3)	207	(196)	-	66	66	(130)
Total net interest income	285	13	847	1,145	-	33	33	1,178
Non-interest income	15	89	473	577	1	61	62	639
Total income	300	102	1,320	1,722	1	94	95	1,817
Expenses from credit losses	4	-	63	67	-	-	-	67
Operating and other expenses	140	60	1,345	1,545	-	63	63	1,608
Profit (loss) before taxes	156	42	(88)	110	1	31	32	142
Provision for taxes (tax saving) on profit (loss)	58	15	(32)	41	-	12	12	53
Net profit (loss):								
Before attribution to non-controlling interests	98	27	(56)	69	1	19	20	89
Attributed to non-controlling interests	-	(2)	(18)	(20)	-	-	-	(20)
Net profit (loss) attributed to shareholders of the Bank	98	25	(74)	49	1	19	20	69
Average balance of assets(1)	23,625	2,921	17,256	43,802	31	20	51	43,853
Of which: average balance of credit to the public (1)	23,625	2,921	17,256	43,802	31	20	51	43,853
Balance of credit to the public at the end of the reported period	24,319	3,320	17,720	45,359	29	22	51	45,410
Balance of impaired debts	6	-	94	100	-	-	-	100
Balance of debts in arrears of more than 90 days	185	-	30	215	-	-	-	215
Average balance of liabilities(1)	695	70	48,041	48,806	1	7,675	7,676	56,482
Of which: average balance of deposit from the public (1)	-	-	47,682	47,682	-	7,667	7,667	55,349
Balance of deposits from the public at the end of the reported period	-	-	50,300	50,300	-	8,029	8,029	58,329
Average balance of risk-adjusted assets(1)(2)	12,753	2,940	14,465	30,158	26	163	189	30,347
Balance of risk-adjusted assets at the end of the reported period(2)	13,148	3,528	14,049	30,725	29	161	190	30,915
Average balance of assets under management(1)(3)	-	-	36,170	36,170	-	15,501	15,501	51,671
Segmentation of net interest income:								
- Spread from credit granting activity	298	13	696	1,007	-	-	-	1,007
- Spread from deposit taking activity	-	-	159	159	-	33	33	192
- Other	(13)	-	(8)	(21)	-	-	-	(21)
Total net interest income	285	13	847	1,145	-	33	33	1,178

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2017							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	569	14	768	1,351	-	1	1	1,352
Interest expenses for externals	-	-	155	155	-	27	27	182
Net interest income								
- From externals	569	14	613	1,196	-	(26)	(26)	1,170
- Inter-segmental	(333)	(2)	150	(185)	-	51	51	(134)
Total net interest income	236	12	763	1,011	-	25	25	1,036
Non-interest income	13	84	465	562	1	56	57	619
Total income	249	96	1,228	1,573	1	81	82	1,655
Expenses from credit losses	1	-	63	64	-	-	-	64
Operating and other expenses	104	61	1,245	1,410	1	54	55	1,465
Profit (loss) before taxes	144	35	(80)	99	-	27	27	126
Provision for taxes (tax saving) on profit (loss)	48	12	(27)	33	-	9	9	42
Net profit (loss):								
Before attribution to non-controlling interests	96	23	(53)	66	-	18	18	84
Attributed to non-controlling interests	-	(1)	(18)	(19)	-	(1)	(1)	(20)
Net profit (loss) attributed to shareholders of the Bank	96	22	(71)	47	-	17	17	64
Average balance of assets(1)	22,340	2,768	15,603	40,711	28	22	50	40,761
Of which: average balance of credit to the public (1)	22,340	2,768	15,603	40,711	28	22	50	40,761
Balance of credit to the public at the end of the reported period	22,848	3,182	16,491	42,521	31	21	52	42,573
Balance of impaired debts	7	-	88	95	-	-	-	95
Balance of debts in arrears of more than 90 days	156	-	25	181	-	-	-	181
Average balance of liabilities(1)	700	71	46,610	47,381	1	7,659	7,660	55,041
Of which: average balance of deposits from the public (1)	-	-	46,273	46,273	-	7,652	7,652	53,925
Balance of deposits from the public at the end of the reported period	-	-	46,371	46,371	-	8,028	8,028	54,399
Average balance of risk-adjusted assets(1)(2)	11,948	2,891	13,266	28,105	29	141	170	28,275
Balance of risk-adjusted assets at the end of the reported period(2)	12,228	3,070	13,797	29,095	30	140	170	29,265
Average balance of assets under management(1)(3)	-	-	35,241	35,241	-	15,097	15,097	50,338
Segmentation of net interest income:								
- Spread from credit granting activity	252	12	648	912	-	1	1	913
- Spread from deposit taking activity	-	-	124	124	-	24	24	148
- Other	(16)	-	(9)	(25)	-	-	-	(25)
Total net interest income	236	12	763	1,011	-	25	25	1,036

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

D. Small and minute, medium and large business - activity in Israel

Consolidated	For the year ended December 31, 2019									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	177	493	670	49	115	164	77	188	265	1,099
Interest expenses for externals	-	87	87	-	17	17	-	67	67	171
Net interest income										
- From externals	177	406	583	49	98	147	77	121	198	928
- Inter-segmental	(4)	62	58	(1)	27	26	(3)	85	82	166
Total net interest income	173	468	641	48	125	173	74	206	280	1,094
Non-interest income	34	270	304	15	62	77	31	87	118	499
of which: income from credit cards	-	16	16	-	1	1	-	-	-	17
Total income	207	738	945	63	187	250	105	293	398	1,593
Expenses (income) from credit losses	(11)	46	35	(2)	14	12	(14)	32	18	65
Operating and other expenses	93	529	622	20	94	114	34	133	167	903
Profit before taxes	125	163	288	45	79	124	85	128	213	625
Provision for taxes on profit	43	55	98	17	29	46	38	55	93	237
Net profit:										
Before attribution to non-controlling interests	82	108	190	28	50	78	47	73	120	388
Attributed to non-controlling interests	(2)	(3)	(5)	(2)	(1)	(3)	-	-	-	(8)
Net profit attributed to shareholders of the Bank	80	105	185	26	49	75	47	73	120	380
Average balance of assets(1)	5,499	10,426	15,925	1,433	4,242	5,675	2,635	14,640	17,275	38,875
Of which: average balance of credit to the public (1)	5,499	10,426	15,925	1,433	4,242	5,675	2,635	14,640	17,275	38,875
Balance of credit to the public at the end of the reported period	5,773	10,704	16,477	1,463	4,184	5,647	3,162	14,797	17,959	40,083
Balance of impaired debts	42	178	220	5	30	35	23	275	298	553
Balance of debts in arrears of more than 90 days	2	18	20	-	4	4	13	-	13	37
Average balance of liabilities(1)	3,049	15,923	18,972	1,030	4,159	5,189	2,151	8,672	10,823	34,984
Of which: average balance of deposits from the public (1)	2,842	15,558	18,400	950	3,982	4,932	1,980	8,177	10,157	33,489
Balance of deposits from the public at the end of the reported period	2,938	15,921	18,859	1,013	4,523	5,536	2,357	8,914	11,271	35,666
Average balance of risk-adjusted assets(1)(2)	6,059	9,532	15,591	2,267	4,600	6,867	4,667	12,425	17,092	39,550
Balance of risk-adjusted assets at the end of the reported period(2)	6,332	9,943	16,275	2,139	4,591	6,730	4,978	12,543	17,521	40,526
Average balance of assets under management(1)(3)	1,293	14,591	15,884	154	3,729	3,883	1,899	11,467	13,366	33,133
Segmentation of net interest income:										
- Spread from credit granting activity	167	395	562	47	110	157	74	196	270	989
- Spread from deposit taking activity	10	78	88	2	18	20	3	18	21	129
- Other	(4)	(5)	(9)	(1)	(3)	(4)	(3)	(8)	(11)	(24)
Total net interest income	173	468	641	48	125	173	74	206	280	1,094

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

D. Small and minute, medium and large business - activity in Israel

Consolidated	For the year ended December 31, 2018									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	166	511	677	55	136	191	76	282	358	1,226
Interest expenses for externals	-	106	106	-	34	34	-	65	65	205
Net interest income										
- From externals	166	405	571	55	102	157	76	217	293	1,021
- Inter-segmental	(10)	58	48	(5)	25	20	(5)	9	4	72
Total net interest income	156	463	619	50	127	177	71	226	297	1,093
Non-interest income	40	281	321	20	61	81	31	88	119	521
of which: income from credit cards	-	16	16	-	1	1	-	1	1	18
Total income	196	744	940	70	188	258	102	314	416	1,614
Expenses from credit losses	-	55	55	1	7	8	-	35	35	98
Operating and other expenses	102	551	653	21	99	120	36	152	188	961
Profit before taxes	94	138	232	48	82	130	66	127	193	555
Provision for taxes on profit	35	52	87	18	31	49	25	47	72	208
Net profit:										
Before attribution to non-controlling interests	59	86	145	30	51	81	41	80	121	347
Attributed to non-controlling interests	(2)	(3)	(5)	(1)	(3)	(4)	-	-	-	(9)
Net profit attributed to shareholders of the Bank	57	83	140	29	48	77	41	80	121	338
Average balance of assets(1)	5,026	10,400	15,426	1,332	4,407	5,739	2,717	15,138	17,855	39,020
Of which: average balance of credit to the public (1)	5,026	10,400	15,426	1,332	4,407	5,739	2,717	15,138	17,855	39,020
Balance of credit to the public at the end of the reported period	5,449	10,499	15,948	1,510	4,306	5,816	2,383	14,669	17,052	38,816
Balance of impaired debts	44	174	218	6	29	35	19	95	114	367
Balance of debts in arrears of more than 90 days	6	17	23	-	5	5	-	-	-	28
Average balance of liabilities(1)	3,005	14,843	17,848	1,007	4,223	5,230	1,887	9,155	11,042	34,120
Of which: average balance of deposits from the public (1)	2,768	14,359	17,127	878	4,029	4,907	1,642	8,339	9,981	32,015
Balance of deposits from the public at the end of the reported period	2,823	14,979	17,802	1,014	4,153	5,167	1,963	7,249	9,212	32,181
Average balance of risk-adjusted assets(1)(2)	5,366	9,740	15,106	2,778	4,148	6,926	4,894	12,963	17,857	39,889
Balance of risk-adjusted assets at the end of the reported period(2)	5,866	9,538	15,404	2,773	4,280	7,053	4,698	11,631	16,329	38,786
Average balance of assets under management(1)(3)	1,204	12,240	13,444	58	3,864	3,922	825	14,229	15,054	32,420
Segmentation of net interest income:										
- Spread from credit granting activity	153	407	560	51	113	164	74	218	292	1,016
- Spread from deposit taking activity	7	65	72	1	18	19	1	20	21	112
- Other	(4)	(9)	(13)	(2)	(4)	(6)	(4)	(12)	(16)	(35)
Total net interest income	156	463	619	50	127	177	71	226	297	1,093

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

D. Small and minute, medium and large business - activity in Israel

Consolidated	For the year ended December 31, 2017									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	151	497	648	31	135	166	70	285	355	1,169
Interest expenses for externals	-	78	78	-	27	27	-	60	60	165
Net interest income										
- From externals	151	419	570	31	108	139	70	225	295	1,004
- Inter-segmental	(4)	9	5	(2)	8	6	-	1	1	12
Total net interest income	147	428	575	29	116	145	70	226	296	1,016
Non-interest income	37	287	324	15	50	65	37	97	134	523
of which: income from credit cards	-	15	15	-	1	1	-	-	-	16
Total income	184	715	899	44	166	210	107	323	430	1,539
Expenses (income) from credit losses	(19)	64	45	(2)	29	27	(9)	6	(3)	69
Operating and other expenses	94	521	615	17	81	98	35	151	186	899
Profit before taxes	109	130	239	29	56	85	81	166	247	571
Provision for taxes on profit	38	45	83	10	19	29	28	58	86	198
Net profit:										
Before attribution to non-controlling interests	71	85	156	19	37	56	53	108	161	373
Attributed to non-controlling interests	(3)	(4)	(7)	(1)	(3)	(4)	(1)	-	(1)	(12)
Net profit attributed to shareholders of the Bank	68	81	149	18	34	52	52	108	160	361
Average balance of assets(1)	4,678	9,653	14,331	928	4,486	5,414	2,520	15,110	17,630	37,375
Of which: average balance of credit to the public (1)	4,678	9,653	14,331	928	4,486	5,414	2,520	15,110	17,630	37,375
Balance of credit to the public at the end of the reported period	4,984	9,629	14,613	999	4,656	5,655	2,490	15,295	17,785	38,053
Balance of impaired debts	40	163	203	11	23	34	51	159	210	447
Balance of debts in arrears of more than 90 days	5	18	23	-	1	1	-	-	-	24
Average balance of liabilities(1)	2,676	14,213	16,889	970	4,604	5,574	1,425	8,773	10,198	32,661
Of which: average balance of deposits from the public (1)	2,505	13,670	16,175	843	4,384	5,227	1,162	7,964	9,126	30,528
Balance of deposits from the public at the end of the reported period	2,519	12,920	15,439	897	4,412	5,309	1,446	10,237	11,683	32,431
Average balance of risk-adjusted assets(1)(2)	5,730	8,486	14,216	1,769	4,834	6,603	4,785	13,130	17,915	38,734
Balance of risk-adjusted assets at the end of the reported period(2)	5,972	8,491	14,463	1,801	4,860	6,661	4,669	12,739	17,408	38,532
Average balance of assets under management(1)(3)	1,144	11,500	12,644	244	3,505	3,749	1,050	15,254	16,304	32,697
Segmentation of net interest income:										
- Spread from credit granting activity	148	401	549	30	109	139	74	229	303	991
- Spread from deposit taking activity	5	38	43	1	12	13	2	13	15	71
- Other	(6)	(11)	(17)	(2)	(5)	(7)	(6)	(16)	(22)	(46)
Total net interest income	147	428	575	29	116	145	70	226	296	1,016

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

E. Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2019[4]				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	1	286	-	-	287
Interest expenses for externals	3	8	-	-	11
Net interest income					
- From externals	(2)	278	-	-	276
- Inter-segmental	-	(125)	-	-	(125)
Total net interest income (expenses)	(2)	153	-	-	151
Non-interest income (expenses)	(19)	159	71	3	214
Total income (expenses)	(21)	312	71	3	365
Operating and other expenses	-	59	-	-	59
Profit (loss) before taxes	(21)	253	71	3	306
Provision for taxes (tax saving) on profit (loss)	(8)	88	24	1	105
Profit (loss) after taxes	(13)	165	47	2	201
Bank's share in operating profit of investee company after tax effect	-	-	51	-	51
Net profit (loss):					
Before attribution to non-controlling interests	(13)	165	98	2	252
Attributed to non-controlling interests	-	(6)	-	-	(6)
Net profit (loss) attributed to shareholders of the Bank	(13)	159	98	2	246
Average balance of assets[1]	222	49,765	878	-	50,865
Of which: Investee company[1]	-	-	605	-	605
Average balance of liabilities[1]	202	9,314	-	-	9,516
Average balance of risk assets[1][2]	748	5,356	1,523	-	7,627
Balance of risk assets[2]	875	5,131	1,582	-	7,588
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net[3]	(41)	56			
CPI differences, net[3]	-	(6)			
Interest rate exposures, net[3]	7	242			
Exposures to shares, net[3]	-	-			
Total net interest and non-interest income, by accrual basis	(34)	292			
Profits or losses from sale or impairment that is not temporary of bonds	-	26			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(6)			
Other non-interest income	13	-			
Total net interest income and non interest financing income	(21)	312			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.
(4) Starting with the year 2019, the Bank changed the way it is classifying derivative financial instruments between trading activities and assets and liabilities management activities.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

E. Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2018				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	4	232	-	-	236
Interest expenses for externals	3	31	-	-	34
Net interest income					
- From externals	1	201	-	-	202
- Inter-segmental	-	(49)	-	-	(49)
Total net interest income	1	152	-	-	153
Non-interest income	1	130	80	72	283
Total income	2	282	80	72	436
Expenses from credit losses	-	-	-	-	-
Operating and other expenses	-	72	-	-	72
Profit before taxes	2	210	80	72	364
Provision for taxes on profit	1	65	27	25	118
Operating profit after taxes	1	145	53	47	246
Bank's share in operating profit of investee company after tax effect	-	-	37	-	37
Net profit:					
Before attribution to non-controlling interests	1	145	90	47	283
Attributed to non-controlling interests	-	(5)	-	-	(5)
Net profit attributed to shareholders of the Bank	1	140	90	47	278
Average balance of assets(1)	433	50,433	809	-	51,675
Of which: Investee company(1)	-	-	585	-	585
Average balance of liabilities(1)	277	10,138	-	-	10,415
Average balance of risk assets(1)(2)	747	5,857	1,435	-	8,039
Balance of risk assets(2)	845	5,614	1,460	-	7,919
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	-	11			
CPI differences, net(3)	-	4			
Interest rate exposures, net(3)	3	242			
Exposures to shares, net(3)	(1)	-			
Total net interest and non-interest income, by accrual basis	2	257			
Profits or losses from sale or impairment that is not temporary of bonds	-	7			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	18			
Total net interest income and non interest financing income	2	282			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

E. Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2017				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	5	162	-	-	167
Interest expenses for externals	4	15	-	-	19
Net interest income					
- From externals	1	147	-	-	148
- Inter-segmental	-	62	-	-	62
Total net interest income	1	209	-	-	210
Non-interest income (expenses)	(12)	61	12	45	106
Total income (expenses)	(11)	270	12	45	316
Expenses from credit losses	-	-	-	-	-
Operating and other expenses	-	53	-	1	54
Profit (loss) before taxes	(11)	217	12	44	262
Provision for taxes (tax saving) on profit (loss)	(4)	76	4	16	92
Operating profit (loss) after taxes	(7)	141	8	28	170
Bank's share in operating profit of investee company after tax effect	-	-	54	-	54
Net profit (loss):					
Before attribution to non-controlling interests	(7)	141	62	28	224
Attributed to non-controlling interests	-	(10)	-	-	(10)
Net profit (loss) attributed to shareholders of the Bank	(7)	131	62	28	214
Average balance of assets(1)	793	48,966	709	-	50,468
Of which: Investee company(1)	-	-	536	-	536
Average balance of liabilities(1)	267	9,698	-	-	9,965
Average balance of risk assets(1)(2)	788	6,432	1,326	-	8,546
Balance of risk assets(2)	725	6,539	1,361	-	8,625
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	-	(26)			
CPI differences, net(3)	-	1			
Interest rate exposures, net(3)	(9)	263			
Exposures to shares, net(3)	(2)	-			
Total net interest and non-interest income, by accrual basis	(11)	238			
Profits or losses from sale or impairment that is not temporary of bonds	-	28			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	4			
Total net interest income and non interest financing income	(11)	270			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

F. Geographical region information
(NIS million)

Consolidated	Income[2]			Net profit (loss)			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2019	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**
Israel	**4,119**	4,100	3,731	**863**	722	686	**140,932**	133,926
Western Europe	**3**	23	21	**2**	11	(8)	**178**	194
Consolidated total	**4,122**	4,123	3,752	**865**	733	678	**141,110**	134,120

(1) The distribution to geographical regions is based on the location of the assets.
(2) Net interest income and non-interest income.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - **Banking Division - Private customers** - the segment includes all activities of private banking customers and households customers of the Banking Division branches. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Banking Division - other** - the segment includes all activities of small businesses and commercial customers of the Banking Division branches. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, construction projects, factoring and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches of the corporate division, which are not under authority of the branches' managers. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits and the overall activities of institutional entities.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiary Massad Bank (comparison data for previous periods include Otsar Hahayal).

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division segments (except for mortgages) or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-other segment.
- The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division segments (except mortgages) or in any one of the Corporate Division segments.

  The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

  The adjustments column includes also the elimination of inter-company balances.

  For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 28.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated	For the year ended December 31, 2019					
	Banking Division			Corporate Division		
	Housing loans	Private customers	Other	Corporate customers	Commercial customers	Other
Net interest income	**331**	**810**	**446**	**421**	**283**	**95**
Non-interest income	**14**	**591**	**210**	**194**	**80**	**35**
Total income	**345**	**1,401**	**656**	**615**	**363**	**130**
Expenses (income) from credit losses	**1**	**71**	**71**	**(42)**	**42**	**10**
Operating and other expenses	**163**	**1,291**	**459**	**263**	**182**	**50**
Operating profit before taxes	**181**	**39**	**126**	**394**	**139**	**70**
Provision for taxes on operating profit	**61**	**13**	**43**	**157**	**47**	**24**
Operating profit after taxes	**120**	**26**	**83**	**237**	**92**	**46**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**-**
Net profit:						
Before attribution to non-controlling interests	**120**	**26**	**83**	**237**	**92**	**46**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**
Attributed to shareholders of the Bank	**120**	**26**	**83**	**237**	**92**	**46**
Average balance of assets[(1)]	**25,255**	**18,297**	**9,806**	**21,952**	**9,242**	**1,415**
Balance of credit to the public at the end of the reported period	**25,872**	**19,326**	**9,875**	**23,006**	**9,352**	**1,383**
Balance of deposits from the public at the end of the reported period	**-**	**56,147**	**16,559**	**22,349**	**5,852**	**20,024**

Consolidated	For the year ended December 31, 2018				
	Banking Division		Corporate Division		
	Housing loans	Other	Corporate customers	Commercial customers	Other
Net interest income	295	849	396	243	73
Non-interest income	15	650	211	77	31
Total income	310	1,499	607	320	104
Expenses (income) from credit losses	1	102	4	24	-
Operating and other expenses	125	1,382	260	166	47
Operating profit before taxes	184	15	343	130	57
Provision for taxes on operating profit	72	6	134	51	22
Operating profit after taxes	112	9	209	79	35
Bank's share in operating profit of investee company	-	-	-	-	-
Net profit:					
Before attribution to non-controlling interests	112	9	209	79	35
Attributed to non-controlling interests	-	-	-	-	-
Attributed to shareholders of the Bank	112	9	209	79	35
Average balance of assets[(1)]	23,674	16,795	21,014	7,802	1,189
Balance of credit to the public at the end of the reported period	24,301	17,285	20,905	8,060	1,194
Balance of deposits from the public at the end of the reported period	-	53,436	18,818	5,088	15,095

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

	Customer assets division	Financial Management	Subsidiaries	Adjustments Total	Of which: activity in capital market products	Total
	457	**132**	**246**	**(619)**	**(457)**	**2,602**
	755	**214**	**90**	**(663)**	**(620)**	**1,520**
	1,212	**346**	**336**	**(1,282)**	**(1,077)**	**4,122**
	(1)	**-**	**11**	**(25)**	**1**	**138**
	791	**58**	**200**	**(803)**	**(634)**	**2,654**
	422	**288**	**125**	**(454)**	**(444)**	**1,330**
	143	**98**	**46**	**(154)**	**(150)**	**478**
	279	**190**	**79**	**(300)**	**(294)**	**852**
	-	**51**	**-**	**-**	**-**	**51**
	279	**241**	**79**	**(300)**	**(294)**	**903**
	-	**-**	**(38)**	**-**	**-**	**(38)**
	279	**241**	**41**	**(300)**	**(294)**	**865**
	5,753	**48,206**	**6,952**	**(10,573)**	**(5,753)**	**136,305**
	6,221	**-**	**5,116**	**(11,322)**	**(6,221)**	**88,829**
	115,128	**-**	**6,962**	**(122,969)**	**(115,128)**	**120,052**

	Customer assets division	Financial Management	Subsidiaries	Adjustments Total	Of which: activity in capital market products	Total
	318	100	685	(473)	(318)	2,486
	673	195	416	(631)	(521)	1,637
	991	295	1,101	(1,104)	(839)	4,123
	(1)	-	49	(13)	3	166
	728	49	808	(746)	(582)	2,819
	264	246	244	(345)	(260)	1,138
	103	79	84	(143)	(109)	408
	161	167	160	(202)	(151)	730
	-	37	-	-	-	37
	161	204	160	(202)	(151)	767
	-	-	(34)	-	-	(34)
	161	204	126	(202)	(151)	733
	5,725	43,598	25,933	(10,418)	(5,725)	135,312
	6,121	-	18,316	(11,022)	(6,121)	85,160
	87,150	-	26,139	(94,029)	(87,150)	111,697

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Following are restatement of the income, assets and liabilities data for 2018 according to the attribution of the customers of former subsidiary (which was merged with and into the Bank at the beginning of 2019), in respect of the organizational structure after the said merger in 2019. The ata in respect of the expenses were not restated since it is not practical to do so. In addition, the presentation of all 2017 data in accordance to the organizational structure following the merger in 2019, is not practical.

