ANNUAL REPORT 2019

Link to an accessible report

ISRAEL DISCOUNT BANK

Board of Directors and Management Report

Internal Control over Financial Reporting

Financial Statements

Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof

Appendices to the Annual Report

Board of Directors and Management Report

Board of Directors and Management Report – List of tables

Board of Directors and Management Report – List of tables (continued)

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

I am proud to present to you the Reports of the Discount Bank Group for the year 2019, which indicate the continuing positive momentum in which the Group finds itself in recent years. This momentum is reflected in the consistent improvement of all business parameters – in net profit, which grew by 13.1% to a record high of approx. NIS 1.7 billion, in the return on equity reaching 9.4% compared to 9.3% in the preceding year, and in the efficiency ratio, which continued to improve to a level of 65.2%, compared to 68.2% at the end of 2018.

The outstanding financial results were obtained by the significant activity in all tracts of operation. In the Digital tract we continued the intensive activity intended to stand by our promise to be the "best bank for its customers". In this framework, we have introduced a new Application for business customers, developed the possibility of the online opening of an account in less than ten minutes, introduced a new platform for the management of relation with corporate customers (CRM), and more. This activity, to our delight, won the recognition and respect of customers, who had chosen Discount Bank as the leading bank in satisfaction from digital services (in accordance with the Bank of Israel survey), this in addition to an array of respected domestic and international prizes which we have won. In the innovation tract we were the first to introduce an API Shop, the aim of which is to create a platform for cooperation with third parties (through which we would be able in the future to offer our customers innovative services) and we have continued to promote cooperation with fintech companies, inter alia, by means of PayBox. In the business tract continued the integration of our new operating concept into the branches, the TeleBank and the Banking Service Center, with the aim of streamlining processes and improving the level of service to our customers. And in the Group tract we put a special focus on improving the effectiveness of Group management and on making utmost use of the synergies with the subsidiary companies that have presented impressive results.

At IDBNY, we saw approx. 11% growth and a record profit of more than US$100 million; MDB recorded growth of 27.6% in net profit and the merger with Municipal Bank was consummated, formally Dexia Bank, was concluded, which presented the Bank with a new niche of operations with the local authorities that we are intending to further develop. The growth trend at ICC has continued and has increased its net profit by 28%, establishing its position as a leading player in the off-banking market and operational issuing activity has commenced with Bank Leumi and Bank Hapoalim.

With the extensive activity in 2019, we took a further stride toward achieving our financial goals and this constituted a direct continuation on the path of change that the Bank has been undergoing for the last five years, a journey during which the Bank and the Group have built strong infrastructures that will allow us to continue to grow in the future. Looking ahead, we have identified segments and areas of activity in which we still have significant potential for improvement. I am convinced that, thanks to the positive momentum prevailing within the Discount Group and the strong infrastructures we have built, the Group will continue seeing a trend of improving business results. In light of the many developments that are taking place, and that will continue taking place, in the banking and financial market and against a background of the considerable potential inherent in the Group, the Bank's Board of Directors and Management are currently striving to reinvigorate and sharpen the strategic foci, and the multi-annual financial plan, which are based on the tiers of the current strategic plan, with adjustments as necessary.

These reports are being published against the background of a significant rise in the level of global uncertainty resulting from the spread of the corona virus throughout the world, including in Israel. Immediately prior to the outbreak of the corona virus, the Israeli economy was showing signs of strength, which lessens the extent of the potential harm in the event of a deterioration in the situation. Nevertheless, the crisis, which, at this stage, difficulty exists in estimating the length of time and the extent of its implications, is occurring in parallel with attempts in Israel to establish a new government and at a time when the country is being run without an approved state budget, which places restrictions on the ability to support the economy by means of an expansionary government policy. Even in these challenging circumstances, we are doing everything in our power to strike a balance between the various considerations and we are examining our options for action responsibly and in accordance with developments.

2020 began with a change of the President & CEO at Discount. At the end of 2019, we said goodbye to the President & CEO Lilach Asher-Topilsky who had brought the Group to impressive achievements in recent years, and we have appointed Uri Levin, who played a major role in the creation and implementation of the Bank's successful strategy in recent years, to the President & CEO of the Group. In addition, changes were made in the organizational structure of the Bank at the beginning of the year, which were accompanied by the appointment of several new members of Management and the appointment of members of Management to new positions. These appointments, which were made largely from within the ranks of the organization, ensure a direct and natural continuation of our positive momentum.