Consolidated	For the year ended December 31, 2018					
	Banking Division			Corporate Division		
	Housing loans	Private customers	Other	Corporate customers	Commercial customers	Other
Net interest income	295	757	435	439	280	73
Non-interest income	15	597	228	215	87	31
Total income	310	1,354	663	654	367	104
Average balance of assets(1)	24,002	17,427	9,792	22,413	8,958	1,189
Balance of credit to the public at the end of the reported period	24,673	17,846	10,123	22,290	9,240	1,194
Balance of deposits from the public at the end of the reported period	-	56,184	16,113	18,991	5,520	15,095

The presentation of 2019 data in accordance to the organizational structure prior to the merger is not possible.

Consolidated	For the year ended December 31, 2017				
	Banking Division		Corporate Division		
	Housing loans	Other	Corporate customers	Commercial customers	Other
Net interest income	246	758	384	220	46
Non-interest income	15	635	227	78	30
Total income	261	1,393	611	298	76
Expenses (income) from credit losses	(2)	74	(36)	18	4
Operating and other expenses	111	1,283	277	143	45
Operating profit before taxes	152	36	370	137	27
Provision for taxes on operating profit	52	12	126	47	9
Operating profit after taxes	100	24	244	90	18
Bank's share in operating profit of investee company	-	-	-	-	-
Net profit:					
Before attribution to non-controlling interests	100	24	244	90	18
Attributed to non-controlling interests	-	-	-	-	-
Attributed to shareholders of the Bank	100	24	244	90	18
Average balance of assets(1)	22,465	15,624	20,797	7,171	665
Balance of credit to the public at the end of the reported period	22,947	16,225	20,751	7,469	816
Balance of deposits from the public at the end of the reported period	-	51,822	24,413	5,196	18,618

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

Customer assets division	Financial Management	Subsidiaries	Adjustments		Total
			Total	Of which: activity in capital market products	
371	114	223	(501)	(371)	2,486
771	254	118	(679)	(619)	1,637
1,142	368	341	(1,180)	(990)	4,123
5,738	49,832	6,392	(10,431)	(5,738)	135,312
6,134	-	4,696	(11,036)	(6,134)	85,160
106,626	-	6,673	(113,505)	(106,626)	111,697

Customer assets division	Financial Management	Subsidiaries	Adjustments	Total
219	160	639	(370)	2,302
645	127	340	(647)	1,450
864	287	979	(1,017)	3,752
(8)	-	74	(3)	121
671	40	722	(685)	2,607
201	247	183	(329)	1,024
69	85	59	(101)	358
132	162	124	(228)	666
-	54	-	-	54
132	216	124	(228)	720
-	-	(42)	-	(42)
132	216	82	(228)	678
5,102	42,891	24,277	(9,699)	129,293
5,229	-	17,695	(9,916)	81,216
91,244	-	23,987	(101,769)	113,511

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

A. Debts[1] and off-balance sheet credit instruments

Provision for credit loses

1. Change in provision for credit losses

Consolidated	For the year ended December 31, 2019					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	**489**	**119**	**260**	**868**	**-**	**868**
Expenses from credit losses	**73**	**3**	**69**	**145**	**-**	**145**
- Accounting write-offs	**(185)**	**(2)**	**(138)**	**(325)**	**-**	**(325)**
- Collection of debts written off in accounting in previous years	**168**	**1**	**73**	**242**	**-**	**242**
Net accounting write-offs	**(17)**	**(1)**	**(65)**	**(83)**	**-**	**(83)**
Provision for credit losses at end of year	**545**	**121**	**264**	**930**	**-**	**930**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**53**	**-**	**11**	**64**	**-**	**64**
Decrease in the provision	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Provision in respect of off-balance sheet credit instruments at end of year	**46**	**-**	**11**	**57**	**-**	**57**
Total provision for credit losses - debts and off-balance sheet credit instruments	**591**	**121**	**275**	**987**	**-**	**987**

Consolidated	For the year ended December 31, 2018					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	471	115	252	838	-	838
Expenses from credit losses	94	4	65	163	-	163
- Accounting write-offs	(188)	(3)	(127)	(318)	-	(318)
- Collection of debts written off in accounting in previous years	112	3	70	185	-	185
Net accounting write-offs	(76)	-	(57)	(133)	-	(133)
Provision for credit losses at end of year	489	119	260	868	-	868
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	48	-	13	61	-	61
Increase (decrease) in the provision	5	-	(2)	3	-	3
Provision in respect of off-balance sheet credit instruments at end of year	53	-	11	64	-	64
Total provision for credit losses - debts and off-balance sheet credit instruments	542	119	271	932	-	932

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

Consolidated	For the year ended December 31, 2017					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	501	115	231	847	-	847
Expenses from credit losses	66	1	64	131	-	131
- Accounting write-offs	(211)	(2)	(120)	(333)	-	(333)
- Collection of debts written off in accounting in previous years	115	1	77	193	-	193
Net accounting write-offs	(96)	(1)	(43)	(140)	-	(140)
Provision for credit losses at end of year	471	115	252	838	-	838
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	57	-	14	71	-	71
Decrease in the provision	(9)	-	(1)	(10)	-	(10)
Provision in respect of off-balance sheet credit instruments at end of year	48	-	13	61	-	61
Total provision for credit losses - debts and off-balance sheet credit instruments	519	115	265	899	-	899

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

Consolidated	For the year ended December 31, 2019					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts(1)						
Examined on an individual basis	**36,094**	**-**	**340**	**36,434**	**3,173**	**39,607**
Examined on a collective basis	**5,483**	**25,583**	**21,329**	**52,395**	**-**	**52,395**
Of which: provision for which was calculated according to the extent of arrears	**233**	**25,566**	**-**	**25,799**	**-**	**25,799**
Total debts	**41,577**	**25,583**	**21,669**	**88,829**	**3,173**	**92,002**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**485**	**-**	**38**	**523**	**-**	**523**
Examined on a collective basis	**60**	**121**	**226**	**407**	**-**	**407**
Of which: provision for which was calculated according to the extent of arrears	**2**	(2)**121**	**-**	**123**	**-**	**123**
Total provision for credit losses	**545**	**121**	**264**	**930**	**-**	**930**

Consolidated	For the year ended December 31, 2018					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts(1)						
Examined on an individual basis	34,961	-	306	35,267	3,616	38,883
Examined on a collective basis	5,098	24,319	20,476	49,893	-	49,893
Of which: provision for which was calculated according to the extent of arrears	309	24,312	-	24,621	-	24,621
Total debts	40,059	24,319	20,782	85,160	3,616	88,776
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	420	-	30	450	-	450
Examined on a collective basis	69	119	230	418	-	418
Of which: provision for which was calculated according to the extent of arrears	2	(2)119	-	121	-	121
Total provision for credit losses	489	119	260	868	-	868

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of NIS 89 million (31.12.18 - NIS 85 million).
(3) The balance of commercial debts include housing loans in the amount of NIS 2,718 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.18 - NIS 2,875 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2019					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	**390**	**116**	**148**	**654**	**-**	**654**
Merging a subsidiary	**87**	**3**	**70**	**160**	**-**	**160**
Expenses from credit losses	**71**	**3**	**60**	**134**	**-**	**134**
- Accounting write-offs	**(183)**	**(2)**	**(125)**	**(310)**	**-**	**(310)**
- Collection of debts written off in accounting in previous years	**166**	**1**	**66**	**233**	**-**	**233**
Net accounting write-offs	**(17)**	**(1)**	**(59)**	**(77)**	**-**	**(77)**
Provision for credit losses at end of year	**531**	**121**	**219**	**871**	**-**	**871**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**50**	**-**	**7**	**57**	**-**	**57**
Merging a subsidiary	**4**	**-**	**1**	**5**	**-**	**5**
Decrease in the provision	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Provision in respect of off-balance sheet credit instruments at end of year	**47**	**-**	**8**	**55**	**-**	**55**
Total provision for credit losses - debts and off-balance sheet credit instruments	**578**	**121**	**227**	**926**	**-**	**926**

The Bank	For the year ended December 31, 2018					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	356	112	139	607	-	607
Expenses from credit losses	60	4	50	114	-	114
- Accounting write-offs	(107)	(2)	(79)	(188)	-	(188)
- Collection of debts written off in accounting in previous years	81	2	38	121	-	121
Net accounting write-offs	(26)	-	(41)	(67)	-	(67)
Provision for credit losses at end of year	390	116	148	654	-	654
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	46	-	8	54	-	54
Increase (decrease) in the provision	4	-	(1)	3	-	3
Provision in respect of off-balance sheet credit instruments at end of year	50	-	7	57	-	57
Total provision for credit losses - debts and off-balance sheet credit instruments	440	116	155	711	-	711

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2017					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	407	113	133	653	-	653
Expenses in respect of credit losses	17	-	38	55	-	55
- Accounting write-offs	(151)	(2)	(69)	(222)	-	(222)
- Collection of debts written off in accounting in previous years	83	1	37	121	-	121
Net accounting write-offs	(68)	(1)	(32)	(101)	-	(101)
Provision for credit losses at end of year	356	112	139	607	-	607
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	53	-	9	62	-	62
Decrease in the provision	(7)	-	(1)	(8)	-	(8)
Provision in respect of off-balance sheet credit instruments at end of year	46	-	8	54	-	54
Total provision for credit losses - debts and off-balance sheet credit instruments	402	112	147	661	-	661

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

The Bank	For the year ended December 31, 2019					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts(1)						
Examined on an individual basis	**35,225**	**-**	**308**	**35,533**	**2,769**	**38,302**
Examined on a collective basis	**5,371**	**25,583**	**17,226**	**48,180**	**-**	**48,180**
Of which: provision for which was calculated according to the extent of arrears	**233**	**25,566**	**-**	**25,799**	**-**	**25,799**
Total debts	**40,596**	**25,583**	**17,534**	**83,713**	**2,769**	**86,482**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**472**	**-**	**33**	**505**	**-**	**505**
Examined on a collective basis	**59**	**121**	**186**	**366**	**-**	**366**
Of which: provision for which was calculated according to the extent of arrears	**2**	(2)**121**	**-**	**123**	**-**	**123**
Total provision for credit losses	**531**	**121**	**219**	**871**	**-**	**871**

The Bank	For the year ended December 31, 2018					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts(1)						
Examined on an individual basis	31,704	-	64	31,768	3,527	35,295
Examined on a collective basis	3,475	23,948	7,655	35,078	-	35,078
Of which: provision for which was calculated according to the extent of arrears	309	23,948	-	24,257	-	24,257
Total debts	35,179	23,948	7,719	66,846	3,527	70,373
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	352	-	17	369	-	369
Examined on a collective basis	38	116	131	285	-	285
Of which: provision for which was calculated according to the extent of arrears	2	(2)116	-	118	-	118
Total provision for credit losses	390	116	148	654	-	654

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of NIS 89 million (31.12.18 - NIS 83 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,838 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.18 - NIS 2,619 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts[1]

1. Credit quality and arrears (Cont.)

Consolidated						December 31, 2019
		Problematic[2]			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	5,240	29	41	5,310	14	15
Construction and real estate - real estate activities	5,273	14	21	5,308	1	4
Financial services	7,985	6	3	7,994	-	25
Commercial - other	21,692	506	480	22,678	22	34
Total commercial	40,190	555	545	41,290	37	78
Private individuals - housing loans	25,355	[6]218	10	25,583	186	218
Private individuals - others	21,354	169	146	21,669	26	57
Total public - activity in Israel	86,899	942	701	88,542	249	353
Banks in Israel	964	-	-	964	-	-
Israeli government	1,039	-	-	1,039	-	-
Total activity in Israel	88,902	942	701	90,545	249	353
Borrower activity abroad						
Public - commercial						
Construction and real estate	14	-	8	22	-	-
Other commercial	265	-	-	265	-	-
Total commercial	279	-	8	287	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	279	-	8	287	-	-
Banks abroad	1,170	-	-	1,170	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,449	-	8	1,457	-	-
Total public	87,178	942	709	88,829	249	353
Total banks	2,134	-	-	2,134	-	-
Total governments	1,039	-	-	1,039	-	-
Total	90,351	942	709	92,002	249	353

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in problematic debt restructuring, see Note 29.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of NIS 135 million (31.12.18 - NIS 160 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of NIS 19 million (31.12.18 - NIS 3 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont.)

1. Credit quality and arrears (Cont.)

Consolidated	December 31, 2018					
		Problematic[2]			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	4,491	30	38	4,559	5	12
Construction and real estate - real estate activities	5,058	3	23	5,084	1	-
Financial services	8,505	21	1	8,527	-	8
Commercial - other	20,766	626	297	21,689	22	80
Total commercial	38,820	680	359	39,859	28	100
Private individuals - housing loans	24,121	[6]192	6	24,319	185	235
Private individuals - others	20,421	267	94	20,782	30	60
Total public - activity in Israel	83,362	1,139	459	84,960	243	395
Banks in Israel	1,206	-	-	1,206	-	-
Israeli government	700	-	-	700	-	-
Total activity in Israel	85,268	1,139	459	86,866	243	395
Borrower activity abroad						
Public - commercial						
Construction and real estate	-	-	8	8	-	-
Other commercial	192	-	-	192	-	-
Total commercial	192	-	8	200	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	192	-	8	200	-	-
Banks abroad	1,710	-	-	1,710	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,902	-	8	1,910	-	-
Total public	83,554	1,139	467	85,160	243	395
Total banks	2,916	-	-	2,916	-	-
Total governments	700	-	-	700	-	-
Total	87,170	1,139	467	88,776	243	395

Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts which are evaluated on an individual basis, are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears. In addition, debts restructuring of problematic debts, are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts

Consolidated					December 31, 2019
A Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Balance of Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	30	10	11	41	901
Construction and real estate - real estate activities	8	2	13	21	809
Financial services	3	1	-	3	1,023
Commercial - other	449	156	31	480	2,108
Total commercial	490	169	55	545	4,841
Private individuals - housing loans	-	-	10	10	11
Private individuals - others	132	35	14	146	252
Total public - activity in Israel	622	204	79	701	5,104
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	622	204	79	701	5,104
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	8	8	8
Other commercial	-	-	-	-	15
Total commercial	-	-	8	8	23
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	23
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	23
Total public	622	204	87	709	5,127
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	622	204	87	709	5,127
Of which:					
Measured at the present value of cash flows	614	204	40	654	
Debts in problematic debt restructuring	217	42	31	248	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated					December 31, 2018
A Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Balance of Individual provision[3]	Balance[2] of impaired debts for which no individual provision exists[3]	Total Balance[2] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	25	10	13	38	869
Construction and real estate - real estate activities	5	1	18	23	700
Financial services	1	-	-	1	896
Commercial - other	273	110	24	297	1,700
Total commercial	304	121	55	359	4,165
Private individuals - housing loans	-	-	6	6	6
Private individuals - others	86	23	8	94	192
Total public - activity in Israel	390	144	69	459	4,363
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	390	144	69	459	4,363
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	8	8	8
Other commercial	-	-	-	-	62
Total commercial	-	-	8	8	70
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	70
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	70
Total public	390	144	77	467	4,433
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	390	144	77	467	4,433
Of which:					
Measured at the present value of cash flows	379	144	27	406	
Debts in problematic debt restructuring	200	68	33	233	

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	For the year ended December 31,								
	2019			2018			2017		
B. Average balance and interest income	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis
Borrower activity in Israel									
Public - commercial									
Construction and real estate - construction	**38**	**-**	**-**	47	-	-	50	-	-
Construction and real estate - real estate activities	**22**	**-**	**-**	36	1	1	35	-	-
Financial services	**2**	**-**	**-**	2	-	-	92	4	4
Commercial - other	**396**	**2**	**1**	324	3	2	340	5	3
Total commercial	**458**	**2**	**1**	409	4	3	517	9	7
Private individuals - housing loans	**9**	**-**	**-**	7	-	-	13	-	-
Private individuals - others	**112**	**2**	**-**	89	3	1	84	2	1
Total public - activity in Israel	**579**	**4**	**1**	505	7	4	614	11	8
Banks in Israel	**-**	**-**	**-**	-	-	-	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-	-	-	-
Total activity in Israel	**579**	**4**	**1**	505	7	4	614	11	8
Borrower activity abroad									
Public - commercial									
Construction and real estate	**8**	**-**	**-**	8	-	-	8	-	-
Other commercial	**-**	**-**	**-**	-	-	-	-	-	-
Total commercial	**8**	**-**	**-**	8	-	-	8	-	-
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**8**	**-**	**-**	8	-	-	8	-	-
Banks abroad	**-**	**-**	**-**	-	-	-	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total activity abroad	**8**	**-**	**-**	8	-	-	8	-	-
Total public	**587**	**4**	**1**	513	7	4	622	11	8
Total banks	**-**	**-**	**-**	-	-	-	-	-	-
Total governments	**-**	**-**	**-**	-	-	-	-	-	-
Total	**587**	(4)**4**	**1**	513	(4)7	4	622	(4)11	8

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Average recorded debt balance of impaired debts in the reported period.
(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.
(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 30 million was recorded in the year ended December 31, 2019 (2018 - NIS 36 million, 2017 - NIS 41 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	December 31, 2019				
	Recorded debt balance				
C. Problematic debt restructuring	Not accruing interest income	accruing(2) in arrears of 90 days or more	accruing(2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**8**	**-**	**-**	**4**	**12**
Construction and real estate - real estate activities	**3**	**-**	**-**	**4**	**7**
Financial services	**2**	**-**	**-**	**-**	**2**
Commercial - other	**89**	**-**	**-**	**22**	**111**
Total commercial	**102**	**-**	**-**	**30**	**132**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**79**	**-**	**-**	**29**	**108**
Total public - activity in Israel	**181**	**-**	**-**	**59**	**240**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**181**	**-**	**-**	**59**	**240**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**8**	**-**	**-**	**-**	**8**
Other commercial	**-**	**-**	**-**	**-**	**-**
Total commercial	**8**	**-**	**-**	**-**	**8**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**8**	**-**	**-**	**-**	**8**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**8**	**-**	**-**	**-**	**8**
Total public	**189**	**-**	**-**	**59**	**248**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**189**	**-**	**-**	**59**	**248**

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	December 31, 2018				
	Recorded debt balance				
C. Problematic debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing[2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	6	-	-	5	11
Construction and real estate - real estate activities	2	-	-	4	6
Financial services	1	-	-	-	1
Commercial - other	108	-	-	16	124
Total commercial	117	-	-	25	142
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	59	-	-	24	83
Total public - activity in Israel	176	-	-	49	225
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	176	-	-	49	225
Borrower activity abroad					
Public - commercial					
Construction and real estate	8	-	-	-	8
Other commercial	-	-	-	-	-
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	184	-	-	49	233
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	184	-	-	49	233

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	Restructuring made								
	For the year ended December 31,								
	2019			2018			2017		
C. Problematic debt restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring
Borrower activity in Israel									
Public - commercial									
Construction and real estate - construction	**37**	**10**	**10**	30	6	6	30	25	25
Construction and real estate - real estate activities	**5**	**1**	**1**	3	-	-	7	2	2
Financial services	**5**	**3**	**3**	6	1	1	5	227	227
Commercial - other	**339**	**71**	**71**	301	71	70	250	107	97
Total commercial	**386**	**85**	**85**	340	78	77	292	361	351
Private individuals - housing loans	**-**	**-**	**-**	-	-	-	-	-	-
Private individuals - others	**1,528**	**74**	**71**	1,284	56	54	1,036	48	46
Total public - activity in Israel	**1,914**	**159**	**156**	1,624	134	131	1,328	409	397
Banks in Israel	**-**	**-**	**-**	-	-	-	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-	-	-	-
Total activity in Israel	**1,914**	**159**	**156**	1,624	134	131	1,328	409	397
Borrower activity abroad									
Public - commercial									
Construction and real estate	**-**	**-**	**-**	-	-	-	-	-	-
Other commercial	**-**	**-**	**-**	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	-	-	-	-	-	-
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-	-	-	-
Banks abroad	**-**	**-**	**-**	-	-	-	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total public	**1,914**	**159**	**156**	1,624	134	131	1,328	409	397
Total banks	**-**	**-**	**-**	-	-	-	-	-	-
Total governments	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,914**	**159**	**156**	1,624	134	131	1,328	409	397

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	Restructuring failed (2)					
	For the year ended December 31,					
	2019		2018		2017	
C. Problematic debt restructuring	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**15**	**2**	18	1	10	-
Construction and real estate - real estate activities	**1**	**1**	3	-	-	-
Financial services	**2**	**-**	1	1	2	-
Commercial - other	**165**	**18**	141	16	99	9
Total commercial	**183**	**21**	163	18	111	9
Private individuals - housing loans	**-**	**-**	-	-	-	-
Private individuals - others	**561**	**16**	547	13	416	9
Total public - activity in Israel	**744**	**37**	710	31	527	18
Banks in Israel	**-**	**-**	-	-	-	-
Israeli government	**-**	**-**	-	-	-	-
Total activity in Israel	**744**	**37**	710	31	527	18
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	-	-	-	-
Other commercial	**-**	**-**	-	-	-	-
Total commercial	**-**	**-**	-	-	-	-
Private individuals	**-**	**-**	-	-	-	-
Total public - activity abroad	**-**	**-**	-	-	-	-
Banks abroad	**-**	**-**	-	-	-	-
Governments abroad	**-**	**-**	-	-	-	-
Total activity abroad	**-**	**-**	-	-	-	-
Total public	**744**	**37**	710	31	527	18
Total banks	**-**	**-**	-	-	-	-
Total governments	**-**	**-**	-	-	-	-
Total	**744**	**37**	710	31	527	18

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

				December 31, 2019
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	**17,495**	**235**	**10,516**	**1,481**
LTV - Over 60%	**7,625**	**71**	**4,705**	**738**
Secondary lien or no lien	**463**	**127**	**368**	**1**
Total	**25,583**	**433**	**15,589**	**2,220**

				December 31, 2018
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	16,859	287	10,126	899
LTV - Over 60%	7,078	71	4,487	411
Secondary lien or no lien	382	108	362	-
Total	24,319	466	14,975	1,310

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (Cont'd)

4. Syndication and participation in the syndication of loans

	December 31, 2019					
	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Mining and excavation	**-**	**-**	**-**	**-**	**169**	**90**
Industry	**55**	**-**	**55**	**-**	**189**	**91**
Electricity supply	**-**	**-**	**-**	**-**	**386**	**-**
Construction and real estate	**20**	**-**	**20**	**-**	**176**	**488**
Financial services	**1**	**-**	**1**	**-**	**58**	**-**
Commercial - other	**189**	**-**	**189**	**-**	**129**	**164**
Total commercial	**265**	**-**	**265**	**-**	**1,107**	**833**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**-**	**-**	**-**	**-**	**-**	**-**
Total	**265**	**-**	**265**	**-**	**1,107**	**833**

	December 31, 2018					
	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Mining and excavation	-	-	-	-	-	281
Industry	58	-	58	-	222	68
Electricity supply	-	-	-	-	445	152
Construction and real estate	21	-	21	-	196	222
Financial services	1	-	1	-	65	-
Commercial - other	178	-	178	-	6	103
Total commercial	258	-	258	-	934	826
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - others	-	-	-	-	-	-
Total	258	-	258	-	934	826

(1) Including where the Bank has provided material service in the syndication transaction.
(2) Credit risk relating to off-balance sheet financial instruments, as computed for the purpose of restrictions on indebtedness of a single borrower, excluding in respect of derivative instruments.

5. Purchase of credit to the public

Commercial credit to the public that was purchased during 2019 amounts to NIS 3,546 million (2018 - NIS 3,361 million), of which: problematic credit in the amout of NIS 9 million (2018 - NIS 4 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

C. Classification of Credit and Credit Risk of Off-Balance Sheet Items by Size of Borrowers

Consolidated		December 31, 2019			December 31, 2018		
Size of credit per borrower		Number of borrowers(4)	Credit(1)(2)	Off-balance sheet credit risk (1)(3)	Number of borrowers (5)	Credit(1)(2)	Off-balance sheet credit risk (1)(3)
NIS thousands				NIS million			NIS million
	Up to 10	**195,556**	**283**	**616**	198,485	269	778
From 10	to 20	**77,281**	**415**	**844**	77,223	414	838
From 20	to 40	**98,123**	**1,177**	**1,879**	97,475	1,165	1,889
From 40	to 80	**105,484**	**3,182**	**3,102**	105,120	3,172	3,169
From 80	to 150	**83,259**	**6,233**	**3,101**	82,508	6,216	3,139
From 150	to 300	**53,630**	**8,726**	**2,485**	53,908	8,867	2,511
From 300	to 600	**28,006**	**10,414**	**1,666**	28,159	10,647	1,452
From 600	to 1,200	**21,265**	**15,309**	**2,485**	18,924	13,904	1,745
From 1,200	to 2,000	**4,733**	**5,766**	**1,288**	3,758	4,770	832
From 2,000	to 4,000	**1,826**	**3,876**	**1,096**	1,781	3,832	1,048
From 4,000	to 8,000	**942**	**3,828**	**1,478**	961	3,997	1,400
From 8,000	to 20,000	**660**	**6,216**	**2,045**	660	6,018	2,161
From 20,000	to 40,000	**243**	**4,823**	**1,995**	237	4,782	1,744
From 40,000	to 200,000	**227**	**13,785**	**5,412**	218	11,480	5,886
From 200,000	to 400,000	**20**	**3,307**	**2,144**	26	4,246	2,593
From 400,000	to 800,000	**4**	**2,057**	**670**	3	1,362	172
From 800,000	to 1,200,000	**2**	(5)**1,705**	(5)**279**	2	1,030	744
Over 2,000,000		**-**	**-**	**-**	1	(5)1,999	(5)224
Total		**671,261**	**91,102**	**32,585**	669,449	88,170	32,325

(1) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.

(2) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 88,829 million, NIS 1,628 million and NIS 645 million, respectively (31.12.2018 - NIS 85,160 million, NIS 1,929 million and NIS 1,081 million, respectively).

(3) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.

(4) The number of borrowers according to the total credit and off-balance sheet credit risk.

(5) The total of credit and off-balance sheet credit risk, less collateral eligible for deduction for the purpose of limitation on indebtedness of a single borrower, amounts to NIS 814 million (31.12.2018 - NIS 763 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

D. Off-balance sheet financial instruments

	Consolidated				The Bank			
	Balance of contracts(1)		Balance of provision for credit losses		Balance of contracts(1)		Balance of provision for credit losses	
	December 31				December 31			
	2019	2018	2019	2018	2019	2018	2019	2018
Transactions the balance of which represents credit risk:								
Documentary credit	**135**	281	**-**	1	**133**	279	**-**	1
Guarantees securing credit	**914**	881	**6**	8	**633**	554	**6**	7
Guarantees to home purchasers	**2,325**	2,716	**5**	5	**2,292**	2,548	**4**	5
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	**-**	-	**-**	-	**2**	17	**-**	-
Guarantees and other liabilities	**4,140**	4,020	**20**	23	**4,015**	3,653	**19**	22
Unutilized credit lines for derivatives instruments	**2,268**	2,405	**-**	-	**2,267**	2,404	**-**	-
Unutilized revolving credit and other on-call credit facilities	**9,463**	9,422	**13**	11	**8,694**	6,900	**13**	10
Irrevocable commitments to grant credit, not yet executed	**5,197**	5,273	**4**	7	**5,140**	3,742	**4**	5
Unutilized credit lines for credit card facilities	**7,923**	7,624	**4**	4	**6,999**	3,792	**4**	3
Facilities for the lending of securities	**277**	248	**-**	-	**277**	248	**-**	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25(D,E)).	**172**	143	**-**	-	**172**	143	**-**	-
Commitments to issue guarantees	**1,511**	1,406	**5**	5	**1,473**	1,096	**5**	4

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self-undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

E. Guaranties

The Bank provides to its customers a large variety of guaranties and letters of indemnity in order to improve their credit ability and allow them to consummate different types of transactions. In the case of certain contracts that match the definition of guaranty, the Bank recognizes at the initial recognition date, a liability in the amount of the fair value of the obligation in respect of the guarantee on date of issue thereof. The maximum amount of the future potential payments is determined in accordance with the stated amount of the guaranty, without taking into account possible repayments or held or pledged collateral.

On December 31, 2019, the total written down cost of the liabilities in respect of guaranties, as detailed in the Tables below, amounts to NIS 33 million (as of December 31, 2018 - NIS 32 million). The written down cost of financial and execution guaranties is included in the item "other liabilities".

1. General

	Maximum amount of future potential payments									
	December 31, 2019					December 31, 2018				
	Expiry in one year or less	Expiry from one to three years	Expiry over three and up to five years	Total amount	Outstanding book balance	Expiry in one year or less	Expiry from one to three years	Expiry over three and up to five years	Total amount	Outstanding book balance
					NIS million					NIS million
Guaranties securing credit	**666**	**232**	**16**	**914**	**5**	649	218	14	881	4
Guaranties to home purchasers	**2,097**	**191**	**37**	**2,325**	**9**	1,776	752	188	2,716	11
Other guarantees and obligations	**3,328**	**726**	**393**	**4,447**	**19**	3,429	570	445	4,444	17
Commitments to issue guaranties	**586**	**482**	**443**	**1,511**	**-**	471	331	604	1,406	-
Total guaranties	**6,677**	**1,631**	**889**	**9,197**	**33**	6,325	1,871	1,251	9,447	32

2. Guaranty risk assessment

	Maximum amount of future potential payments							
	December 31, 2019				December 31, 2018			
	Rated in accordance with investment rating	Rated not in accordance with investment rating	Not rated	Total amount	Rated in accordance with investment rating	Rated not in accordance with investment rating	Not rated	Total amount
				NIS million				NIS million
Guaranties securing credit	**880**	**28**	**6**	**914**	837	20	24	881
Guaranties to home purchasers	**2,262**	**63**	**-**	**2,325**	2,697	19	-	2,716
Other guarantees and obligations	**4,300**	**83**	**64**	**4,447**	4,140	190	114	4,444
Commitments to issue guaranties	**1,434**	**25**	**52**	**1,511**	1,376	2	28	1,406
Total guaranties	**8,876**	**199**	**122**	**9,197**	9,050	231	166	9,447

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES
(NIS million)

Consolidated							**December 31, 2019**
	Israeli currency		**Foreign currency(1)**				
	Non-linked	**Linked to the consumer price index**	**U.S. dollar**	**Euro**	**Other**	**Non-monetary items(2)**	**Total**
Assets							
Cash and deposits with banks	**36,131**	**-**	**1,067**	**175**	**157**	**-**	**37,530**
Securities	**3,634**	**349**	**4,975**	**1,698**	**-**	**339**	**10,995**
Securities which were borrowed	**9**	**-**	**-**	**-**	**-**	**-**	**9**
Credit to the public, net(3)	**73,316**	**10,273**	**2,968**	**607**	**89**	**646**	**87,899**
Credit to the government	**415**	**624**	**-**	**-**	**-**	**-**	**1,039**
Investee company	**-**	**-**	**-**	**-**	**-**	**605**	**605**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**996**	**996**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**248**	**248**
Assets in respect of derivative instruments	**425**	**50**	**107**	**40**	**18**	**451**	**1,091**
Other assets	**649**	**4**	**10**	**1**	**-**	**34**	**698**
Total assets	**114,579**	**11,300**	**9,127**	**2,521**	**264**	**3,319**	**141,110**
Liabilities							
Deposits from the public	**94,780**	**5,315**	**15,124**	**3,059**	**1,126**	**648**	**120,052**
Deposits from banks	**885**	**-**	**225**	**18**	**9**	**-**	**1,137**
Deposits from the Government	**308**	**1**	**42**	**1**	**1**	**-**	**353**
Bonds and subordinated capital notes	**476**	**3,198**	**-**	**-**	**-**	**-**	**3,674**
Liabilities in respect of derivative instruments	**499**	**12**	**174**	**102**	**11**	**449**	**1,247**
Other liabilities	**5,536**	**75**	**32**	**4**	**1**	**75**	**5,723**
Total liabilities	**102,484**	**8,601**	**15,597**	**3,184**	**1,148**	**1,172**	**132,186**
Difference	**12,095**	**2,699**	**(6,470)**	**(663)**	**(884)**	**2,147**	**8,924**
Non-hedging derivatives							
Derivative instruments (not including options)	**(8,182)**	**81**	**6,346**	**842**	**913**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**144**	**-**	**(7)**	**(137)**	**-**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(98)**	**-**	**114**	**(16)**	**-**	**-**	**-**
Total	**3,959**	**2,780**	**(17)**	**26**	**29**	**2,147**	**8,924**
Options in the money, net (present value of stated amount)	**255**	**-**	**(32)**	**(223)**	**-**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(1,103)**	**-**	**704**	**399**	**-**	**-**	**-**

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

Consolidated	December 31, 2018						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	29,326	-	1,570	216	191	-	31,303
Securities	4,250	712	5,632	1,761	13	227	12,595
Securities which were borrowed	863	-	-	-	-	-	863
Credit to the public, net[3]	69,600	10,073	3,161	808	96	554	84,292
Credit to the government	71	622	7	-	-	-	700
Investee companies	-	-	-	-	-	606	606
Premises and equipment	-	-	-	-	-	1,023	1,023
Intangible assets	-	-	-	-	-	239	239
Assets in respect of derivative instruments	135	47	477	58	30	652	1,399
Other assets	653	5	13	3	1	425	1,100
Total assets	104,898	11,459	10,860	2,846	331	3,726	134,120
Liabilities							
Deposits from the public	86,317	5,858	14,845	3,004	1,119	554	111,697
Deposits from banks	1,003	-	121	23	3	-	1,150
Deposits from the Government	705	225	49	2	1	-	982
Bonds and subordinated capital notes	712	4,277	-	-	-	-	4,989
Liabilities in respect of derivative instruments	151	13	410	61	8	651	1,294
Other liabilities	4,918	137	64	12	6	458	5,595
Total liabilities	93,806	10,510	15,489	3,102	1,137	1,663	125,707
Difference	11,092	949	(4,629)	(256)	(806)	2,063	8,413
Non-hedging derivatives:							
Derivative instruments (not including options)	(5,198)	96	4,151	96	855	-	-
Options in the money, net (in terms of underlying asset)	(139)	-	36	99	4	-	-
Options out of the money, net (in terms of underlying asset)	(251)	-	245	5	1	-	-
Total	5,504	1,045	(197)	(56)	54	2,063	8,413
Options in the money, net (present value of stated amount)	(254)	-	106	142	6	-	-
Options out of the money, net (present value of stated amount)	(876)	-	551	327	(2)	-	-

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)
(NIS million)

The bank							December 31, 2019
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	34,889	297	1,066	174	102	-	36,528
Securities	3,511	332	4,961	1,593	-	339	10,736
Securities which were borrowed	9	-	-	-	-	-	9
Credit to the public, net(3)	68,414	10,134	2,960	599	89	646	82,842
Credit to the government	415	-	-	-	-	-	415
Investee companies	-	-	-	-	-	1,278	1,278
Premises and equipment	-	-	-	-	-	964	964
Intangible assets	-	-	-	-	-	238	238
Assets in respect of derivative instruments	426	50	107	44	18	451	1,096
Other assets	621	2	10	-	-	34	667
Total assets	108,285	10,815	9,104	2,410	209	3,950	134,773
Liabilities							
Deposits from the public	89,389	5,881	14,877	2,926	1,115	648	114,836
Deposits from banks	1,822	187	454	33	144	-	2,640
Deposits from the Government	308	1	42	1	1	-	353
Bonds and subordinated capital notes	11	2,044	-	-	-	-	2,055
Liabilities in respect of derivative instruments	499	12	174	102	11	449	1,247
Other liabilities	4,892	72	31	4	-	75	5,074
Total liabilities	96,921	8,197	15,578	3,066	1,271	1,172	126,205
Difference	11,364	2,618	(6,474)	(656)	(1,062)	2,778	8,568
Non-hedging derivatives:							
Derivative instruments (not including options)	(8,174)	81	6,346	834	913	-	-
Options in the money, net (in terms of underlying asset)	144	-	(7)	(137)	-	-	-
Options out of the money, net (in terms of underlying asset)	(98)	-	114	(16)	-	-	-
Total	3,236	2,699	(21)	25	(149)	2,778	8,568
Options in the money, net (present value of stated amount)	255	-	(32)	(223)	-	-	-
Options out of the money, net (present value of stated amount)	(1,103)	-	704	399	-	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2018
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	28,721	302	1,561	209	112	-	30,905
Securities	3,537	268	5,180	1,398	13	224	10,620
Securities which were borrowed	863	-	-	-	-	-	863
Credit to the public, net[3]	52,345	9,704	2,819	713	58	553	66,192
Credit to the Government	-	-	7	-	-	-	7
Investee companies	61	209	-	-	-	2,608	2,878
Premises and equipment	-	-	-	-	-	960	960
Intangible assets and goodwill	-	-	-	-	-	226	226
Assets in respect of derivative instruments	138	46	480	70	30	652	1,416
Other assets	500	-	14	2	-	413	929
Total assets	86,165	10,529	10,061	2,392	213	5,636	114,996
Liabilities							
Deposits from the public	64,423	5,214	13,360	2,452	1,035	554	87,038
Deposits from banks	9,164	585	797	127	179	-	10,852
Deposits from the Government	506	225	46	-	-	-	777
Bonds and subordinated capital notes	-	3,455	-	-	-	-	3,455
Liabilities in respect of derivative instruments	151	13	415	61	8	650	1,298
Other liabilities	2,847	126	48	8	1	453	3,483
Total liabilities	77,091	9,618	14,666	2,648	1,223	1,657	106,903
Difference	9,074	911	(4,605)	(256)	(1,010)	3,979	8,093
Non-hedging derivatives:							
Derivative instruments (not including options)	(5,198)	96	4,137	96	869	-	-
Options in the money, net (in terms of underlying asset)	(139)	-	36	99	4	-	-
Options out of the money, net (in terms of underlying asset)	(251)	-	245	5	1	-	-
Total	3,486	1,007	(187)	(56)	(136)	3,979	8,093
Options in the money, net (present value of stated amount)	(254)	-	106	142	6	-	-
Options out of the money, net (present value of stated amount)	(876)	-	551	327	(2)	-	-

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1)

Consolidated	Future expected cash flows				
	December 31, 2019				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**52,413**	**4,885**	**17,241**	**10,355**	**8,708**
Liabilities	**83,341**	**12,002**	**6,985**	**2,099**	**1,332**
Difference	**(30,928)**	**(7,117)**	**10,256**	**8,256**	**7,376**
Derivative instruments (except options)	**(4,180)**	**(2,556)**	**(1,471)**	**(33)**	**42**
Options (in terms of underlying assets)	**(139)**	**(25)**	**247**	**8**	**-**
Difference after effect of derivative instruments	**(35,247)**	**(9,698)**	**9,032**	**8,231**	**7,418**
Foreign currency					
Assets	**3,134**	**1,354**	**2,735**	**679**	**519**
Liabilities	**16,409**	**1,937**	**1,299**	**94**	**68**
Difference	**(13,275)**	**(583)**	**1,436**	**585**	**451**
Of which: Difference in U.S. dollar	**(9,882)**	**(693)**	**1,468**	**506**	**385**
Of which: Difference in respect of foreign operations	**178**	**-**	**-**	**-**	**-**
Derivative instruments (except options)	**4,180**	**2,556**	**1,471**	**33**	**(42)**
Options (in terms of underlying assets)	**139**	**25**	**(247)**	**(8)**	**-**
Difference after effect of derivative instruments	**(8,956)**	**1,998**	**2,660**	**610**	**409**
Total					
Assets*	**55,547**	**6,239**	**19,976**	**11,034**	**9,227**
Liabilities**	**99,750**	**13,939**	**8,284**	**2,193**	**1,400**
Difference	**(44,203)**	**(7,700)**	**11,692**	**8,841**	**7,827**
* Of which: Credit to the public	**18,242**	**5,707**	**15,464**	**10,204**	**8,026**
** Of which: Deposits from the public	**95,670**	**12,828**	**6,530**	**1,074**	**886**

	December 31, 2018				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	49,504	6,701	20,084	11,546	8,978
Liabilities	93,012	10,734	12,941	2,947	1,804
Difference	(43,508)	(4,033)	7,143	8,599	7,174

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.
(2) Including overdue amounts of NIS 276 million (31.12.18 - NIS 336 million).
(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.
(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.
(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 4,649 million (31.12.2018 - NIS 4,994 million). Credit in excess of credit facility in the amount NIS 215 million, classified without maturity date (31.12.2018 - NIS 274 million).

						Balance-sheet balance [3]		
Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows[5]	Without maturity date[2][5]	Total	Contractual return rate[4]
							NIS million	Percent
7,417	**5,434**	**16,001**	**11,614**	**2,829**	**136,897**	**220**	**126,078**	**2.83**
907	**1,208**	**3,564**	**312**	**96**	**111,846**	**123**	**111,201**	**1.22**
6,510	**4,226**	**12,437**	**11,302**	**2,733**	**25,051**	**97**	**14,877**	
-	**-**	**-**	**-**	**-**	**(8,198)**	**-**	**(8,101)**	
-	**-**	**-**	**-**	**-**	**91**	**-**	**46**	
6,510	**4,226**	**12,437**	**11,302**	**2,733**	**16,944**	**97**	**6,822**	
605	**1,266**	**1,929**	**9**	**-**	**12,230**	**70**	**11,713**	**1.76**
58	**47**	**104**	**-**	**-**	**20,016**	**-**	**19,813**	**2.04**
547	**1,219**	**1,825**	**9**	**-**	**(7,786)**	**70**	**(8,100)**	
487	**147**	**1,312**	**9**	**-**	**(6,261)**	**66**	**(6,543)**	
-	**-**	**-**	**-**	**-**	**178**	**-**	**178**	
-	**-**	**-**	**-**	**-**	**8,198**	**-**	**8,101**	
-	**-**	**-**	**-**	**-**	**(91)**	**-**	**(46)**	
547	**1,219**	**1,825**	**9**	**-**	**321**	**70**	**(45)**	
8,022	**6,700**	**17,930**	**11,623**	**2,829**	**149,127**	**290**	**137,791**	**2.76**
965	**1,255**	**3,668**	**312**	**96**	**131,862**	**123**	**131,014**	**1.24**
7,057	**5,445**	**14,262**	**11,311**	**2,733**	**17,265**	**167**	**6,777**	
6,088	**5,075**	**14,745**	**11,522**	**2,549**	**97,622**	**276**	**87,253**	**2.93**
434	**1,034**	**1,093**	**80**	**-**	**119,629**	**-**	**119,404**	**0.78**

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows[5]	Without maturity date[2][5]	Total	Contractual return rate[4]
							NIS million	Percent
7,498	5,859	18,582	11,272	2,491	142,515	346	130,394	2.80
1,168	570	2,034	745	58	126,013	115	124,044	0.94
6,330	5,289	16,548	10,527	2,433	16,502	231	6,350	

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) (CONT'D)

The bank	Future expected cash flows				
	December 31, 2019				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**51,756**	**4,506**	**14,934**	**9,358**	**7,750**
Liabilities	**78,747**	**11,443**	**6,205**	**2,049**	**1,324**
Difference	**(26,991)**	**(6,937)**	**8,729**	**7,309**	**6,426**
Derivative instruments (except options)	**(4,173)**	**(2,556)**	**(1,471)**	**(33)**	**42**
Options (in terms of underlying assets)	**(139)**	**(25)**	**247**	**8**	**-**
Difference after effect of derivative instruments	**(31,303)**	**(9,518)**	**7,505**	**7,284**	**6,468**
Foreign currency					
Assets	**3,239**	**1,304**	**2,608**	**676**	**510**
Liabilities	**16,406**	**1,931**	**1,293**	**95**	**69**
Difference	**(13,167)**	**(627)**	**1,315**	**581**	**441**
Of which: Difference in U.S. dollar	**(9,710)**	**(734)**	**1,349**	**505**	**378**
Derivative instruments (except options)	**4,173**	**2,556**	**1,471**	**33**	**(42)**
Options (in terms of underlying assets)	**139**	**25**	**(247)**	**(8)**	**-**
Difference after effect of derivative instruments	**(8,855)**	**1,954**	**2,539**	**606**	**399**
Total					
Assets*	**54,995**	**5,810**	**17,542**	**10,034**	**8,260**
Liabilities**	**95,153**	**13,374**	**7,498**	**2,144**	**1,393**
Difference	**(40,158)**	**(7,564)**	**10,044**	**7,890**	**6,867**
* Of which: Credit to the public	**17,570**	**5,345**	**14,180**	**9,308**	**7,321**
** Of which: Deposits from the public	**90,081**	**12,586**	**6,099**	**1,491**	**881**

	Future expected cash flows				
	December 31, 2018				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	47,499	5,001	14,856	8,135	6,487
Liabilities	73,670	10,393	13,311	3,153	2,143
Difference	(26,171)	(5,392)	1,545	4,982	4,344

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.
(2) Including overdue amounts of NIS 264 million (31.12.18 - NIS 280 million).
(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.
(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.
(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 4,237 million (31.12.2018 - NIS 3,653 million). Credit in excess of credit facility in the amount NIS 203 million, classified without maturity date (31.12.2018 - NIS 231 million).