I wish to thank the Discount employees for another year of strenuous work, and the Discount customers for choosing us and trusting our support in their growth and financial stability. I am convinced that the Bank's Management, with the support and backing of the Board of Directors, and with the cooperation of the Bank's devoted and professional employees, will continue to succeed in achieving the business goals in the best interests of Discount, its customers and its employees.

March 15, 2020

Shaul Kobrinsky
Chairman of the Board of Directors

CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

The meeting of the Board of Directors, held on March 15, 2020, resolved to approve and publish the Bank's 2019 Annual Report.

The Discount Group – Condensed Description and Principal Areas of Operation

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981 (hereinafter: "the Banking Law (Licensing)"). During the eighty-five years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.
The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000[1], and KPMG Somekh Chaikin, CPA, since 1998.

Domestic Operations

The Discount Group offers its customers comprehensive banking services in all fields of financial activity, by means of a chain of 178 branches in Israel (103 branches of the Bank and 75 branches of Mercantile Discount Bank Ltd.), online banking services and digital banking.
The activities in Israel cover additional fields, including:
- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use and clears transactions made by "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only);
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd. ("Tafnit"), which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting - the subsidiary "Discount Capital Ltd." is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company.

International Activity

The international activity of the Discount Group is conducted by the subsidiary company in the United States. IDB New York is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida and California. This bank has representative offices in Latin America and in Israel.
The international activity is characterized as business-commercial and private banking activity.

Market share

Based on data relating to the banking industry as of September 30, 2019, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	September 30, 2019	December 31, 2018
	In %	
Total assets	15.9	15.4
Credit to the public, net	16.8	16.4
Deposits from the public	15.9	15.5
Interest income, net	18.4	18.0
Total non-interest income	23.3	20.8

1 The firm of Haft & Haft, which merged into the firm of Ziv Haft in 2000, has served as the independent auditors of the Bank since 1935.

Condensed Financial Information regarding Financial Position and Operating Results

Condensed financial information and principal performance indices over a period of time -consolidated

	2019	2018	Year 2017	2016	2015
			In %		
Principal performance indices:					
Return on equity	9.4	9.3	8.4	6.6	5.8
Return on assets	0.70	0.66	0.57	0.41	0.34
Ratio of credit to the public, net to deposits from the public	89.6	87.2	84.9	81.7	80.6
Ratio of common equity tier 1 to risk assets	10.31	10.24	10.00	9.83	9.51
Ratio of total capital to risk assets	13.86	13.67	13.92	13.82	14.32
Leverage ratio[(1)]	6.9	6.9	6.8	6.6	6.5
Liquidity coverage ratio[(1)]	121.2	124.8	126.7	146.5	128.0
Efficiency ratio	65.2	68.2	68.3	72.6	78.7
Principal credit quality indices:					
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.38	1.36	1.40	1.50	1.59
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.25	1.24	1.68	2.37	2.60
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.23	0.26	0.40	0.28	0.12
Ratio of credit loss expenses to the average balance of credit to the public	0.40	0.34	0.39	0.34	0.15
			In NIS millions		
Principal statements of profit and loss data for the reporting period:					
Net Profit Attributed to the Bank's Shareholders	**1,702**	**1,505**	**1,259**	**905**	**750**
Interest income, net	5,893	5,526	4,975	4,557	4,223
Credit loss expenses	690	540	574	469	187
Non-financing income	3,771	3,494	3,358	3,410	3,053
Of which: commissions	2,972	2,851	2,676	2,556	2,611
Non-financing expenses	6,299	6,148	5,694	5,785	5,725
Of which: salaries and related expenses	3,343	3,385	3,204	3,169	3,393
Comprehensive income, attributed to the Bank's shareholders	**1,782**	**1,661**	**939**	**613**	**719**
Total earnings per share attributed to Bank's shareholders (in NIS)	1.46	1.29	1.09	0.84	0.71
Principal balance sheet data for the end of the reporting period:					
Total assets	**259,823**	**239,176**	**221,221**	**219,577**	**205,260**
Of which:					
Cash and deposits with banks	26,044	21,858	28,026	29,311	28,518
Securities	37,745	37,898	32,703	38,818	38,935
Credit to the public, net	180,467	164,804	148,757	140,760	127,216
Total liabilities	**240,630**	**221,507**	**205,153**	**204,641**	**191,626**
Of which:					
Deposits from the public	201,450	188,916	175,170	172,318	157,875
Deposits from banks	6,419	6,886	4,804	5,342	3,907
Bonds and Subordinated debt notes	13,129	8,476	7,639	8,498	9,570
Equity capital attributed to the Bank's shareholders	18,678	17,151	15,594	14,512	13,288
Total equity	**19,193**	**17,669**	**16,068**	**14,936**	**13,634**
Additional data:					
Share price	1,601	1,156	1,010	801	706
Dividend per share	21.92	10.13	-	-	-
Average number of positions at the Group during the year	8,542	8,668	8,641	8,842	9,308
The number of positions at the Group at the end of the year	8,509	8,550	8,578	8,558	9,068
Ratio of commissions to total assets	1.2	1.2	1.2	1.2	1.3