	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million		Percent
	6,474	**4,975**	**15,245**	**11,575**	**2,829**	**129,402**	**208**	**119,296**	**2.77**
	891	**1,185**	**3,546**	**292**	**96**	**105,778**	**123**	**105,234**	**1.26**
	5,583	**3,790**	**11,699**	**11,283**	**2,733**	**23,624**	**85**	**14,062**	
	-	**-**	**-**	**-**	**-**	**(8,191)**	**-**	**(8,093)**	
	-	**-**	**-**	**-**	**-**	**91**	**-**	**46**	
	5,583	**3,790**	**11,699**	**11,283**	**2,733**	**15,524**	**85**	**6,015**	
	601	**1,209**	**1,881**	**9**	**-**	**12,037**	**70**	**11,527**	**1.79**
	58	**48**	**105**	**-**	**-**	**20,005**	**-**	**19,799**	**2.05**
	543	**1,161**	**1,776**	**9**	**-**	**(7,968)**	**70**	**(8,272)**	
	486	**147**	**1,304**	**9**	**-**	**(6,266)**	**66**	**(6,544)**	
	-	**-**	**-**	**-**	**-**	**8,191**	**-**	**8,093**	
	-	**-**	**-**	**-**	**-**	**(91)**	**-**	**(46)**	
	543	**1,161**	**1,776**	**9**	**-**	**132**	**70**	**(225)**	
	7,075	**6,184**	**17,126**	**11,584**	**2,829**	**141,439**	**278**	**130,823**	**2.70**
	949	**1,233**	**3,651**	**292**	**96**	**125,783**	**123**	**125,033**	**1.29**
	6,126	**4,951**	**13,475**	**11,292**	**2,733**	**15,656**	**155**	**5,790**	
	5,546	**4,676**	**14,018**	**11,482**	**2,549**	**91,995**	**264**	**82,196**	**2.85**
	418	**1,011**	**1,775**	**60**	**-**	**114,402**	**-**	**114,188**	**0.82**

	Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million		Percent
	5,670	4,453	14,776	10,185	2,425	119,487	286	109,360	2.88
	1,290	607	1,858	418	37	106,880	115	105,246	1.67
	4,380	3,846	12,918	9,767	2,388	12,607	171	4,114	

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

					Consolidated
					December 31, 2019
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	37,530	682	36,843	4	37,529
Securities(2)	10,995	4,249	6,768	102	11,119
Securities which were borrowed	9	-	9	-	9
Credit to the public, net	87,899	3,379	327	84,926	88,632
Credit to the government	1,039	-	35	1,001	1,036
Assets in respect of derivative instruments	1,091	539	359	193	1,091
Other financial assets	178	42	-	136	178
Total financial assets	(3)138,741	8,891	44,341	86,362	139,594
Financial liabilities					
Deposits from the public	120,052	4,032	84,362	31,463	119,857
Deposits from Banks	1,137	-	1,136	4	1,140
Deposits from the Government	353	-	306	55	361
Bonds and non-convertible subordinated capital notes	3,674	3,597	-	149	3,746
Liabilities in respect of derivative instruments	1,247	540	695	12	1,247
Other financing liabilities	4,315	47	471	3,794	4,312
Total financial liabilities	(3)130,778	8,216	86,970	35,477	130,663
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	33	-	-	33	33
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	927	-	-	927	927

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 13,330 and liabilities of NIS 5,328, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					Consolidated
					December 31, 2018
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	31,303	680	30,634	8	31,322
Securities(2)	12,595	4,917	7,575	135	12,627
Securities which were borrowed	863	-	863	-	863
Credit to the public, net	84,292	3,400	1,167	79,543	84,110
Credit to the government	700	-	76	623	699
Assets in respect of derivative instruments	1,399	805	342	252	1,399
Other financial assets	591	426	-	165	591
Total financial assets	(3)131,743	10,228	40,657	80,726	131,611
Financial liabilities					
Deposits from the public	111,697	3,431	78,059	29,416	110,906
Deposits from Banks	1,150	-	1,146	14	1,160
Deposits from the Government	982	671	253	66	990
Bonds and non-convertible subordinated capital notes	4,989	4,574	-	495	5,069
Liabilities in respect of derivative instruments	1,294	804	477	13	1,294
Other financing liabilities	4,355	586	1,166	2,600	4,352
Total financial liabilities	(3)124,467	10,066	81,101	32,604	123,771
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	32	-	-	32	32
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	1,109	-	-	1,109	1,109

* Reclassified. Presented after the distribution of demand deposits to periods.

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 15,886 and liabilities of NIS 5,986 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable “market value” for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.

The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.

Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or on traders' quotations regarding a similar liability traded as an asset on an active market.

Cashflows with respect to demand deposits (current accounts) were distributed based on statistical model for forecasting stable balances.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.

Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 32B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2019 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds available for sale	**2,033**	**6,470**	**-**	**-**	**8,503**
Shares not for trading	**210**	**-**	**-**	**-**	**210**
Trading Securities	**105**	**-**	**-**	**-**	**105**
Assets in respect of derivative instruments	**539**	**359**	**193**	**-**	**1,091**
Others	**3,421**	**-**	**-**	**-**	**3,421**
Total assets	**6,308**	**6,829**	**193**	**-**	**13,330**
Liabilities					
Liabilities in respect of derivative instruments	**540**	**697**	**12**	**-**	**1,249**
Others	**4,079**	**-**	**-**	**-**	**4,079**
Total liabilities	**4,619**	**697**	**12**	**-**	**5,328**

	December 31, 2018 (audited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale	2,873	7,250	1	-	10,124
Trading Securities	482	55	-	-	537
Assets in respect of derivative instruments	805	342	252	-	1,399
Others	3,826	-	-	-	3,826
Total assets	7,986	7,647	253	-	15,886
Liabilities					
Liabilities in respect of derivative instruments	804	480	13	-	1,297
Others	4,689	-	-	-	4,689
Total liabilities	5,493	480	13	-	5,986

NOTE 32B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

B. Items measured at fair value on a nonrecurrent basis

	December 31, 2019				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Investment in shares	**-**	**27**	**-**	**27**	**2**
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**35**	**35**	**(13)**

	December 31, 2018				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	-	-	48	48	(4)

NOTE 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the year ended 31, December 2019							
	Fair value as at December 31, 2018	**Profits (losses) realized and unrealized Included in the profit and loss statement (1)**	**Purchases**	**Payments**	**Transfers to level 3, gross**	**Transfer from level 3, gross**	**Fair value as at December 31, 2019**	**Unrealized profits in respect of instruments held as at December 31, 2019**
Assets								
Assets in respect of derivative instruments	**252**	**766**	**68**	**(893)**	**-**	**-**	**193**	**75**
Liabilities								
Liabilities in respect of derivative instruments	**13**	**(1)**	**-**	**(2)**	**-**	**-**	**12**	**-**

	For the year ended 31, December 2018							
	Fair value as at December 31, 2017	**Profits (losses) realized and unrealized Included in the profit and loss statement (1)**	**Purchases**	**Payments**	**Transfers to level 3, gross**	**Transfer from level 3, gross**	**Fair value as at December 31, 2018**	**Unrealized profits in respect of instruments held as at December 31, 2018**
Assets								
Assets in respect of derivative instruments	276	2,011	66	(2,101)	-	-	252	118
Liabilities								
Liabilities in respect of derivative instruments	42	2	-	(27)	-	-	13	2

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
				as of December 31, 2019	
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	1	(1.06)	(1.13)-(0.85)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	16	1.44	1.30-1.55
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	50	(1.16)	(1.49)-(0.60)
		2. Counter-party credit risk	126	1.45	0.90-5.00
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	-	(1.06)	(1.13)-(0.86)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	12	(1.29)	(1.49)-(1.14)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		35		

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
				as of December 31, 2018	
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	3	(0.32)	(1.01)-(0.01)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	9	1.49	1.10-1.55
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	44	(0.67)	(1.40)-0.04
		2. Counter-party credit risk	196	1.30	0.90-4.76
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	3	(0.31)	(0.40)-(0.01)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	10	(0.57)	(1.40)-0.04
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		48		

Qualitative information regarding items measured at fair value at level 3:

- Interest linked to the CPI - A change in the forecasted inflation rate would affect the fair value of CPI linked transactions, such that a rise (decline) in the inflationary forecast would lead to an increase (decrease) in fair value in accordance with the CPI linkage position of the Bank.
- Credit risk of a counterparty - A change in the credit risk of a counterparty to a transaction, such that in as much as the credit risk of a counterparty to a transaction would be higher/lower, the value of the transaction would also be higher/lower.

NOTE 33 - INTERESTED AND RELATED PARTIES

(NIS million)

A. Balances

	December 31, 2019			
	Interest parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Year-end balance	Highest balance during the year (5)	Year-end balance	Highest balance during the year (5)
Credit to the public	**-**	**-**	**-**	**-**
Investment in equity-basis investees(9)	**-**	**-**	**-**	**-**
Other assets	**-**	**-**	**-**	**-**
Deposits from the public	**2**	**11**	**22**	**24**
Other liabilities	**-**	**-**	**-**	**-**
Shares (included in shareholders' equity)(10)	**4,139**	**4,139**	**-**	**-**
Credit risk in off- balance sheet financial instrument(9)(11)	**-**	**-**	**-**	**-**

	December 31, 2018			
	Interest parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Year-end balance	Highest balance during the year (5)	Year-end balance	Highest balance during the year (5)
Credit to the public	-	-	-	-
Investment in equity-basis investees(9)	-	-	-	-
Other assets	-	-	-	-
Deposits from the public	3	7	16	22
Other liabilities	-	-	-	-
Shares (included in shareholders' equity)(10)	3,912	3,914	-	-
Credit risk in off- balance sheet financial instrument(9)(11)	-	-	-	-

B. Condensed results of transactions with related and interested parties

	Interest parties (1)								
	Shareholders								
	Controlling shareholders(2)			Others(3)			Office-holders (4)		
	For the year ended December 31			For the year ended December 31			For the year ended December 31		
Statement of income items	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Net interest income*	**-**	-	-	**-**	-	-	**-**	-	-
Non-interest income	**-**	-	-	**8**	8	6	**-**	-	-
Operating and other expenses**	**-**	-	-	**-**	-	-	**37**	33	33
Total	**-**	-	-	**8**	8	6	**(37)**	(33)	(33)

* Details are provided in D below.
** Details are provided in C below.

Note: For notes to the table see page 264.

Interest parties[1]						Related parties held by the Bank[1]			
Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
14	**15**	**-**	**-**	**5**	**10**	**600**	**911**	**-**	**8**
-	**-**	**-**	**-**	**-**	**-**	**605**	**617**	**-**	**-**
-	**-**	**-**	**-**	**3**	**4**	**1**	**1**	**-**	**-**
12	**17**	**23**	**33**			**6**	**16**	**63**	**105**
36	**36**	**-**	**-**			**-**	**-**	**-**	**-**
-	**-**	**-**	**-**			**-**	**-**	**-**	**-**
3	**4**	**-**	**-**	**55**	**63**	**7**	**7**	**-**	**2**

Interest parties[1]						Related parties held by the Bank[1]			
Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
12	13	-	-	32	50	900	901	8	8
-	-	-	-	-	-	606	606	-	-
-	-	-	-	3	6	-	1	-	-
14	18	23	27			4	13	58	102
34	34	-	-			1	1	-	-
-	-	-	-			-	-	-	-
3	4	-	1	51	63	6	6	-	1

Interest parties			Related parties held by the Bank [1]					
Others [6]			Equity basis investees [7]			Others [8]		
For the year ended December 31			For the year ended December 31			For the year ended December 31		
2019	2018	2017	2019	2018	2017	2019	2018	2017
-	-	-	**4**	5	3	**-**	-	1
-	-	1	**2**	-	1	**-**	-	1
5	4	6	**-**	2	-	**-**	-	-
(5)	(4)	(5)	**6**	3	4	**-**	-	2

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)
(NIS million)

C. Benefits to interested parties (by the Bank and its invetees)

	Salaries to interested parties (by the Bank and its investees)*					
	For the year ended December 31, 2019		For the year ended December 31, 2018		For the year ended December 31, 2017	
	Office-holders(4)		Office-holders(4)		Office-holders(4)	
	Total benefits	Number of Recipients	Total benefits	Number of Recipients	Total benefits	Number of Recipients
An interested party employed by the Bank	****33**	**17**	**29	17	**28	17
Directors not employed by the Bank	**4**	**11**	4	11	5	12

* Not including VAT on salary.

** Of which: employee benefits for short term - NIS 30 million (2018 - NIS 27 million, 2017 - NIS 25 million), other benefits after termination of employment - NIS 3 million (2018 - NIS 2 million, 2017 - NIS 3 million).

Notes:
(1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.
(2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.
(3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.
(4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.
(5) On the basis of the outstanding balance at month-end.
(6) In accordance with Section 80(d)(4) of the public reporting instructions- in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.
(7) Equity based investees or investees under joint control - in accordance with Section 80(d)(7) of the public reporting instructions.
(8) In accordance with Section 80(d)(8) of the public reporting instructions.
(9) Details of these items are included also in the following Notes: Note 12 - Securities, Note 15 - Investee companies and Note 26 - Guarantees.
(10) Holdings by interested and related parties in the equity of a banking corporation.
(11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.

D. Net interest income in respect of transactions with interested and related parties*

	Consolidated			of which: investee companies		
	For the year ended December 31			For the year ended December 31		
	2019	2018	2017	2019	2018	2017
In respect of assets						
From credit to the public	**4**	5	4	**4**	5	3
Total net interest income	**4**	5	4	**4**	5	3

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

For notes to the table see page 264.

E. Aquisition of control of the Bank

On September 19, 2003, the control of FIBI Holding Ltd. (hereinafter - “FIBI”), the parent company of the Bank holding 48.3% of the equity and 67.2% of the voting in the Bank, was transferrd by way of the transfer by Palimon BV (hereinafter - “Palimon”), the owner of 51.89% in the equity and 70.59% of the voting in FIBI, of the said holdings to Binohon Ltd. and the Australian Lieberman Group, divided between them as to 55% to Binohon owned by Mr. Tzadik Bino, and 45% to the Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs Barry Liebrman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement. The sale was effected by an off-market transaction.

The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.

The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

The permit further determines that the appointment of the Chairman of the Bank and of its President and CEO will be subject to approval of the Supervisor of Banks.

It was also provided that the holders of the permit, including their relations and companies under their control, are not to receive any management fee or any other consideration or benefit from the Bank or from companies controlled by the Bank, however, they are entitled to render services which are provided in the usual manner by persons rendering such services and at market prices, after the Supervisor of Banks had been informed of the matter and given his approval, under terms specified in the permit. This provision does not apply to Directors’ remuneration that is paid equally to all Directors.

In accordance with an amendment to the permit of 2008, the holders in Binohon may be Mr. Zadik Bino and/or his children Messrs Gil Bino, Hadar Bino Shmueli and Daphna Bino Or (hereinafter together - "the Bino children"). In accordance with a report by FIBI, Mr. Zadik Bino and the Bino children hold in equal parts the means of control in Binohon (each of them holding 25%).

On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), in an off-market transaction, 4,139,233 shares in FIBI, comprising 15.77% of the issued and paid share capital of FIBI, being all the holdings of Instanz Holdings in FIBI. Instanz 2 is a company incorporated in Israel being fully owned by Sing Acquisitions Pte. Ltd. (hereinafter - "Sing"), a company incorporated in Singapore, which is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entities). The shares are held in trust for Instanz 2 by Guy Trust and Management Co. Ltd. Upon the transfer of the shares, Instanz 2 joined as a party the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2. In addition the permit was amended in a way that the manner of holding by the permit holders mentioned above in FIBI will be through Sing and Instanz 2 instead of through Instanz Pty Ltd. and Instanz holdings.

During the first quarter of 2019 FIBI reported that Instaz number 2 sold part of its holdings in FIBI. According to FIBI's report, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 28.54%, Instanz number 2 Ltd.- 11.68% and Dolphin Energies Ltd.- 11.68% of the equity of FIBI (the holdings of all the controlling shareholders in FIBI comprise the core control therein, in accordance with the control permit granted by Bank of Israel).

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F. (1) The employment agreement of the CEO, Ms. Smadar Berber-Tsadik, was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance. Following the publication of the Compensation of Officers of Financial Corporations (Special permit and the nondeducibility tax wise of exceptional compensation) Act, 2016 (hereinafter - "the Compensation Act"), the General Meeting of Shareholders approved on November 20, 2016 the terms of employment of the CEO of the Bank, Ms. Smadar Berber-Tsadik. These terms apply as from October 12, 2016 (hereinafter - "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter - "the terms of employment"), with nothing in the employment terms detracting from the rights of the CEO accumulated prior to the beginning date.

In accordance with the employment terms, the maximum annual fixed compensation of the CEO of the Bank shall equal the maximum amount stated in Section 2(a) of the Compensation Act (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions, as detailed in the terms of employment). To the extent that the permissible maximum amount in accordance with the Compensation Act (including in accordance with Section 2(b) of the Act) allows, the component of fixed compensation of the CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 salaries per year. In respect of the additional fixed compensation component, the Bank shall provide for payments and allowances in respect of severance compensation and pension in accordance with statutory provisions. In view of the updating of the maximum amount, in accordance with Section 2(b) of the Compensation Act with respect to the year 2019, the CEO has been granted in respect of the year 2019, an award in an amount equal to the additional fixed component of approximately 2.5 times the monthly salary (including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions) and the difference up to the celling was paid as a bonus in the amount of NIS 98 thousands (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions).

The salary of the CEO is linked to the CPI in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her employment terms. The CEO is entitled to a company car. The CEO is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum compensation (as defined in the employment terms).

In accordance with the employment terms, the Bank or the CEO are entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving a prior notice of three months. During the period of the prior notice, if the CEO continues in office, she would be entitled to a monthly salary and related benefits. The cost of the monthly salary and of the related benefits during the period of advance notice, has been provided in full in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, if the Bank decides not to continue the employment of the CEO during the period of advance notice.

The terms of employment define a non-competition period of three months with full pay, the cost of which as part of the previous employment terms of the CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment.

The Compensation Committee and the Board of Directors are entitled to grant to the CEO an annual award not exceeding the amount of two monthly salaries, if in their opinion justifiable reasons exist, and subject to the maximum amount permitted by Section 2(b) of the Compensation Act.

In respect of her period of employment as from the beginning date, the CEO would be entitled to severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employer/employee relations, or to the funds and right accumulated to her credit under the pension arrangements in respect of the allowances for severance compensation during the period following the beginning date, the higher of the two. The CEO is entitled to severance compensation in accordance with statutory provisions and to enlarged severance compensation for the period of her employment up to the beginning date, which had been provided on a current basis in the financial statements of the Bank until the beginning date, had been deposited to her credit with appropriate Funds and would be released in her favor at date of termination of employment relations.

The expense regarding the payroll cost of the CEO, which is borne by the Bank in the tax year, exceeds the "maximum amount payable" as defined in Section 4 of the Compensation Act. Accordingly, a part of the compensation payable to the CEO would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

(2) On January 1, 2017 Mrs. Irit Izakson was appointed as a Director and Chairperson of the Board of Directors of the Bank. In the Board of Directors meeting on October 29, 2019, the Chairperson of the Board of Directors, Mrs. Irit Izason, declared that she intends to complete her office as the Chairman of the Board and director in the Bank at the end of the term for which she was elected. Accordingly,on February 23, 2020 her office was completed.

The maximum amount of the fixed annual compensation of the Chairperson is NIS 2.3 million (excluding payments and allowances in respect of severance compensation and pension in accordance with statutory provisions and excluding an allowance in respect of the non-competition period, as detailed in the engagement terms).

The salary of the Chairperson of the Board was linked to the Consumer Price Index in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The Chairperson of the Board is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her engagement terms. The Chairperson of the Board was entitled to a company car. The Chairperson of the Board was entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum fixed compensation (as defined in the engagement terms).

LIST OF TABLES - CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendices to the Annual Report

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Mr. Jacob Sitt

Mrs. Irit Izakson (until 23.2.2020)

Mr. Zadik Bino

Mr. David Assia

Mr. Gil Bino

Mr. Dov Goldfriend

Mr. Joseph Horowitz

Dr. Ronen Harel

Mr. Ilan (Eilon) Aish

Mr. Menachem Inbar

Mr. Daniel Furman

Mr. Zeev Ben Asher (until 23.12.2019)

For further details on the members of the Board of Directors of the Bank, see Article 26 “Board of Directors of the Bank” in the Bank’s periodic report for 2019, which is published on the Securities Authority’s magna site.

REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the external directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, all directors currently serving on the Board of Directors (including two directors from the public) have accounting and financial expertise. On the Audit Committee, all five directors on the committee have such expertise.

Set out below are details of the present members of the Bank's Board of Directors with accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. **Acting Chairman of the Board Mr. Jacob Sitt** (from March 8, 2020), attorney-at-law, LLB Law degree, BA in economics from Tel Aviv University, MBA (Financing) from the Multi disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as directors of companies. Served as CEO and director at: FIBI Investment House Ltd.. Served as Co-CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd..
2. **Chairperson of the Board of Directors Mrs. Irit Izakson** (until February 23, 2020), graduate in Economic at Tel Aviv university and MBA with specialization in Operations Research from the school of business administration of the Tel Aviv university. Serves as member of the board of trustees of the Ben-Gurion University of the Negev. Served as chairperson of the board: Isracard Ltd.; Europay (Eurocard) Israel Ltd.; Aminit Ltd.; Poalim Express Ltd. Served as director: Bank Hapoalim Ltd.; Arison Holdings (1999) Ltd.; Arison Investments Ltd.; Shikun & Binui Ltd.; Serves as a member of managing committee in Azrieli Fundation and other public companies. Served as member in the board of trustees of Van Leer Institution in Jerusalem.
3. **Mr. Zadik Bino** served as Chairman of the Board of Directors and as CEO of the First International Bank of Israel Ltd. and as CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Director of companies.
4. **Mr. Gil Bino**. Attorney-at-law, law and business administration graduate and EMBA. Serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd. Director of companies.
5. **Mr. David Assia**. Economics and social science graduate and EMBA at Tel Aviv University. Serves as Chairman of: iAngels Crowd Ltd. Director at: Biocatch Ltd; Camilyo Ltd.; Yeda R&D Co. Ltd.; Nadir Investments Ltd.; Nadir Holdings Millennium Ltd.; S.M. Patentech Ltd.; Enformia Software Ltd.; Israel Education Funds under Iraq Descendants' Education Fund Ltd.; Mashov Investments and Technologies (1993) Ltd. (inactive); Kismet Investments Ltd; DB Maestro Ltd.; Landing Express Ltd. Director at foundations: Impact, Israel Association of Electronics & Software; Weizmann Institute of Science Board of Governors.
6. **Mr. Dov Goldfiend**, (member of the Audit Committee); CPA, BA in Economic and accounting and MA in Business Management at Tel Aviv University. Serves as CEO at A.T.R.N. management and consulting Ltd. Serves as external director: The Mediterranean Coastal Cliffs Preservation Government Company Ltd. Serves as Chairman of the Audit Committee of Emanuel Association of Guardianship for Autistics Founded by ALUT the Israeli Society for Children and Adults with Autism. Served as external director: Rishon LeZion Economic Company Ltd.; Rishon Initiation Ltd., Leumi Card Ltd., Scorpio Real Estate Ltd. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. And as Director of companies in the First International Bank Group.
7. **Mr. Joseph Horowitz** (director from the public and Chairman of the Audit Committee), attorney-at-law, LLB in law from the Hebrew University of Jerusalem (Tel Aviv branch). Serves as director at Yad Vashem memorial authority for the holocaust; served as Chief Internal Auditor and member of the Board of Management of Bank Leumi Le-Israel B.M. for 15 years, and previously served in senior functions at Bank Leumi.

8. **Dr. Ronen Harel** (director from the public and member of the Audit Committee). B.A. graduate in economics, has MBA specializing in finance from Tel-Aviv university. Has Phd in management science specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Served as external director in Ubank Ltd. Serves as external director in the companies: Cannbit Pharmaceuticals Ltd;. C. Mer Industries Ltd.; Kerur Holdings Ltd.; One Software Technologies Ltd.
9. **Mr. Ilan (Eilon) Aish**, (member of the Audit Committee); CPA, BA in Economic and accounting from the University of Tel Aviv. Serves as Chairman and Co-CEO of Harvest Capital Markets Ltd. Served as external director in Israel Discount Bank Ltd.
10. **Mr. Menachem Inbar,** Social Sciences B.A. graduate and Law M.A. Graduate at Bar Ilan University. Served as CEO: Arkin Holdings; Leumi and Co. and Bank of Canda. Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.
11. **Mr. Daniel Furman**, Economics and statistics graduate at the Hebrew University of Jerusalem and MBA of Business Administration at INSEAD France. Serves as Chairman of the Board: Gemmacert Ltd.; Arba Capital Markets Ltd. Director of Cohanzick HY Fund Ltd; CHYF Ltd. Director and General Manager of ARBA Finance Company Ltd. Joint Managing Director of Palais De La Promenade SARL. Member of the Management Committee and Chairman of the Endowment Funds Committee of The Hebrew University of Jarusalem.

The Bank's Board of Directors held 29 meetings in plenary session and 54 meetings of its various Board Committees.

In accordance with the amendment to Proper Conduct of Banking Business Directive No. 301, the Board of Directors of the Bank adopted at the beginning of 2018, a policy according to which, the maximum period of office of the Chairman of the Board of the Bank would be twelve years, unless, in the opinion of the Board, existing circumstances indicate that the termination of office at the prescribed date, might be harmful to essential interests of the Bank.

APPOINTMENTS AND RETIREMENTS

A. Bentzi Adiri, CPA, member of Management, served until November 15, 2019 as the head of Risk Management Division and CRO, serves as the head of Resources division, as from January 1, 2020, instead of Mr. Yossi Levi, which retired.
B. Eli Cohen, CPA, which served as the manager of the planning and efficiency department in the Bank, was appointed as member of Management, and serves as head of Risk Management Division and CRO, as from November 15, 2019 and replaced Bentzi Adiri, CPA.
C. The financial sub-division at the Bank was eliminated, and its operations was integrated as a department within the Resources division, headed by Bentzi Adiri, CPA and the number of members of Management was reduced to nine. Accordingly, Mr. Aviel Sternshous retired from its office as member of Management and head of the financial sub-division on November 15, 2019.

In the Board of Directors meeting on October 29, 2019, the Chairman of the Board of Directors, Mrs. Irit Izason, declared that she intends to complete her office as the Chairman of the Board and director in the Bank at the end of the term for which she was elected. Accordingly her office was terminated on February 23, 2020. The Board of Directors thanks Ms. Irit Izakson for her office and her important contribution to the Bank and the Group.

On March 8, 2020 the Board of Directors appointed Mr. Jacob Sitt as Chairman of the Board in practice. The appointment will be in place until a new permanent chairman will be appointed. The Board of Directors wishes Mr. Sitt success in his office.

On December 23, 2019 Mr. Zeev Ben Asher terminated its office in the Bank after completing nine years as external director in accordance with the Companies Law. The Board of Directors of the Bank thanks Mr. Zeev Ben Asher for its contribution to the work of the Board and its committees.

MEMBERS OF SENIOR MANAGEMENT

Mrs. Smadar Barber-Tsadik	Chief Executive Officer
Mr. Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division
Mr. Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division
Mr. Nachman Nitzan	Executive Vice President, Head of Chief Accountant Division
Mr. Benzi Adiri	Executive Vice President, Head of Resources Division (from 1.1.2020) Executive Vice President, CRO & Head of Risk Management Division (until 15.11.2019)
Mrs. Yael Ronen	Executive Vice President, Chief Internal Auditor
Mrs. Ella Golan	Executive Vice President, Head of Banking Division
Mr. Yinnon Shveka	Executive Vice President, Head of Pagi Division
Mr. Elli Cohen	Executive Vice President, CRO & Head of Risk Management Division (from 15.11.2019)
Mr. Yossi Levy	Executive Vice President, Head of Resources Division (until 31.12.2019)
Mr. Aviel Strenschuss	Executive Vice President, Head of Financial Division (until 15.11.2019)

Corporate Secretary Mr. Aviad Biller, Adv.

The Bank's auditors KPMG Somekh Chaikin, C.P.A (started in 1972)

* For further details on the senior manager members, see Article 26A “Senior Office Holders at the Bank” in the Bank’s periodic report for 2018, which is published on the Securities Authority’s magna site.

DISCLOSURE REGARDING THE INTERNAL AUDITOR

Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA seves as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group. At the non-banking subsidiaries, the managers from the Internal Audit department were appointed as the internal auditors.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv. In her previous positions, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor's Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairman of the Board of Directors.

The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 years multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 49 posts in 2019.

The number of employee posts is derived from the multi-year work program and includes outsourcing.

Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.

Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles. The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.

The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.

The Board of Directors and the Audit Committee, which examined the Internal Audit's work program and its actual implementation, expressed their satisfaction that the Bank's Internal Audit conforms to the said requirements.

Access to information

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries in Israel.

Reporting by the Chief Internal Auditor

The Internal Audit reports, including periodic reports, are submitted in writing.

The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.

In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee. Also significant audit reports are presented for discussion in the Board of Directors and/or the Risk Management Committee after consultation with the Chairman.

The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report.

The monthly report is submitted to the CEO and to the members of the Management of the Bank, to the Chairman and members of the Audit Committee, and to the Chairman of the Board of Directors.

The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control. The Internal Audit's reports for 2018 were discussed by the Bank's Audit Committee on April 16, 2019. The Internal Audit's reports for the first half of 2019 were discussed by the Bank's Audit Committee on September 24, 2019. The Internal Audit's reports for 2019 will be discussed in March 2020.

The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.

In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors.

The Board of Directors' appraisal of the Chief Internal Auditor's activity

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor's activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

	Year	
	2019	**2018**
Salary and bonuses	**1,303**	1,189
Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits	**312**	292
Value of benefits	**74**	73
Total salary and included expenses	**1,689**	1,554

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.

In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditor meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.

Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.

The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial speciality must serve on the Board of Directors and on the Audit Committee. Currently, all members of the Board of Directors and all members of the Audit Committee have accounting and financial speciality. The Audit Committee consists of four directors:

1. **Mr. Joseph Horowitz**, Chairman of the Audit Committee, Serves as external director under the Companies Law, 1999 (and as external director under Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division), and with qualification as an independent director. Has accounting and financial specialty and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: Served for 15 years as Chief Internal Auditor and member of the management of Bank Leumi Le-Israel B.M. and previously served in various senior functions at Bank Leumi.
2. **Mr. Dov Goldfriend** a member of the Audit Committee. Serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting and MA in Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. and as Director of companies.
3. **Dr. Ronen Harel**, a member of the Audit Committee. Serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: B.A. in economics, MBA specializing in finance from Tel-Aviv university. Phd in management science specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Served as external director in Ubank Ltd. Serves as external director in the companies: Cannbit Pharmaceuticals Ltd;. C. Mer Industries Ltd.; Kerur Holdings Ltd.; One Software Technologies Ltd.

4. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and jointly CEO at Harvest Capital Markets Ltd.

As in each quarter, the Board of Directors' Audit Committee at its meeting on March 3, 2020, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on March 8, 2020 the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on March 8, 2020, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues that may arise in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations and directives of the Supervisor of Banks.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

When the Audit Committee and the Board of Directors are in the process of approving the financial statements, drafts of the financial statements and the Board of Directors Report are submitted for perusal and comments by the directors several days before the date of the meeting that is set for the discussion of the financial statements.

The Board of Directors is the ultimate control and auditing authority at the Bank.

The Board of Directors, at its meeting on March 15, 2020, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on March 8, 2020, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairman of the Board of Directors, the CEO and the Chief Accountant to sign the financial statements.

AUDITORS' REMUNERATION (1)(2)(3)

(NIS thousands)

	Consolidated		The Bank	
	2019	2018	2019	2018
For audit work(4):				
Auditors of the Bank	**6,896**	7,886	**5,608**	5,268
Another auditor	**90**	267	**-**	-
Total	**6,986**	8,153	**5,608**	5,268
For additional Auditing related services(5):				
Auditors of the Bank	**1,465**	1,069	**1,465**	1,069
Other services:				
Auditors of the Bank	**1,363**	1,337	**1,193**	1,126
Total	**2,828**	2,406	**2,658**	2,195
Total auditors' remuneration	**9,814**	10,559	**8,266**	7,463

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.

(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.

(3) Includes remuneration paid and accrued.

(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

						2019
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits[2]
Irit Izakson	Chairperson of the Board of Directors[6]	**100%**	**-**	**2,128**	**-**	**136**
Smadar Barber-Tsadik	Chief Executive Officer	**100%**	**-**	**2,767**	**98**	**119**
Ella Golan	Executive Vice President, Head of the Banking division	**100%**	**-**	**1,289**	**335**	**76**
Yossi Levy	Executive Vice President, Head of Resources Division[7]	**100%**	**-**	**1,403**	**310**	**79**
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	**100%**	**-**	**1,352**	**350**	**76**
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	**100%**	**-**	**1,331**	**310**	**76**

						2018
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits[2]
Irit Izakson	Chairperson of the Board of Directors	100%	-	2,105	-	135
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	2,386	492	117
Doron Calif	Executive Vice President, Head of corporate division in Otsar Hahayal	100%	-	952	47	57
Offer Salpeter	Executive Vice President, Chief Accountant at Otsar Hahayal	100%	-	771	41	53
Yaacov Konortov	Compliance officer	100%	-	610	113	50
Yossi Levy	Executive Vice President, Head of Resources Division	100%	-	1,396	251	81
Ron Grisaro	MATAF Chief Executive Officer	100%	-	1,142	227	72
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,265	257	75
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	100%	-	1,323	232	76

(1) Not including VAT on salaries.
(2) Value of benefits (including: car benefit, cellular phone, rental value, health insurance, etc.).
(3) Including loss (gain) in respect of updated actuarial calculations in respect of the liability of the Bank.
(4) Excluding deposits and provisions for provident funds and severance compensation (including loss of work ability) in accordance with the law, which are not included in the definition of "compensation" for the purpose of computing the amount of engagement in Section 2(a) of the Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of an expense in respect of exceptional compensation), 2016".
(5) Loans and mortgages granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.
(6) Until February 23, 2020.
(7) Until December 31 2019.
(8) Actuarial loss (gain) in respect of changes in the discounting interest rate of the liabilities of the Bank for severance pay and post-retirement benefits.

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Actuarial loss in respect of change in the discounting interest rate (8)	Total payroll and related expenses (1)(3)	Total payroll and related expenses according to remuneration law (1)(4)	Loans granted under ordinary market terms (5)
438	**-**	**-**	**2,702**	**2,509**	**-**
491	**-**	**16**	**3,491**	**3,051**	**-**
327	**250**	**379**	**2,656**	**1,925**	**295**
850	**-**	**12**	**2,654**	**2,179**	**2,675**
326	**63**	**356**	**2,523**	**1,889**	**-**
345	**-**	**33**	**2,095**	**1,911**	**-**

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Actuarial loss in respect of change in the discounting interest rate	Total payroll and related expenses (1)(3)	Total payroll and related expenses according to remuneration law (1)(4)	Loans granted under ordinary market terms (5)
326	-	-	2,566	2,376	-
427	-	-	3,422	3,045	-
1,531	-	-	2,587	2,432	795
1,382	-	-	2,247	2,101	8
1,461	-	-	2,234	2,168	950
149	-	-	1,877	1,793	3,157
329	24	-	1,794	1,636	285
286	-	(135)	1,748	1,787	-
107	-	-	1,738	1,789	3

Notes:

A. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.

B. For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated February 23, 2017 which was in effect until February 26, 2020, see immediate report of the Bank dated January 18, 2017 (reference no. 2017-01-006415) and the supplementary report dated February 14, 2017 (reference no. 2017-01-016098). For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated February 26, 2020, see immediate report of the Bank dated January 21, 2020 (reference no. 2020-02-008841).

Mrs. Irit Izakson - (until February 23, 2020) was appointed Chairperson of the Board of Directors of the Bank since January 1, 2017 end terminated her office on February 23, 2020.
For description of the engagement agreement with Mrs. Irit Izakson - see Note 33.H(2) to the financial statements.

Mrs. Smadar Barber-Tsadik - has been employed by the bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007.
For description of the engagement agreement with Ms. Smadar Berber-Tsadik- see Note 33.H(1) to the financial statements.

Mr. Ilan Batzri - has been employed at the Bank since October 4, 1978, under a collective agreement, and as from October 1, 2000, under a personal agreement for an unassigned period.
Each of the parties to the agreement is entitled to terminate the contractual association at any time and for wharever reason, at six months prior written notification.
On termination of his employment at the Bank. Mr. Batzri is eligible to an ordinary severance payment at a level of 100% of his last monthly salary. The redemption value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.
The non-competition period is six months from the date of termination of his employment at the Bank, of which three months will be paid.
Mr. Batzri's salary is linked to the Consumer Price Index.
For details of determination of the annual bonus for 2019 and later years, among others, to Mr. Batzri, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mr. Yossi Levy - Mr. Levy has a personal employment agreement with Mataf and has been seconded to the Bank.
Mr. Levy commenced his employment at Mataf on April 1, 1979, and the present personal employment agreement is valid from September 1, 1980. On January 1, 2020 Mr. Levi's employment was terminated upon its retirement.
On termination of his employment, Mr. Levy is eligible to an ordinary severance payment at a level of 100% of the last monthly salary. The redemption value of the severance payment in the pension fund to which the Mataf allocated money in his favor will be deducted from these amounts (in 2019 Mr. Levi was approved for certain supplement for his severence pay in respect of a period of 18 months in which he was employed by the Bank prior to his employment in MATAF).
In 2019 Mr. Levi was approved for paid non-competition period of three months.
For details of determination of the annual bonus for 2019 and later years, among others, to Mr. Levy, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mr. Yoram Sirkis - has been employed at the Bank since February 9, 1993, under a collective agreement and a personal agreement valid from Mars 20, 2007, for an assigned period until Mars 20, 2010. After that date the agreement will continue for an unassigned period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with the condition of the employment. On termination of his employment Mr. Sirkis is eligible to an ordinary severance payment at a level of 100% of his last monthly salary, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher. The redemplion value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.
In accordance with the compensation policy for officers of the Bank, to the extent that the termination of his engagement would not be initiated by the Bank, the amount resulting from multiplication between: 200% of the most recent salary prior to the signing of the personal agreement and 100% of his most recent salary, to the extent that it is a positive amount; and (b) the number of years of employment with the Bank since January 1, 2017 and until the date of termination of his employment - shall be considered compensation in respect of termination of employment, classified as variable compensation, the entitlement thereto and the spreading of the payment thereof would be in accordance with the provisions stated in the compensation policy.

The non-competition period is six month from the date of termination of his employment at the Bank of which three months will be paid.
Mr. Sirkis's salary is linked to the consumer price index.
For details of determination of the annual bonus for 2019 and later years, among others, to Mr. Sirkis, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mrs. Ella Golan - employed at the Bank since January 16, 1994 under collective agreement, and personal agreement valid since December 1, 2013 for unassigned period. On termination of her employment Mrs. Golan is eligible to an ordinary severance payment at a level of 100% of her last monthly salary, for the period of her employment in the Bank up to January 1, 2018, while for the period after that date, Mrs. Golan will be entitled to severance compensation in accordance with Section 14 of the Severance compensation Act.
The redemplion value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts. The non-competition period is six month from the date of termination of her employment at the Bank of which three months will be paid.
Mrs. Golan's salary is linked to the consumer price index.
For details of determination of the annual bonus for 2019 and later years, among others, to Mrs. Golan, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mr. Yaacov Konortov- employed at the Bank since January 2, 1980 under collective agreement in the Bank.
Mr. Konortov is expected to terminate its office on March 31, 2019, following his inclusion in voluntary retirement plan for managers and signatories. Upon termination of his office Mr. Konortov recieved enlarge severance pay in accordance to the said plan (see immediate report of the Bank dated September 5, 2018 (reference No. 01-082606-2018).

Mr. Ron Grisaro - Began employment at MATAF on June 4, 2017 under a personal agreement for a determined period of three years, following which the agreement continues for an undetermined period. During the determined period, the Bank is entitled to terminate the employment of Mr. Grisaro, subject to a payment in respect of the outstanding balance of the determined period of the full salary, the provisions for managers' insurance and further education fund, and an additional amount stated in the agreement in respect of related benefits. During the undetermined period, each of the parties to the agreement may terminate the engagement at any time and for whatever reason, giving a written advance notice of three months.
Upon termination of his engagement, Mr. Grisaro would be entitled to severance compensation in accordance with Section 14 of the Severance compensation Act.
Upon termination of his engagement with MATAF, he is entitled to a non-competition period of six month from the date of termination of his employment at MATAF of which three months will be paid.
The salary of Mr. Grisaro is linked to the CPI. The compensation policy for officers of the Bank applies to Mr. Grisaro as General Manager of MATAF.
For details regarding the manner of determining the annual award for 2019 and thereafter, inter alia, in the case of Mr. Grisaro, see the immediate report by the Bank dated April 14, 2017, mentioned above.

Mr. Doron Calif - had been employed by Otsar Hahayal since May 4, 1986, under a collective labor agreement and with effect from April 1, 2002, under a personal employment agreement for an undetermined period. Following the merger of Otsar Hahayal with and into the Bank, Mr. Calif moved to the Bank on January 1, 2019, being employed under a collective labor agreement.
Upon termination of his employment with the Bank, and in respect of his period of employment with Otsar Hahayal, Mr. Calif will be entitled to regular severance compensation at the rate of 100% of his last monthly salary at Otsar Hahayal, net of the redemption value of the severance compensation accumulated in the Funds in which the Bank had deposited

amounts in his favor or the redemption value of the severance compensation, whichever is the higher amount; to additional severance compensation at the rate of 100% of his last monthly salary at Otsar Hahayal and to the redemption of unutilized sick leave accumulated during his period of employment at Otsar Hahayal under the collective labor agreement.

In respect of his period of employment at the Bank, he would be entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act. In the event of dismissal from the Bank, he would be entitled to an adaptation period of six months in addition to the period of advance notice. Termination of employment upon reaching the formal retirement age shall not be considered dismissal.

Mr.Offer Salpeter - had been employed by Otsar Hahayal since February 1, 1987, under a collective labor agreement and with effect from January 1, 2008, under a personal employment agreement for an undetermined period. Following the merger of Otsar Hahayal with and into the Bank, he terminated his employment with the Bank on March 31, 2019.

Upon termination of his employment with the Bank, Mr. Salpeter recieved regular severance compensation based on 100% of his last monthly salary, net of the redemption value of the severance compensation accumulated in the Funds in which the Bank had deposited amounts in his favor or the redemption value of the severance compensation, whichever is the higher amount; to additional severance compensation at the rate of 100% of his last monthly salary; to the redemption of unutilized sick leave accumulated during his period of employment at Otsar Hahayal under the collective labor agreement, and to an adaptation period of six months.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.

No changes have taken place during the reported period in the rules regarding the reporting of transactions with controlling shareholders, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

No changes have taken place during the reported period in the criteria, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

c. Transactions with controlling owners or in which a controlling owner has an interest, approved in the reported period in accordance with Section 270(4) and/or Section 267A of the Companies Act (including framework transactions still valid at the reporting date and transactions approved in accordance with the Companies Regulations (Relief in Transactions with Interested Parties), 2000 (hereinafter: "the Relief Regulations"):

1. On December 20, 2018, and towards the termination of a framework transaction of June 2014, and after obtaining the approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved the following resolutions concerning insurance for directors and officers:
    - Approval of “directors and officers” insurance policy for a period of eighteen months beginning on January 1, 2019 (“the insurance period”) issued by Menora Mivtachim Insurance Ltd. for the Bank and for the Bank Group, including subsidiaries of the Bank and the controlling owner, FIBI Holdings Ltd. (hereinafter - "Group companies"), which will apply to officers serving at the Bank and/or at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.
    - Prior approval, for the purchase by the Bank of an insurance policy, as stated above, covering the Bank and Group companies following the termination of the insurance period, and up to a period of six years from the beginning date of the new insurance period date of including by way of extension of the original policies and/or by way of the purchase of new policies, which will apply with respect to officers who may serve at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

    The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations, as well as a resolution under Section 267A of the Companies Act, amending Section 8.2 of the compensation policy regarding officers of the Bank in the matter of the mechanism for renewal of the insurance as long as the compensation policy of the Bank remains in effect, details of which were published in an immediate report by the Bank dated February 14, 2017, Ref. No. 016098-01-2017, as stated in item 1B(1) of the Relief Regulations, which would permit the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their kin, as well as with respect to the President and CEO, also in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations. The mechanism for the renewal of the insurance coverage, the details of which were reported in an immediate report dated January 21, 2020 (Ref. No. 008841-01-2020), had also been approved within the framework of the new compensation policy, which was approved by the general meeting of shareholders of the Bank held on February 26, 2020, so that the renewal of the insurance policy is made possible also with respect to directors and officers, who hold a controlling interest in the Bank and/or their kin, in accordance with Regulation 1B(1) of the Relief Regulations.

- Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from January 1, 2019 for six years. The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations.

The framework for the terms of the policy for the insurance period as well as the terms for the renewal of the policy after the end of the insurance period within the framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, are described in an immediate report of the Bank regarding the matter of the framework transaction dated November 6, 2018 (Ref. No. 104838-01-2018), and the contents of this report is presented hereby by way of reference. The limit of the cover determined in the policy for the insurance period for the Bank and for the Group companies amounts to US$110 million.

2. On October 30, 2017, after obtaining the authorizations from the Compensation Committee and the Board of Directors of the Bank, the general meeting of shareholders approved the continued employment of Mrs. Yehudit Dagan, who is "a relative of a controlling shareholder" in the Bank, as a clerk in the Banking Operations Division at MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF"), a wholly owned and wholly controlled subsidiary of the Bank, for a period of up to three additional years beginning on October 30, 2017 (date of expiry of three years since date of the general meeting's approval in 2014 of her continued employment) or until her retirement, whichever is earlier, all as detailed in the immediate report of the Bank dated September 19, 2017 (Ref. No. 094239-01-2017) included herein by way of reference.

   Mrs. Dagan retired on August 1, 2019, and is no longer employed by the Bank Group.
3. On September 19, 2017, after receipt of the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, the Board of Directors of the Bank reapproved the continued payment of remuneration to directors from among the controlling shareholders of the Bank, as detailed in the immediate report of the Bank dated September 19, 2017 (Ref. No. 094248-01-2017) included herein by way of reference. The amounts of remuneration approved are in accordance with the policy for the compensation for officers of the Bank, as approved by the general meeting of shareholders held on February 23, 2017, and detailed in the immediate report of the Bank of February 14, 2017 (Ref. No. 016098-01-2017) the contents thereof is presented herein by way of reference. The said remuneration agrees with the new compensation policy for officers of the Bank, as approved by the general meeting of shareholders of the Bank held on February 26, 2020, the details of which, regarding compensation to all directors (excluding the Chairman of the Board) are stated in Section 7 of the Appendix "A" to the immediate report of the Bank dated January 21, 2020 (Ref No. 008841-01-2020) included herewith by way of reference.
4. Commitment for the indemnification of directors and officers of the Bank (including directors from among the controlling shareholders of the Bank) as described in Note 25C to the financial statements.

d. Additional information on transactions with interested parties

1. See Note 33 to the financial statements for details of the balances and condensed results of transactions with interested parties and related parties.
2. The Group, including FIBI Holdings and its subsidiaries, jointly purchases insurance policies, including liability insurance for directors and officers (including directors who are controlling owners and their relatives).
3. Granting exemption from responsibility to acting directors and officers and to those who would act at the Bank from time to time, in accordance with the approval of the general meeting of shareholders of 2004 and as detailed in Note 25C to the financial statements.

   It is noted that the Bank has not tabled for reapproval by the general meeting of shareholders, of exemption letters granted in 2004 to directors who are controlling shareholders.

4. In addition, the Bank and its subsidiaries conduct from time to time transactions with interested parties in the Bank in the ordinary course of business and at market terms.
5. Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions (NIS thousand):

	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
Indebtedness of others[1]									
December 31, 2019	**127**	**-**	**-**	**127**	**533**	**-**	**-**	**-**	**660**
December 31, 2018	112	-	-	112	317	-	-	-	429

	December 31, 2019		December 31, 2018	
	Balance on balance-sheet date	Highest balance during period[3]	Balance on balance-sheet date	Highest balance during period[3]
		NIS thousand		NIS thousand
Deposits of others[1]	**2,421**	**22,157**	10,928	27,461

(1) Relatives of controlling shareholders of the Bank, according to the definition of a "relative" in the Banking Act (licensing)-1981.
(2) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

Acquisition of control in FIBI and in the Bank in 2003 and Bank of Israel permit

On September 19, 2003, Binohon Ltd. and the Lieberman Group of Australia purchased shares in FIBI in a manner whereby Binohon, which is controlled by Mr. Zadik Bino, held 28.54% of the equity rights and 50.59% of the voting rights in FIBI, and the Lieberman Group held 23.35% of the equity rights and 20% of the voting rights (in equal parts via Instanz Holdings Ltd., which is controlled by Messrs. Michael and Helen Abeles from Australia, and Dolphin Energies Ltd., which is controlled by Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia, all of them via a chain of Australian entities). The buyers are party to a voting and cooperation agreement, which includes various arrangements concerning their holdings in the controlling stake at FIBI, and indirectly, at the Bank, which include, to the best knowledge of the Bank, the following provisions:

1) Subject to any law, arrangement for appointment of directors at FIBI Holdings and at the Bank: With respect to FIBI Holdings' Board of Directors, it was determined that at least 9 directors will be appointed, with five or more directors to be recommended by Binohon, one director to be recommended by Instanz Holdings, one director to be recommended by Dolphin Energies and two external directors to be appointed on the basis of Binohon's recommendation after consultation with Instanz Holdings and with Dolphin Energies (at date of this Report, the Board of Directors of the company numbers seven members). With respect to the Bank's Board of Directors, the parties agreed to act in order for the Bank's Board of Directors to consist of at least 11 directors; that FIBI will support the appointment of five directors to be recommended by Binohon, one director to be recommended by Instanz Holdings and one director to be recommended by Dolphin Energies, and for external directors at the Bank to be elected by consensus, as well as an arrangement in case no such consensus is reached (at date of this Report, following the termination of office of the Chairman of the Board, the Board of directors of the Bank numbers ten members);
2) With respect to participation of the parties at general meetings of FIBI's shareholders, the parties agreed to vote at such meetings in line with Binohon's position (after discussion among the parties), except regarding decisions on the appointment of directors at FIBI and at the Bank (to which the aforementioned agreement shall apply), and except for transactions by FIBI, the Bank and/or a subsidiary company thereof with interested parties in them, for which arrangements were determined whereby such transactions will not be made without the written consent of Binohon and either of Instanz Holdings or Dolphin Energies;
3) Subject to any law, arrangements regarding the exercise of their control at FIBI concerning voting by FIBI at general meetings of the Bank's shareholders, as follows: (a) In all matters concerning the subjects on the agenda of the Bank's general meeting, in respect of which the Board of Directors of the Bank issued resolutions or recommendations to the meeting, FIBI will vote in accordance with the position of FIBI's Board of Directors; (b) In all matters concerning issues in respect of which the Board of Directors of the Bank did not issue resolutions or recommendations or which were submitted to the Bank's general meeting at the request of a shareholder, without their having been discussed by the Board of Directors of the Bank, FIBI will vote in accordance with the position of FIBI's Board of Directors, providing that one of the directors who was appointed by Instanz Holdings or by Dolphin Energies supports the position and in the absence of such support, will vote against the proposed resolution. In the event that a personal interest exists for both the directors who were appointed as said by Instanz Holdings or Dolphin Energies, FIBI will vote in accordance with the position of FIBI's Board of Directors. It is clarified that these arrangements do not apply to the appointment of directors at the Bank, to which the aforementioned agreement applies. It is also clarified in the agreement that the shareholders' agreement is not to be construed as constituting a voting agreement applying to the directors at FIBI or at the Bank;
4) Agreement to act in accordance with the permit from the Bank of Israel for holding the means of control at the Bank which was granted to the controlling shareholders;
5) Right of first refusal granted to Binohon for the purchase of FIBI shares which constitute part of the controlling stake held by Instanz Holdings and Dolphin Energies, should any of the latter enter into an agreement to sell these shares;

6) Tag-along right granted to Dolphin Energies and to Instanz Holdings at the time of sale by Binohon of FIBI shares which constitute part of the controlling stake held by Binohon;
7) Binohon's right to require Dolphin Energies and Instanz Holdings to join its sale of FIBI shares.

Transfer of control of FIBI was made in accordance with the permit issued by the Bank of Israel on August 27, 2003 (hereinafter: “the permit”), which has been amended from time to time, and which prescribed inter alia terms and obligations regarding the direct and indirect means of control in FIBI and the Bank, their transfer and the relationships between the recipients of the permit, FIBI and the Bank, including as follows (to the best of the Bank's knowledge):

1) For as long as the permit recipients are in control of FIBI, FIBI will not sell and will not transfer, directly or indirectly, means of control in the Bank if as a result of this, its rate of holding in the Bank falls below the minimum rate that was determined (48.34% of share capital and 67.25% of voting rights), and a minimum rate for the holdings in FIBI was also determined. The permit stipulates that the controlling group must at any time retain a minimum holding rate in FIBI and the Bank. For this purpose, the controlling group will purchase means of control if the rate of holding in any type of means of control falls below the minimum rate. It was also determined that if FIBI or the Bank issues rights to shares or any other security that is convertible into shares, the controlling group will retain the minimum rate of holding minus three percentage points when calculated at full dilution. Notwithstanding the foregoing, if an equalization of rights is made between the different types of shares existing at FIBI or at the Bank, the core of control or the minimum holding rate with respect to the voting rights, will be equalized to the minimum rate with respect to the share capital, providing that the group continues to retain sole and exclusive control in FIBI and the Bank. Additional means of control in the Bank may be purchased, to be held directly by FIBI, at a rate not exceeding 3% of the Bank's share capital and of the voting rights deriving from this additional holding. In addition, it was determined that FIBI's principal activity will be holding of the control in the Bank.
2) Since five years have passed since the permit was granted in accordance with the terms of the permit, the permit holders may sell or transfer means of control in FIBI, but only if (a) they sell or transfer jointly all means of control which constitute the minimum stake in FIBI, to an individual or group lawfully licensed to receive them; or (b) the buyer or transferee are lawfully licensed to purchase and receive the means of control, and to regularly act in coordination with the other permit holders, pursuant to the aforementioned shareholders' agreement in FIBI, or any other agreement approved by the Supervisor of Banks.
3) The means of control in FIBI (which were purchased when the control was purchased) which are held directly by the permit holders as well as the means of control in the Bank which are held by FIBI (at a minimum rate mentioned in Paragraph 1 above) will be deposited with an Israeli resident trustee, whose identity, deed of trust and instructions that were given to it will be subject to the approval of the Supervisor of Banks. The aforementioned means of control in FIBI and the Bank are held in the said manner in accordance with the conditions of the permit via Gai Trust and Management Co. Ltd.
4) Dividends will not be distributed from the earnings accrued at the Bank up to March 31, 2003, and if losses are accrued after this date, dividends will not be distributed unless these losses have been covered. The balance of the distributable surpluses at the Bank as of March 31, 2003 amounted to NIS 2,391 million.
5) Appointments of the Chairman of the Board of Directors and the CEO of the Bank will be subject to the consent of the Supervisor of Banks.
6) The permit recipients, including their relatives and corporations controlled by any of them, will not receive management fees or any proceeds and other benefit from the Bank or from corporations controlled by the Bank. They will however be entitled to provide services that are supplied on a regular basis by their providers and at market prices, after prior notification to the Supervisor of Banks at the conditions specified in the permit. Should the Supervisor of Banks notify that the service is not of a type that is provided on a regular basis to others or that the consideration therefore is unreasonable, the service is not to be provided. This directive will not apply to director remuneration which is paid at an equal amount to all the directors at the Bank.

7) Without the Supervisor of Banks' approval, the permit recipients and corporations under their control, including FIBI and corporations under its control, will not engage in any business activity, in Israel or outside Israel, which constitutes the receipt of deposits, the granting of credit or any other financial activity that involves an element of competition with the Bank's business activity. In addition, without the Supervisor of Banks' approval, the permit recipients or any of them or corporations under their control will not be interested parties (as defined in the permit), directors or senior executives at corporations that engage in the said business activities.
8) The purchase of means of control in FIBI or in the Bank, including provision of a guarantee for the said finance, will not be financed, directly or indirectly, by the Bank or by banking corporations under its control.
9) Minimum rates of holding have been determined for the permit recipients in FIBI as well as directives concerning arrangements within the group of permit recipients, including directives concerning their purchase of additional means of control in FIBI, from the aspect of the manner in which they hold additional means of control that will be purchased and from the aspect of the ratio of the rates of holding of FIBI shares among the members of the controlling group.
10) The controlling group undertook to inform the Bank's Board of Directors of the permit and its conditions, with the exception of certain conditions.

Following amendments to the permit, FIBI has been permitted to increase its holdings in the Bank by a rate not exceeding 8% of the Bank's share capital, over and above the holding rates detailed in the permit. Accordingly and taking into account FIBI's holdings in the Bank as at the date of this report, FIBI is entitled to increase its holdings in the Bank by a rate of up to 8% of the Bank's share capital and at a rate of voting rights deriving from this additional holding.
The permit states that the Bino family will hold the means of control in FIBI (being part of the control core acquired in 2003) through Binohon Ltd. directly; furthermore, following the amendments to the permit, the holders of Binohon may be Mr. Zadik Bino and/or the children of Mr. Zadik Bino - Mr. Gil Bino (acting as Director of the Bank), Ms. Hadar Bino Shmueli, Ms. Daphna Bino Or (hereinafter together - "the Bino family").
The Bino family is entitled to hold the surplus rate in FIBI (over and above the minimum rate that is determined in the permit, as stated above), through another corporation.

Additional details regarding the stake in FIBI held by the controlling shareholders
In accordance with the reports of FIBI, as of April 2, 2015 that Mr. Zadik Bino, and his children- Mr. Gil Bino, Mrs. Hadar Bino-Shmueli and Mrs. Dafna Bino-Or, hold equal controling share in Binohon- 25% each.

FIBI reported on March 24, 2013 that Instanz Holdings transfered to Instanz no. 2 (hereinafter - "Instanz 2") in an off-floor transaction 4,139,233 of FIBI shares which constitute 15.77% of the issued and paid-up share capital of FIBI and the entire hodlings of Instanz in FIBI. Instanz 2 is a company incorporated in Israel and is wholly owned subsidiary of Sing Acquisitions Pte. Ltd (hereinafter - "Sing") which is a company incorporated in Singapur and controlled solely by Messers Helen and Michael Abeles (via Australian entities), that also fully control (via the same Australian entities) Instanz. The transfered shares are held in trust for Instanz 2 by Gai Trust and Management Co. Ltd. After the transfer of the shares, Instanz 2 became a party to the shareholders agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz will continue to be a party to the shareholders agreement and will be a guarantor for the obligations of Instanz 2. In addition, the permit was amended, so that the holdings of the permit holders mentioned above in FIBI would be by means of Sing and Instanz 2 instead of by means of Instanz Pty. Ltd and Instanz holdings.

During the first quarter of 2019, FIBI reported that Instanz 2 Ltd. had sold a part of its holdings in FIBI. According to FIBI's reports, as of date of publication these financial ststements, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon - 28.54%, Instanz No. 2 Ltd. - 11.68% and Dolphin Energies Ltd - 11.68%.
(The holdings of all controlling shareholders in FIBI comprise the core control therein, in accordance with the control permit granted by Bank of Israel).

Details concerning FIBI's holdings in the Bank

To the best knowledge of the Bank, as of date of publication of the financial statements, FIBI holds 48.34% of the equity and voting rights in the Bank (a rate constituting the core of control, in accordance with the control permit of Bank of Israel).

FIBI is a publicly-traded company whose shares are listed on the Tel Aviv Stock Exchange.

INVOLVEMENT AND CONTRIBUTION TO THE COMMUNITY

The Bank continues to act in three central areas within the framework of the flagship program "Believing in you" with the aim of enlarging the field of voluntary activity among its employees, while creating social involvement with added value.

- Children and youth in risk situation - activity focuses on youth in risk situations who were expelled from different programs, with a view of providing them with the possibility of changing direction and live a normative life in the Israeli society. As part of the program, youth are being integrated into business ventures and different programs that combine study with work and promotion of business entrepreneurship with the help of development of qualifications and skills, while creating social involvement with added value, such as enterprises created by the Bank with different associations and diverse activities of employees with youths in risk situation:

  Unistream - Activity and training of young persons from social and geographic peripheral areas for integration into the business and entrepreneurship world alongside social responsibility, leadership and empowerment of youth. The program also uses tools belonging to the financial education world.

  Fidel - An enterprise for the education and social integration of youth belonging to the Ethiopian community. The program provides educational and social tools for strengthening the feeling of identity and relationship and the learning excellence and leadership capabilities.

  Good thought - is active in reducing social gaps by way of technological training for youth from peripheral areas. The program leverages the natural interest and attraction of youth to technology in order to integrate them into studies aimed at opening employment possibilities for them by means of training and qualification in an array of areas, such as cellular phone technicians, building Internet websites and application development.

  Fathers and sons on the field - father and sons teams creating a joint, exciting and significant meeting by means of a football game, in order to strengthen the bond and communication between them, for the creation of solidness and prevention of risky behavior, encouragement of sport activities and a healthy way of life.
- Female business entrepreneurship - involvement and accompaniment of learning groups for business entrepreneurship for women, while concentrating on enrichment and provision of tools in various subjects, such as: financial awareness, business entrepreneurship, management and excellence skills, and through personal support, tutoring and adoption of groups in various frames.
- Specific activity among special populations and sectors - the Bank encourages and supports volunteers from among Bank employees, interested in taking part in the project and contribute from their time, experience and expertise, in favor of needy populations and additional sectors. In this framework, the Bank and its subsidiary companies contribute to different associations and organizations in favor of assistance to populations coming from social and geographic peripheral areas, by cooperating in joint study, digital financial education, volunteering, assistance regarding food packages, language studies and rehabilitating social activity.

The total amount of donations contributed by the Bank Group in 2019, amounted to NIS 3 million.

ADDITIONAL INFORMATION

CHART OF PRINCIPAL INVESTEE COMPANIES

BANK MASSAD LTD	**UBANK TRUST COMPANY LTD**	**FIRST INTERNATIONAL ISSUES LTD**	**THE INTERNATIONAL UNIQUE INVESTMENT MANAGEMENT LTD**	**ISRAEL CREDIT CARDS LTD.**
(E. 51%, V. 51%)	(E. 100%, V. 100%)	(E. 100%, V. 100%)	(E. 100%, V. 100%)	(E. 28.2%, V. 21%)

V - Bank's Voting Right
E - Bank's Share in Equity

FIXED ASSETS

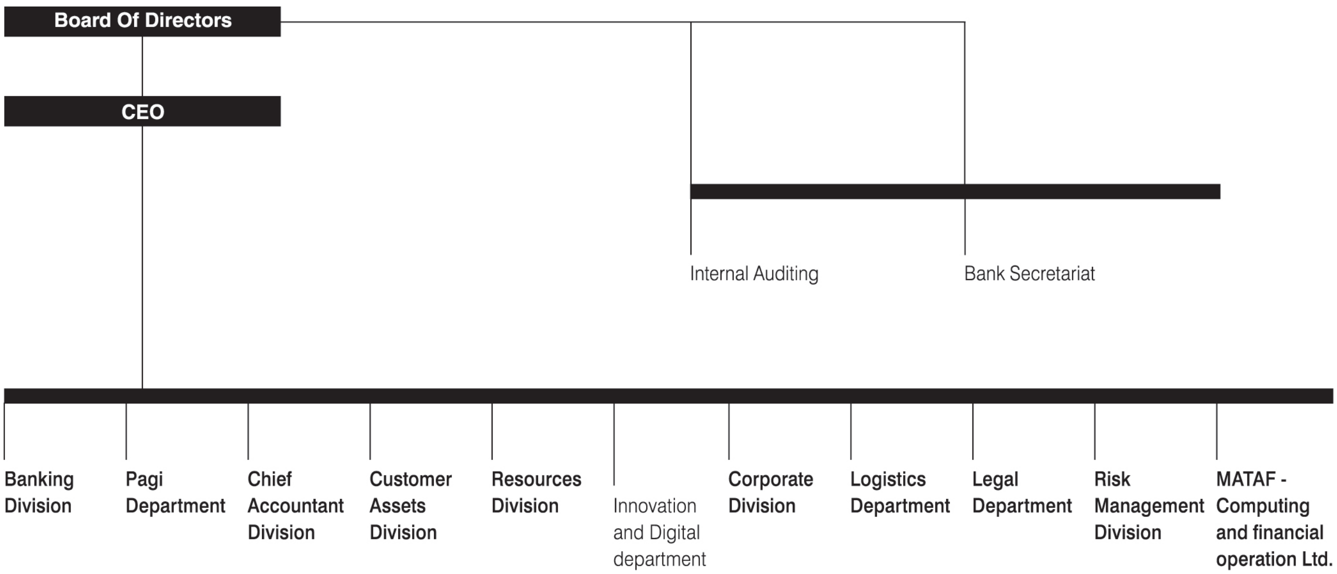
	As of December 31			
	2019			2018
	Cost	Accumulated depreciation	Balance	Balance
				NIS million
Buildings and land (including installations and improvements to rented properties)	**1,431**	**544**	**887**	921
Equipment (including computers, furniture and vehicles)	**571**	**462**	**109**	102
Total	**2,002**	**1,006**	**996**	1,023

As of December 31, 2019, the Bank Group owned or leased a total area of 56 thousand square meters in 48 properties (December 31, 2018 - 54 thousand square meters in 51 properties). In addition, the Group rents in Israel a total area of 41 thousand square meters in 120 properties throughout the country (December 31, 2018 - 47 thousand square meters in 140 properties). The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.

See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

HUMAN CAPITAL

The organizational structure of the Bank



As of December 31, 2019, the Bank Group operated via 151 branches and sub-branches (128 branches and sub-branches at the Bank and 23 branches and sub-branches in Massad). The Group examines on a current basis the developments in the profitability and business activity of the branches, relative to the target populations for which they were ment to serve, the targets set in the working plans of the banks in the Group and the ability to utilize to the fullness the potential in the geographical area in which each branch operates. In this framework the compatability of the branches distribution to the business environment is examined on a current basis, as well as to the changes in the areas comprising potential business development in the target population of each bank in the Group.

Human Resources Strategy

The Bank promotes a culture of professional development, excellence and an up to date professional qualification to face future challenges by means of training and qualification programs that provide knowledge and skills in a range of operating fields reflecting aspects of regulation, technology work procedures and more.

In the course of 2019, the Bank performed a comprehensive examination of the future labor world. In consequence thereof, training and development programs have been formulated in order to prepare the human capital to the challenges of the future in areas relating to employee skills, management tracks, adaptation of diagnosis processes and formulation of training programs.

In the learning processes, different expression and emphasis are given to central principles: initiating service, the banker as a financial expert, digital transformation, as well as a "skills basket" of the future labor market. Among the skills are: data management, interpersonal skills, subject presentation, innovation, change leadership, etc.

Management study courses are held for different employee grades, the aim of which is to intensify the management and leadership expertise of manager while preparing for the future challenges.

Personnel

The number of full-time employees in the First International Bank Group on December 31, 2019, based on a fulltime position, was 4,074 compared with 4,288 at the end of 2018, a decrease of 5.0%. Most of the decrease in the number of positions stems from the voluntary retirement plans. Within the framework of the efficiency measures activated by the Bank on a current basis, the Bank completed during the years 2018 and 2019, the execution of a number of voluntary retirement plans.

The following are details of manpower in the Bank Group in terms of positions(1)

	2019		2018	
	Annual average	**Balance at end of the year**	**Annual average**	**Balance at end of year**
The Bank- in Israel	**3,827**	**3,750**	3,314	3,253
Subsidiaries in Israel	**323**	**324**	1,045	1,035
Subsidiary abroad	**-**	**-**	2	-
Total at the Bank Group	**4,150**	**4,074**	4,361	4,288

(1) Number of positions include translation of overtime to position, with addition of external manpower which are not bank employees, that provide work services.

The following are details of the annual average (in terms of positions) of the Group's manpower according to supervisory segments of activity:

The positions presented according to segments of activity include position of employees directly employed in the segment and positions of head-office employees at different levels, which the cost of their employment was allocated to the segment. The computation of the said positions is based on the model of cost allocation which the Bank uses.

	Year 2019	**Year 2018**
Large business segment	**243**	264
Medium business segment	**179**	179
Small and minute business segment	**1,032**	1,071
Household segment	**2,269**	2,391
Private banking segment	**85**	89
Institutional entities	**273**	294
Financial management segment	**69**	73
Total	**4,150**	4,361

Human resource characteristics

The average seniority of the Bank’s employees amounted to 17.5 years compared with 18.6 years in 2018. The average age of the Bank's employees was 46.4 compared with 47.3 in 2018.

Employee mobility

In order to reduce as far as possible the risk and dependency on different office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility within the Bank and on rotation in office of employees. For this purpose, the Bank regularly moves employees in sensitive functions reaching the end of the period in office determined by procedures of the Bank and in accordance with a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the labor agreements at the Bank.

Human resource quality and managerial quality

The enhancement of human resources continued in 2019 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments and management development.

Management cadres and management development plans

The Bank’s management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.

The proportion of graduate employees at the Bank amounted to 62% at the end of 2019.

Code of Ethics

The Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees. The Bank's Code of Ethics was updated in cooperation with employees during 2016. During 2017, all employees and managers of the Bank paticipated in seminars on the Code of Ethics, as part of the assimilation of the subject.

Intra-organizational communication

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

Professional instruction and training

In 2019, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.

The instruction plan is including all the employees' needs- instruction in banking knowledge, according to areas of profession, managerial instruction according to rank and instruction in areas which are suitable platform for the extraction of employees' ability. In addition, great emphasis is placed on instruction of regulstion subjects, as an additional layer of proffesionalizm and excellence, specifically and as part of the current professional contents, in order to provide fully to the requirement of the regulation. In addition, the instruction in respect of the digital subjects, was broadened (internet website, cellular application and new products and services) in order to offer customers full support and awareness of all the Bank services.

The number of days of instruction at the Bank Group totaled 17,003 in 2019, which were equivalent to 67 employee positions and an average of 4 days of instruction a year per employee at the Group. This compares with 15,215 days of instruction in 2018, which were equivalent to 60 employee positions and an average of 3 days of instruction a year per employee.

LABOR RELATIONS AT THE BANK

Two labor organizations exist at the Bank: the union of managers and signatories and the union of clerks. Collective labor agreement are in effect at the Bank, which link to a certain extent, the employment terms of the clerks, managers and signatories to those agreed upon by the Management of Bank Leumi and the union of Bank Leumi employees.

Furthermore, Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees until such time when a new collective labor agreement, regulating their integration into the labor agreements in effect at the Bank, is signed.

Existing also at the Bank Group are employee unions that represent employees of Massad Bank and of MATAF.

In December 2019, the Bank signed with the union of managers and signatories and the union of clerks a special collective labor agreement for the years 2019-2022. This agreement, which is based on an agreement signed by Bank Leumi in July 2019, comprises a forward looking agreement, enabling the Bank to prepare for future challenges in the labor world, generally, and in the banking sector in particular.

The agreement allows for the recruitment of employees to technological positions under designated agreements, increasing the number of employees that the Bank may recruit under personal professional agreements, and establishes support by the employees committees of efficiency measures anticipated by the Bank in the coming years.

Following a demand presented in 2017 by the union of managers and signatories, a dispute regarding efficiency measures is pending at the Regional Labor Tribunal in Tel Aviv. The original demand of the union was to stop the organizational changes, which the Bank is introducing, until negotiations are held between the parties and a collective agreement in the matter is signed.

In view of the negotiations that are being held between the parties, the demand has been stayed until the beginning of March 2020. On March 1, 2020, a motion was filed with the Tribunal with the consent of the parties, requesting continuation of the stay of the demand until June 30, 2020.

A special collective labor agreement was signed in December 2019 with the union of MATAF employees, which terminates the labor dispute declared in September last.

COMPENSATION POLICY IN A BANKING CORPORATION

The compensation policy for officers of the Bank

The General Meeting of Shareholders of the Bank approved on February 16, 2014, a compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act and with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"). On April 12, 2016 the Compensation of Officers of Financial Corporation Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016 (hereinafter - "the Compensation Act"), was published.

On February 23, 2017, the General Meeting of Shareholders of the Bank approved an updated compensation policy for officers of the Bank under Section 267A of the Companies Act, for a period of three additional years. On February 26, 2020, the General Meeting of Shareholders of the Bank approved a new compensation policy for officers of the Bank under Section 267A of the Companies Act, for a period of three additional years. For additional details, see the immediate report by the Bank dated January 21, 2020 (ref. No. 008841-01-2020). The content of this report is included herewith by way of reference. The new compensation policy for officers of the Bank contains provisions considering the Directive, as amended from time to time, and the Compensation Act.

Employee compensation policy

In accordance with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"), in April 2017, the Bank approved, after the passing of three years from the previous approval, an updated compensation policy for all Bank employees, including central employees, as well as principles for the compensation policy of the Group, the compensation policy for officers, as approved on February 26, 2020 by the General meeting of Shareholders, forming a part thereof. The compensation policy for employees determines rules for the compensation of employees and of central employees, including in accordance with the Directive as amended from time to time, as well as instructions regarding the allocation of responsibility among the relevant functions at the Bank engaged in the compensation mechanism. Moreover, within the framework of the compensation policy of the Group principles were determined regarding the fixed compensation and the variable compensation for officers of the controlled companies, considering also the principles of the compensation policy to the office holders in the Bank.

For further disclosure in the matter of compensation, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk", available for perusal on the Internet.

MATERIAL AGREEMENTS

Apart from the agreements in the ordinary course of business, the agreements detailed below, which were signed in 2019 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the ordinary course of business:

1. Collective Labor Agreements:

   There are two employees' organizations at the Bank - the clerks' organization, and the managers and authorized signatories' organization.

   The following is a summary of the principal agreements signed with the two employees' organizations:

   - A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

     Apart from these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.
   - A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.
2. Indemnification and exemption for officers of the Bank and its subsidiaries - see Note 25C to the financial statements.
3. Deeds of trust and guarantees relating to the issue of bonds, subordinated debt notes and subordinated capital notes.

   First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated debt notes and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.

   Agreements were signed between First International Issues and the Bank, according to which, concerning issues whose proceeds are placed in deposits or subordinated deposits with the Bank at terms identical to the terms of the debt notes, part of which with the addition of a commission, the Bank is committed to bear all payments due to the holders of the debt notes, including the repayment of principal and payments of interest.

   The total revaluated value of the debt notes that were issued under the said deeds of trust, whose proceeds were deposited at the Bank, and which are held by the public, amounted to NIS 3,541 million on December 31, 2019 (including linkage increments, accrued interest, issue expenses, discounting and premium).
4. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.
5. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.
6. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.
7. Mutual guarantee for the MAOF Risk Fund and a risk fund that was established by the stock exchange - see Note 25.3.D and 25.3.E to the financial statements.
8. A merger agreement between the Bank and Otsar Hahayal. For details see Note 15.e. to the financial statements.

LEGISLATION AND REGULATORY INITIATIVES

Following are summarized details of the provisions of laws and regulatory initiatives, which were published and/or entered into effect during the reported year, and which materially affect or might affect the operations of the Bank. The Bank is studying the overall significance of the said provisions and initiatives regarding the income and expenses of the Bank, as well as the long-term business operating implications.

A part of the initiatives may have an adverse effect on the income of the Bank and/or its expenses. This effect cannot be quantified at this stage, due to dependence of different factors, including customer behavior, competitors' activity and additional regulatory changes, and with respect to legislation not yet finalized, it is not possible to assess whether it would be in fact be published and what would be its final content.

BANKING

Payment Services Act, 2019

The Act, which was published on January 9, 2019, with the aim of creating comprehensive and uniform regulation in the matter of payment services and payment means, while providing consumer protection to customers, had been modified to technological developments and is also based on European regulation in this field. The Act replaces the Charge Cards Act, 1986, and it applies to different providers of services, including banks, credit card companies, clearing agents and payment applications, on physical and non-physical means of payment, and on a variety of payment services, including the issue of payment means, clearing of payment transactions and management of a payment account (for the payer or the beneficiary) as well as payment services within the framework of certain operations conducted in current accounts.

The principal issues regulated in the Act relate to instructions in the matter of a payment services contract, proper disclosure and forbiddance of misleading, a payment transaction, stopping the use of payment means, misuse of payment means, authorization for charging an account and the manner of executing payment orders. Also determined in the Act are criminal sanctions and monetary sanctions in respect of certain violations of its provisions and forbiddance of the subjecting of its provisions unless it is in favor of the customer (except for certain Sections regarding customers of a certain class). The Act applies also to payment means issued prior to its effective date, and states instructions for the amendment of existing payment services agreements. The Act takes effect one year after its date of publication ("the original date"), and the Minister of Justice has the authority to instruct deferral of the original date for up to one additional year.

On February 18, 2020, the effective date of the Act was deferred to October 14, 2020, with retroactive effect as from January 9, 2020, the original date of entry into effect of the Act).

Consumer Protection Act (Amendment No. 57), 2018 and Proper Conduct of Banking Business Directive No. 426 in the matter of providing professional human answer to telephone calls

The Act, which took effect in July 2019, requires a banking corporation that provides a telephone service, including an automated system for routing calls, to provide a professional human response to the customer regarding, at least, certain services (treatment of failure, clarification regarding an account, termination of engagement). The Act also states that the waiting time for a professional human answer to a call regarding the said services, shall not exceed six minutes as from the beginning of the call, and that the customer should not be referred to a message leaving service, unless chosen by the customer.

On June 12, 2019, Proper Conduct of Banking Business Directive No. 426 was published, stating that banking corporations would be permitted to deviate from the waiting time stated in the Act, with respect to a proportion of calls as detailed in the Directive. Furthermore, the Directive establishes the duty to grant preference in line to senior citizens, defines requirements for monitoring and control and more.

Banking rules (Customer service) (Commission) (Amendment), 2019

The Rules, which were published on May 1, 2019, requires the Bank to perform once a year, a rentability examination according to defined rules, and to attach a customer, being a small business or a VAT authorized dealer, to a basic or expanded commission track, to the extent beneficial to the customer in comparison to the commissions that had been paid by him. Moreover, commissions regarding special services were added to the pricelist, and rules regarding the presentation of the pricelist and information regarding commission were updated.

Amendment to Proper Conduct of Banking Business Directive No. 470 in the matter of charge cards

An issuer bank is required, as from February 1, 2019, to transfer to the operator of the issue the proceeds of the transactions effected by use of charge cards that had been issued by the bank, in accordance with the dates determined in the cross-clearing agreement, irrespective of the customer's charging date or the identity of the clearing agent.

Banks and issue operators are required to submit to the Supervisor of Banks new operating agreements (including renewal of existing agreements that had been materially amended) which would be signed until January 31, 2022. A bank having a wide scope of operations is required to obtain the approval of the Supervisor of Banks to a new agreement (this requirement does not apply to the Bank).

An arrangement had been determined with respect to the manner of implementation of the provisions of the Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation amendments), 2017 in the matter of the presentation of information by a bank with respect to all charge cards held by the customer, payment in respect of which is made by way of charging the account of the customer (including off-banking cards), and on February 3, 2019, the Banking Regulations (Customer service) (Transmission of information from the issuer to the banking corporation), 2018, were published, with effect as from January 31, 2020, which regulate the details of the information that the issuer is required to pass on to the banking corporation, as well as the dates and manner for transmission of such information.

As from January 31, 2020, the duty of the issuer to provide the customer with information has been updated and expanded with respect to transactions made by the customer by use of a charge card. The information is to be provided via the communication channels made available to the customers, and at least through the issuer's internet website and through the cellular application.

Proper Conduct of Banking Business Directive No. 359A - Outsourcing

The Directive, effective as from March 31, 2020 (with the possibility of earlier adoption) determines principles for the transfer to outsourcing, on a continuous basis, of material operations included in the line of business of the banking corporation in accordance with the Banking Act (Licensing), while minimizing exposure to potential risks. The Directive imposes duties in the matter on the Board of Directors, Management and the internal audit, and, inter alia, requires due diligence review of the provider of the service, regularizing the outsourcing by way of a written agreement and formation of a comprehensive program for the management of outsourcing risks as well as a business continuity plan. The Directive forbids the outsourcing of duties of the Board of Directors and senior Management, and states condotions for the outsourcing of decisions requiring discretion as regards different matters, including the opening or closing of customer accounts and underwriting activity regarding loans. The Directive also states terms for the outsourcing of an initiated approach to households offering credit and the possibility of banking corporations to engage brokers has been enlarged.

The FX Golbal Code

In December 2019, Bank of Israel published a translation of the FX Global Code for foreign currency trading, adopted in the course of 2017 by leading banks around the world. The Code is aimed at providing a joint system of guidelines promoting honesty and the effective functioning of the foreign currency market activity. The Code, which outlines principles for an optimal practice for foreign currency trading, includes six leading principles - ethics, governance, execution, sharing of information, risk management and compliance, and approval and clearing processes. Bank of Israel has declared its commitment to the Global Code, and as an act preliminary to the adoption of the guidelines in the matter, requested the banking system to conduct and submit to it a detailed survey of the gaps existing between the practice actually in effect at each bank and the practice recommended by the Global Code.

CREDIT AND COLLATERAL

The Insolvency and Economic Recovery Act, 2018

The Act, which entered into effect on September 15, 2019, comprises a reform of the insolvency statutes applying to individuals and corporations, principally aimed at the economic recovery of the debtor. The Act imposes on secured creditors, including the Bank, various restrictions, including in respect of the realization of collateral securing credit extended prior to the publication of the Act. Thus, for instance, the collection of a debt secured by a floating pledge is restricted to 75% of the proceed of realization of the pledged assets, whereas the balance of the debt would be treated as an unsecured debt; the possibility of collecting interest in arrears from proceeds of pledged assets has been reduced, and interest in arrears accumulated in favor of a secured creditor after the issue of an Insolvency Order, shall not be considered a secured debt and shall be paid only after repayment of debts to regular creditors, whereas a regular creditor would not not be able, at all, to collect such accumulated interest in arrears; recognition of preference in the repayment of debts has been reduced and the share of the general creditors in the liquidation fund has been increased; an additional test has been adopted regarding the definition of insolvency, namely, the cash flow test, so that insolvency is declared also when a debtor is unable to repay his debts on their due date; the Court (and not the manner by which a creditor or the debtor had instituted insolvency proceedings, as in the past) has now the authority to decide whether economic recovery measures or liquidation proceedings would be adopted in respect of a corporation, against which a motion for instituting proceedings had been filed; relief and simplification of insolvency proceedings and exemption for individuals; and more.

Proper Conduct of Banking Business Directive No. 313 - Restrictions on liabilities of a single borrower and of a group of borrowers

An amendment to the Directive, published on October 27, 2019, intensifies the restrictions on a single borrower and on a group of borrowers engaged in speculative activity who are not supervised borrowers, imposing a uniform restriction on a single borrower engaged in speculative activity and on borrowers engaged in speculative activity belonging to that same borrower group, according to which their net indebtedness shall not exceed a rate of 10% of the equity of the banking corporation.

The new restriction takes effect on July 1, 2020, however, a banking corporation which on date of publication of the Amendment complied with the new restriction shall not deviate there from, and banking corporation which on date of publication of the Amendment exceeded the new restriction is required to reduce the excess by equal quarterly installments until July 1, 2020.

INCREASE IN COMPETITION

Credit Data Act, 2016

This Act, which entered into effect on April 12, 2019, with the aim of increasing competition in the retail credit market, regulates the gathering of credit data from sources mentioned therein, including banking corporations, credit card companies and judicial authorities, the maintenance thereof in the database managed by Bank of Israel. The Act also regulates the transfer of the data to authorised credit offices, inter alia, for delivery to credit providers, including banking corporations, for the purpose of considering the granting of credit to customers and/or securing the terms of a credit transaction, subject to the consent of the customer, and/or informing him, in accordance with the information requied.

The Act regulates the right of the customer to receive a summary statement of the data in his respect existing in the data base, to be removed from the database and to prevent delivery of certain credit data in his respect. The Act also includes criminal as well as monetary sanctions in respect of the violation of a part of its provisions.

Regulation of Off-banking Loans Act (Amendment No. 5), 2017

The Amendment, which took effect on August 25, 2019, changed the name of the Act to Fair Credit Act,1993, applying also to institutional bodies, including banks. It also changed all the provisions of the Act, inluding those with respect to the process of granting and collection of credit, stated maximum amounts with respect to the cost of credit and maximum rates of interest appling to credit in arrears, as well as imposed criminal and administrative sanctions in respect of different violations. The Act applies to individual borrowers only (the Minister of Finance has the authority to expand its application also to corporations of a class to be determined), and to contracts signed as from its effective date onwards.

The Regulation of Off-Banking Loans Regulations, 2018, which took effect on the same date, exluded from the application of the Act certain classes of credit transactions, as well as certain classes and amounts of expenses incurred in order to extend loans, which should not be included in the computation of the actual cost of the credit.

Proper Conduct of Banking Business Directive No. 449 - Simplifying agreements with customers

The Directive, which took effect on August 25, 2019, forms a part of the implementation of the requirements of the Fair Credit Act discussed above, with respect to contracts with banks. The Directive states that a banking corporation has to present to the customer, in a summarized and concise form on the first page of the contract, the variable and material terms and details applying to the specific engagement.

Amendment No. 27 to the Banking Act (Customer srvice) regarding the transfer of a customer between banks

The Amendment, which was published on March 22, 2018, as part of the Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018, require banks to allow the transfer of the financial activity of a customer from the bank, in which it is being conducted ("the bank of origin") to another bank ("the accepting bank") in an online, convenient, reliable and secuted manner, with no charge to the customer in respect of such operation, and within seven business days from the date on which the bank of origin received from the accepting bank notice of approval of the customer's request.

The Governor of Bank of Israel, with the consent of the Minister of Finance, may determine that the said instructions shall not apply to certain banks (a bank having a low volume of operations, the value of its assets not exceeding 5% of the total assets of all banks, and also an online bank), or determine that the instructions shall apply at the end of a period to be determined by the Governor, or that they shall apply to such banks only as an accepting bank or as a bank of origin.

The Act takes effect at the end of three years from date of publication thereof (with the possibility of deferment for two additional periods of six months each).

During the months of September and October 2019, the Union of Banks applied to the Minister of Finance and to the Governor of Bank of Israel with a request to act under the authority conferred upon them for postponement the date of entry of the Act into effect.

Proper Conduct of Banking Business Directive No. 448 - the online transfer between banks of the financial activity of a customer, published on December 16, 2019, details the rules that the bank of origin and the accepting bank have to apply with respect to the handling of the request of a customer for the transfer of his account.

The Banking Rules (Customer service) (Transfer between banks of the financial activity of customers), which were published on December 17, 2019, state the classes of accounts and the classes of financial operations to which the said Amendment applies.

On February 14, 2019, the Competition Commissioner announced his decision regarding the amendment of the decision for exemption issued on September 20, 2018, according to which, the exemption from approval of a binding arrangement between the Bank Clearing Center Ltd. (hereinafter - "MSB"), Bank Hapoalim Ltd., Bank Leumi leIsrael Ltd., Israel Discount Bank Ltd. Mizrahi Tfachot Bank Ltd and the Bank, shall apply also to the activity of MSB in the establishment of a system for the movement of accounts between banks.

Proper Conduct of Banking Business Directive No. 368 - application in Israel of the open banking Standard

In accordance with the Increase in Competition and Decrease in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, a banking corporation is required, at the request of a customer, to enable a supplier of a cost comparison service to observe the financial information of that customer existing in the hands of a banking corporation. Concurrently with the formation process of the legislation required to enable the above requirement, Bank of Israel published this Directive on February 24, 2020, in view of the great importance it sees in the implementation of open banking and in its potential effect on financial services and on the way these are consumed by customers, and this, alongside the exposure of all players in the system and customers to many more risks. The Directive applies to banks and to credit card companies, and the infrastructure of open banking shall be open to third parties once the legislation in the matter is completed and the regulation would apply to them.

The Directive includes provisions in matters of corporate governance, in the manner in which the consent of the customer, as a source of information or as manager of a payment account, is obtained, rules regarding the level of service, principles for the management of data protection risk and cyber defense, duties applying to banks and to credit card companies choosing to provide services of information consumer or of payments initiator, the manner of treating approaches by customers and the reports required for supervision.

The Directive takes effect on December 31, 2020, except for the matter of delivery of information regarding charge cards, placing a one-time payment order in shekel and providing information regarding the status of a payment order, as stated, which take effect on July 1, 2021, and in the matter of delivery of information regarding savings and deposit accounts, credit and securities, which take effect on December 31, 2021.

Antitrust Act (Amendment No. 21), 2019

This Amendment, which was published on January 10, 2019, changed the name of the Act to "Economic Competition Act"; increased the responsibility of officers of a corporation; expanded the definition of "owner of a monopoly" so that such an owner would also be one who exercises a significant market power even if he does not hold a market share in excess of 50%; increased the maximum amount of the monetary sanctions, which may be imposed on a corporation that had violated the law; and imposed stricter maximum criminal punishment regarding binding arrangement offences.

Following the Amendment, the Supervisor of Banks issued a letter to all banking corporations requiring them to manage the risks stemming from the expansion of the definition of "owner of a monopoly", as stated, including verification of the existence of an administrative framework that coordinates the actions taken by the bank to identify, monitor, control and manage the risks stemming from this Amendment, verify the existence at the bank of appropriate knowledge regarding competition laws, update and integrate a policy and work procedures ensuring the absence of misuse of significant market power, and hold discussions in this matter by Management and by the Board of Directors, at frequencies determined by the bank.

THE CAPITAL MARKET

Terms of the General Permit under Section 49A of the Securities Act

The Securities Authority has published terms for a general permit under Section 49A of the Securities Act, 1968, which, when fulfilled, the Chairman of the Securities Authority may permit a person to offer securities trading services by means of a securities trading system operated by a stock exchange outside Israel, if he finds that no harm shall be caused by it to the interests of the investor public in Israel.

The permit shall be granted based upon a declaration of the person requesting the permit that he complies with the relevant terms for receiving a permit to offer the said services.

As from July 30, 2019, it is forbidden to operate without a permit. However, an entitiy, which had submitted a request for the issue of a permit prior to May 30, 2019, may continue to operate until a decision is taken regarding his request.

Prior to the above mentioned date, the Bank had applied to the Securities Authority for the issue of a permit, as stated. The requested permit has not yet been received.

Proper Conduct of Banking Business Directive No. 332 - Acquisition by banking corporations of own shares

An amendment to the Directive, which was published on February 28, 2019, removed the prohibition on the self-acquisition of shares issued by the banking corporation, stated the terms under which banking corporations would be able to purchase their own shares, and updated the restrictions applying to the granting of finance collateralized by securities issued by the banking corporation.

FOREIGN RESIDENTS

Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial accounts), 2019

The Regulations, which were published on February 6, 2019, adopt the international standard regarding the exchange of information ("the CRS standard") and require financial institutions, including banks, to perform due diligence examinations regarding accounts of individuals and entities, classify accounts of foreign residents according to the tax laws applying in their countries of residence and deliver the required information to the Israeli Tax Authorities, for delivery to the countries of tax residence of the account holders, being countries with which the State of Israel had signed agreements for the exchange of information

PROHIBITION ON MONEY LAUNDERING

Reducing the Use of Cash Act, 2018

The Act, inter alia, imposes restrictions on cash transactions and on the cashing of checks, states monetary sanctions and penalties in respect of different violations of its provisions, as well as stating that a fraud committed in trying to evade the bans stated in the Act is a criminal offense. The Act entered into effect on January 1, 2019, except for the ban on the cashing of checks and the monetary sanctions imposed in respect of the violation thereof, which took effect on July 1, 2019.

LEGAL PROCEEDINGS

Note 25g to the financial statements describes material legal actions pending against the Bank and against its consolidated subsidiaries.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- On June 26, 2019, Midrug raised the evaluation of the Bank's internal financial stability to aa2.il/stable outlook, the Bank's long-term deposits and the senior debt to Aaa.il/stable outlook rating, its subordinate debt notes to Aa1.il/stable outlook, its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating. The Bank's short-term deposits remained at the rating of P-1.il
- On July 11, 2019, S&P Maalot raised the issuer rating of the Bank to ilAAA/Stable and its subordinate debt notes to ilAA+ and ratified the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.
- On December 19, 2019, the international rating agency Moody's raised the rating of foreign-currency and local currency long-term deposits with the Bank to A2, and the short-term deposits to "Prime-1", and changed the rating outlook to "stable".

THE SUPERVISORY SEGMENTS OF ACTIVITY - ADDITIONAL DETAILS

For the description of segments of activity see note 28 to the financial statements and the chapter of segments of activity in the Board of Directors and Management report.

Structure of the competition in the segment and changes in it

CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks.
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products.
- Apart from the expansion of the non-bank market in Israel as a substitute for bank credit as described above, globalization and liberalization have provided the Corporate Segment's customers with opportunities for raising capital in local and worldwide capital markets, and with ready access to credit and banking services from foreign banks and financial entities abroad.

THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private brokers and investments in overseas markets.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertising campaigns, focus on personal service and creation of a customer adjusted overall service program.
- In the upper section of the private banking segment, as well as with respect to activity with foreign resident customers, the Group faces competitors in the global private banking market, which is characterized by a specially high level of competition. In particular, the Group competes against Israeli banks operating abroad, against banks and other institutions specializing in private banking for the foreign population and against international investment houses.
  In order to improve the Group preparedness in attending to the upper section of private banking segment, the Bank changed Ubank's branches into platinum centers which attend the said customers with a service model that is uniquely tailored to the character of the customers' activity and their needs.
- The Bank and the Group are constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones, and development of advanced capital market services.

THE MEDIUM BUSINESS SEGMENT

- The competition in the banking system for commercial segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most commercial customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- The Bank uses the competitive advantage existing in the Group's activity and offers customers to enjoy the factoring services and the financing within the framework of the small and middle market business fund.
- Competition also exists in investment and savings activity with the segment's middle-market customers, against other banks and against non-bank entities that specialize in the capital and money markets (including insurance companies and investment houses).

THE HOUSEHOLD SEGMENT

In recent years the level of competition on the household segment is rising- both in the banking system and against entities outside the banking system. As part of competition on market share the Group performs needed changes, including adjustment of preparations in the following areas:

- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self-service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more. The merger of the activity of Otsar Hahayal into the Bank, as from the year 2019, greatly contribute to improve and widen the service provided to the defense force personal and its retirees.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group, each member bank in its own specialized field, and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.
- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including advanced automatic appliances, the Internet website, cellular phone applications which are in a state of constant expansion of the banking services included in them, such as FIBI - the virtual banker, biometric identification, expansion of the service of information in a click- allowing the customer receiving information without the need to identify, sending personal massages to customers, correspondence with a banker via mail or sms in the website or the application, etc.
- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments.
- Development of mortgage activity as a supplementary retail product.

THE SMALL AND MINUTE BUSINESS SEGMENT

The competition in the Small and minute Business Segment has increased during recent years. In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. During recent years however, competition has also increased from the small banks, which are expanding their activity with the segment. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. Additional factor contributing to the intensification of the competition in the segment is the existence of specific government funds for granting credit to small and medium sized businesses.

TECHNOLOGICAL IMPROVEMENTS AND INNOVATION

The information technology group of the Bank operates and maintains the hardware and software of the core systems and digital of the central and decentralized servers and of the end stations, the communication and telephone network, as well as all the designated and related equipment connected to information technology at the branches and at the head offices of the Group companies.

The computer strategy program

As part of the preparations for anticipated changes in the banking world, which include regulation that encourages competition and open banking, entry of "bigtech" and fintech companies into financial activity in Israel, the need for constant improvement of service and of the customer's digital experience and operational efficiency, the Board of Directors approved at the beginning of 2019, a multi-annual strategic program for the computer and technology group, which include an answer to these challenges. The program is based on the adoption of modern technologies, cutting the "time to market", reduction in expenses, focusing the operation of the mainframe computer, accelerating digital processes, accelerating sales, improving customer experience, strengthening cyber defense and data protection.

Following are the principal issues concerning the technological infrastructure in 2019:

The strengthening of digital capabilities in the capital market operations

- Smartrade - development of the capability for the formation of a trading strategy on the website of the Bank and on the Application and the ability to realize it in an automated manner.
- Advise me - automation and improving efficiency of advisory services to customers active on the capital market and simplifying the process of executing the recommendations of the advisory process.
- Digital on boarding for advisory services regarding the capital market - a simple and exciting process of joining the capital market advisory services.
- The new capital market website (Internet and Application - innovative information and trading website on the capital market, which includes dynamic presentations and decision supporting tools of the most advanced in Israel and in the world.

Improving customer service

- Replacement of the ATM system - the countrywide addition and upgrading of the ATM machines and customer self-service stations and the implementation of an innovative and advanced interface.
- Correspondence with a banker - transmission of notices and requests to the personal banker on all channels and at any time.
- Use of the digital channels to arrange a meeting at the branch - the possibility of arranging a meeting with a banker at the branch using the digital channels.
- Mortgages on the Bank's website - a new service allowing the customer to constantly obtain information regarding the status of his mortgages and loans.

A multi-brand branch

Conducting at the Bank's branch, the customer's operations in any of the Group's brands while maintaining in the customer's account the brand's original characteristics.

Open banking and innovation

- Open banking (API) - externalization of services to business customers interested in an API based engagement, directly or through providers of business management services.
- Robotic Process Automation (RPA) - the integration of robots in business and operating processes, improving customer service and efficiency.

Data protection

- Mobile approve - the possibility of entering the operations website by way of a strong identification on the mobile application.

The extensive work in this field performed in 2019, is expressed in feedbacks by Bank customers, as reflected in satisfaction surveys by Bank of Israel.
Surveys of small businesses show that the Bank is positioned in first place as to satisfaction from the Application and from the website.

APPENDICES

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing assets									
Credit to the public(2)(5)									
- In Israel	**80,171**	**2,797**	**3.49**	77,088	2,764	3.59	72,904	2,531	3.47
Total	**80,171**	**2,797**	**3.49**	77,088	2,764	3.59	72,904	2,531	3.47
Credit to the Government									
- In Israel	**675**	**2**	**0.30**	661	4	0.61	639	-	-
Total	**675**	**2**	**0.30**	661	4	0.61	639	-	-
Deposits with banks									
- In Israel	**2,291**	**23**	**1.00**	2,419	14	0.58	2,284	13	0.57
- Outside Israel	**4**	**-**	**-**	14	-	-	120	1	0.83
Total	**2,295**	**23**	**1.00**	2,433	14	0.58	2,404	14	0.58
Deposits with central banks									
- In Israel	**26,722**	**68**	**0.25**	27,783	32	0.12	24,964	26	0.10
Total	**26,722**	**68**	**0.25**	27,783	32	0.12	24,964	26	0.10
Securities borrowed or repurchased									
- In Israel	**429**	**1**	**0.23**	760	1	0.13	694	1	0.14
Total	**429**	**1**	**0.23**	760	1	0.13	694	1	0.14
Held to maturity or available for sale bonds(3)									
- In Israel	**10,592**	**193**	**1.82**	10,741	182	1.69	11,961	126	1.05
- Outside Israel	**-**	**-**	**-**	-	-	-	45	-	-
Total	**10,592**	**193**	**1.82**	10,741	182	1.69	12,006	126	1.05
Trading bonds									
- In Israel	**218**	**1**	**0.46**	428	4	0.93	788	5	0.63
Total	**218**	**1**	**0.46**	428	4	0.93	788	5	0.63
Assets held for sale									
- Outside Israel	**-**	**-**	**-**	-	-	-	111	1	0.90
Total	**-**	**-**	**-**	-	-	-	111	1	0.90
Total Interest-bearing assets	**121,102**	**3,085**	**2.55**	119,894	3,001	2.50	114,510	2,704	2.36
Non-interest-bearing debtors regarding credit cards	**2,762**			2,641			2,501		
Other non-interest-bearing assets(4)	**12,396**			12,757			12,251		
Total assets	**136,260**			135,292			129,262		
Total interest-bearing assets attributed to activity outside Israel	**4**	**-**	**-**	14	-	-	276	2	0.72

See notes in page 317.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing liabilities									
Deposits from the public									
- In Israel									
Demand	**18,981**	**24**	**0.13**	17,412	4	0.02	17,633	2	0.01
Fixed-term	**45,698**	**342**	**0.75**	46,429	316	0.68	44,571	220	0.49
Total	**64,679**	**366**	**0.57**	63,841	320	0.50	62,204	222	0.36
Deposits from the Government									
- In Israel	**233**	**4**	**1.72**	242	4	1.65	255	5	1.96
Total	**233**	**4**	**1.72**	242	4	1.65	255	5	1.96
Deposits from banks									
- In Israel	**1,042**	**4**	**0.38**	1,023	4	0.39	988	5	0.51
Total	**1,042**	**4**	**0.38**	1,023	4	0.39	988	5	0.51
Bonds									
- In Israel	**3,980**	**106**	**2.66**	5,094	184	3.61	5,356	165	3.08
Total	**3,980**	**106**	**2.66**	5,094	184	3.61	5,356	165	3.08
Other liabilities									
- In Israel	**202**	**3**	**1.49**	277	3	1.08	267	5	1.87
Total	**202**	**3**	**1.49**	277	3	1.08	267	5	1.87
Total Interest-bearing liabilities	**70,136**	**483**	**0.69**	70,477	515	0.73	69,070	402	0.58
Non-interest-bearing deposits from the public	**50,142**			49,507			45,307		
Non-interest-bearing creditors in respect of credit cards	**2,638**			2,641			2,501		
Other non-interest-bearing liabilities(6)	**4,661**			4,434			4,197		
Total liabilities	**127,577**			127,059			121,075		
Total capital resources	**8,683**			8,233			8,187		
Total liabilities and capital resources	**136,260**			135,292			129,262		
Interest spread			**1.86**			1.77			1.78
Net return on interest-bearing assets (7)									
- In Israel	**121,098**	**2,602**	**2.15**	119,880	2,486	2.07	114,234	2,300	2.01
- Outside Israel	**4**	**-**	**-**	14	-	-	276	2	0.72
Total	**121,102**	**2,602**	**2.15**	119,894	2,486	2.07	114,510	2,302	2.01
Total interest-bearing liabilities attributed to activity outside Israel	**-**	**-**	**-**	-	-	-	-	-	-

See notes in page 317.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest-bearing assets and liabilities attributed to activity in Israel

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)
		NIS million	%		NIS million	%		NIS million	%
Non-linked Israeli currency									
Total interest-bearing assets	**98,352**	**2,442**	**2.48**	96,190	2,266	2.36	90,403	2,127	2.35
Total interest-bearing liabilities	**53,096**	**(159)**	**(0.30)**	53,051	(110)	(0.21)	50,821	(96)	(0.19)
Interest spread			**2.18**			2.15			2.16
Israeli currency linked to the CPI									
Total interest-bearing assets	**10,623**	**336**	**3.16**	10,717	427	3.98	11,563	348	3.01
Total interest-bearing liabilities	**8,677**	**(179)**	**(2.06)**	10,013	(299)	(2.99)	10,551	(244)	(2.31)
Interest spread			**1.10**			0.99			0.70
Foreign currency (including linked to f-c)									
Total interest-bearing assets	**12,123**	**307**	**2.53**	12,973	308	2.37	12,268	227	1.85
Total interest-bearing liabilities	**8,363**	**(145)**	**(1.73)**	7,413	(106)	(1.43)	7,698	(62)	(0.81)
Interest spread			**0.80**			0.94			1.04
Total activity in Israel									
Total interest-bearing assets	**121,098**	**3,085**	**2.55**	119,880	3,001	2.50	114,234	2,702	2.36
Total interest-bearing liabilities	**70,136**	**(483)**	**(0.69)**	70,477	(515)	(0.73)	69,070	(402)	(0.58)
Interest spread			**1.86**			1.77			1.78

See notes in page 317.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analysis of changes in interest income and expenses

	Year ended December 31, 2019 compared with the year ended December 31, 2018			Year ended December 31, 2018 compared with the year ended December 31, 2017		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
						NIS million
Interest-bearing assets						
Credit to the public						
In Israel	**108**	**(75)**	**33**	150	83	233
Total	**108**	**(75)**	**33**	150	83	233
Other interest-bearing assets						
In Israel	**(14)**	**65**	**51**	8	58	66
Outside Israel	**-**	**-**	**-**	(2)	-	(2)
Total	**(14)**	**65**	**51**	6	58	64
Total interest income	**94**	**(10)**	**84**	156	141	297
Interest-bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**2**	**18**	**20**	-	2	2
Fixed-term	**(5)**	**31**	**26**	13	83	96
Total	**(3)**	**49**	**46**	13	85	98
Other interest-bearing liabilities						
In Israel	**(25)**	**(53)**	**(78)**	(7)	22	15
Total	**(25)**	**(53)**	**(78)**	(7)	22	15
Total interest expenses	**(28)**	**(4)**	**(32)**	6	107	113
Total interest income less interest expenses	**122**	**(6)**	**116**	150	34	184

(1) On the basis of opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-interest-bearing income.
(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive income in the item "adjustments to fair value of available for sale bonds" (2018 and 2017- securities) for the year ended on December 31, 2019 in the amount of NIS 45 million (year ended on December 31, 2018 amount of NIS 20 million was deducted and for the year ended on December 31, 2017 an amount of NIS 31 million was added).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 181 million, NIS 187 million and NIS 193 million were included in interest income for the years ended December 31, 2019, December 31, 2018 and December 31, 2017 respectively.
(6) Including derivative instruments.
(7) Net return- net interest income to total interest-bearing assets.
(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.

APPENDIX 2 -
CONSOLIDATED STATEMENTS OF INCOME - MULTI-PERIOD DATA

(NIS million)

	Year ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
Interest Income	**3,085**	3,001	2,704	2,526	2,260
Interest Expenses	**483**	515	402	357	307
Interest Income, net	**2,602**	2,486	2,302	2,169	1,953
Expenses from credit losses	**138**	166	121	80	18
Net Interest Income after expenses from credit losses	**2,464**	2,320	2,181	2,089	1,935
Non-Interest Income					
Non Interest Financing income	**225**	231	83	115	149
Commissions	**1,286**	1,325	1,305	1,300	1,378
Other income	**9**	81	62	65	14
Total non-Interest income	**1,520**	1,637	1,450	1,480	1,541
Operating and other expenses					
Salaries and related expenses	**1,601**	1,696	1,579	1,581	1,589
Maintenance and depreciation of premises and equipment	**353**	376	380	409	428
Amortizations and impairment of intangible assets and goodwill	**92**	91	94	116	131
Other expenses	**608**	656	554	577	562
Total operating and other expenses	**2,654**	2,819	2,607	2,683	2,710
Profit before taxes	**1,330**	1,138	1,024	886	766
Provision for taxes on profit	**478**	408	358	398	326
Profit after taxes	**852**	730	666	488	440
The bank's share in profit of equity-basis investees, after taxes	**51**	37	54	72	38
Net profit:					
Before attribution to non-controlling interests	**903**	767	720	560	478
Attributed to non-controlling interests	**(38)**	(34)	(42)	(39)	(32)
Attributed to shareholders of the Bank	**865**	733	678	521	446
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	**8.62**	7.31	6.76	5.19	4.45

APPENDIX 3 -
CONSOLIDATED STATEMENTS OF INCOME - MULTY QUARTER DATA

(NIS million)

Year				2019				2018
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Income	**748**	**699**	**911**	**727**	772	756	819	654
Interest Expenses	**88**	**57**	**246**	**92**	119	122	204	70
Interest Income, net	**660**	**642**	**665**	**635**	653	634	615	584
Expenses from credit losses	**46**	**33**	**23**	**36**	36	49	54	27
Net Interest Income after expenses from credit losses	**614**	**609**	**642**	**599**	617	585	561	557
Non-Interest Income								
Non Interest Financing income	**50**	**63**	**66**	**46**	36	108	47	40
Commissions	**326**	**325**	**315**	**320**	340	322	325	338
Other income	**4**	**3**	**1**	**1**	4	2	52	23
Total non-Interest income	**380**	**391**	**382**	**367**	380	432	424	401
Operating and other expenses								
Salaries and related expenses	**386**	**394**	**419**	**402**	455	406	389	446
Maintenance and depreciation of premises and equipment	**83**	**90**	**88**	**92**	91	95	94	96
Amortizations and impairment of intangible assets	**24**	**22**	**23**	**23**	24	22	22	23
Other expenses	**161**	**143**	**148**	**156**	156	178	150	172
Total operating and other expenses	**654**	**649**	**678**	**673**	726	701	655	737
Profit before taxes	**340**	**351**	**346**	**293**	271	316	330	221
Provision for taxes on profit	**121**	**119**	**127**	**111**	106	103	117	82
Profit after taxes	**219**	**232**	**219**	**182**	165	213	213	139
The bank's share in profit of equity-basis investee, after taxes	**12**	**15**	**14**	**10**	9	9	13	6
Net profit:								
Before attribution to non-controlling interests	**231**	**247**	**233**	**192**	174	222	226	145
Attributed to non-controlling interests	**(9)**	**(11)**	**(9)**	**(9)**	(9)	(10)	(7)	(8)
Attributed to shareholders of the Bank	**222**	**236**	**224**	**183**	165	212	219	137

				NIS				NIS
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	**2.21**	**2.35**	**2.24**	**1.82**	1.65	2.11	2.18	1.37

APPENDIX 4 -
CONSOLIDATED BALANCE SHEETS - MULTI-PERIOD DATA
(NIS million)

	As at December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
Assets					
Cash and deposits with banks	**37,530**	31,303	39,186	29,150	30,727
Securities	**10,995**	12,595	10,238	15,776	16,439
Securities which were borrowed	**9**	863	813	414	353
Credit to the public	**88,829**	85,160	81,216	78,175	73,379
Provision for Credit losses	**(930)**	(868)	(838)	(847)	(824)
Credit to the public, net	**87,899**	84,292	80,378	77,328	72,555
Credit to the government	**1,039**	700	675	654	669
Investments in investee companies	**605**	606	565	514	438
Premises and equipment	**996**	1,023	1,095	1,133	1,229
Intangible assets	**248**	239	235	243	272
Assets in respect of derivative instruments	**1,091**	1,399	1,342	1,332	1,636
Other assets	**698**	1,100	1,186	1,020	1,158
Assets held for sale	**-**	-	4	343	-
Total assets	**141,110**	134,120	135,717	127,907	125,476
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	**120,052**	111,697	113,511	105,817	103,262
Deposits from banks	**1,137**	1,150	1,133	755	1,565
Deposits from the Government	**353**	982	960	570	511
Bonds and subordinated capital notes	**3,674**	4,989	5,249	5,801	5,862
Liabilities in respect of derivative instruments	**1,247**	1,294	1,318	1,356	1,659
Other liabilities	**5,723**	5,595	5,162	4,929	4,954
Liabilities held for sale	**-**	-	-	745	-
Total liabilities	**132,186**	125,707	127,333	119,973	117,813
Temporary equity - non-controlling interest	**-**	-	338	330	326
Capital attributed to the shareholders of the Bank	**8,568**	8,093	7,756	7,321	7,073
Non-controlling interests	**356**	320	290	283	264
Total equity	**8,924**	8,413	8,046	7,604	7,337
Total liabilities, temporary equity and shareholders' equity	**141,110**	134,120	135,717	127,907	125,476

APPENDIX 5 -
CONSOLIDATED BALANCE SHEETS - MULTY QUARTER DATA
(NIS million)

Year				**2019**				**2018**
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Assets								
Cash and deposits with banks	**37,530**	**34,516**	**33,900**	**34,108**	31,303	32,835	33,090	34,481
Securities	**10,995**	**10,453**	**10,587**	**11,338**	12,595	11,880	11,919	10,471
Securities which were borrowed	**9**	**126**	**416**	**664**	863	904	550	637
Credit to the public	**88,829**	**88,218**	**86,436**	**87,246**	85,160	86,367	83,811	82,745
Provision for Credit losses	**(930)**	**(908)**	**(887)**	**(893)**	(868)	(883)	(860)	(841)
Credit to the public, net	**87,899**	**87,310**	**85,549**	**86,353**	84,292	85,484	82,951	81,904
Credit to the government	**1,039**	**680**	**684**	**676**	700	672	681	677
Investments in investee companies	**605**	**607**	**589**	**617**	606	596	585	571
Premises and equipment	**996**	**988**	**1,001**	**1,011**	1,023	1,025	1,031	1,046
Intangible assets	**248**	**227**	**228**	**231**	239	223	227	228
Assets in respect of derivative instruments	**1,091**	**1,078**	**938**	**941**	1,399	1,009	1,263	1,189
Other assets	**698**	**1,003**	**1,175**	**1,044**	1,100	1,223	1,950	1,397
Assets held for sale	**-**	**-**	**-**	**-**	-	-	7	35
Total assets	**141,110**	**136,988**	**135,067**	**136,983**	134,120	135,851	134,254	132,636
Liabilities and Shareholders' Equity								
Deposits from the public	**120,052**	**116,292**	**113,716**	**115,349**	111,697	113,804	112,555	111,913
Deposits from banks	**1,137**	**464**	**954**	**1,064**	1,150	857	460	359
Deposits from the Government	**353**	**368**	**466**	**779**	982	948	613	749
Bonds and subordinated capital notes	**3,674**	**3,690**	**4,034**	**4,270**	4,989	5,155	5,012	4,980
Liabilities in respect of derivative instruments	**1,247**	**1,298**	**1,104**	**1,021**	1,294	942	1,124	967
Other liabilities	**5,723**	**6,066**	**6,088**	**5,962**	5,595	5,735	6,225	5,598
Total liabilities	**132,186**	**128,178**	**126,362**	**128,445**	125,707	127,441	125,989	124,566
Capital attributed to the shareholders of the Bank	**8,568**	**8,461**	**8,366**	**8,208**	8,093	8,096	7,961	7,772
Non-controlling interests	**356**	**349**	**339**	**330**	320	314	304	298
Total equity	**8,924**	**8,810**	**8,705**	**8,538**	8,413	8,410	8,265	8,070
Total liabilities and shareholders' equity	**141,110**	**136,988**	**135,067**	**136,983**	134,120	135,851	134,254	132,636

THE FIRST INTERNATIONAL BANK OF ISRAEL LTD

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