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

For details regarding the decision of the Bank's Board of Directors dated March 15, 2020, to distribute a dividend in the amount of 4.19 Agorot per share, see below "Dividend distribution" and Note 24 D (5) to the financial statements.

Developments in the market price of the Discount shares

	Closing price at end of the trading day			
	March 11, 2020	December 31, 2019	December 31, 2018	Change in 2019 in %
Discount share	1,194	1,601	1,156	38.5
The TA 5 Banks index	1,973.04	2,606.44	2,053.45	26.9
The TA 35 index	1,319.90	1,683.29	1,463.87	15.0
Discount market value (in NIS billions)	13.90	18.64	13.46	38.5

For details regarding the consolidated statement of profit and loss for the last five years and consolidated balance as of the end of the last five years, see below in Appendices 4 and 5 to the annual report, respectively.

Discount Group Segment of Operations - Condensed Description

The report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks (hereunder: "regulatory operating segments"). The regulatory operating segments have been defined by the Supervisor of Banks, based on the characteristics of customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:
"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.
"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.
"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.
"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.
"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.
"Large businesses segment" - businesses, the annual turnover of which is equal to or exceeds NIS 250 million.
"Institutional Bodies Segment" - activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).
"Financial management segment" – includes: trading activity, asset and liability management activity, non-financial investment activity and other activities.
"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.
According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other.
For additional details, see "Activity of the Group according to regulatory segments of operations - principal quantitative data and main developments" in Chapter B hereunder, Notes 29 and 30 to the financial statements and "Activity of the Group according to Regulatory Segments of Operation - Additional Details" in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

A Summary Description of the Principal Risks

Risk environment. Risk of impairment in the Group's value and its ability to attain its goals, deriving from factors and events external to the Group, including economic, financial, regulatory, social, political, geopolitical, cyber threats and from internal factors and events.

Overall impact of credit risk. Risk of impairment as stated, as a result of the deterioration in the ability of borrowers to honor their obligations.

- **Quality of borrowers and collaterals risk.** Risk of impairment as stated, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals.
- **Industry concentration risk.** Risk of impairment as stated, as a result of deterioration in the business activity of a certain economic sector.
- **Borrower/groups of Borrowers concentration risk.** Risk of impairment as stated, as a result of the considerable exposure to a single borrower and/or to several borrowers belonging to one business group, which, in the case of changes in the economic situation, might lead to increased severity in the potential impairment of the credit portfolio, inter alia, because of the risk of contagion.

Overall impact of market risks. Risk of impairment as stated, as a result from changes in the economic parameters of the financial markets, and of their volatility that affect both the economic value and also the regulatory capital ratio.

- **Interest rate risk.** Risk of impairment, as stated, due to parallel and non-parallel movements in the return graph, and the effect of the optional terms inherent in the different financial instruments.
- **Inflation and exchange rate risk.** Risk of impairment as stated, as a result of the effect of changes in inflation rates or in exchange rates, including the effect of derivatives and transactions in futures on the gaps between assets and liabilities.
- **Share price and credit spreads risks relating to the holding of securities.** Risk of impairment as stated, as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in prices.

Liquidity risk. Risk to the stability of the Group resulting from the inability to provide its liquidity requirements and the difficulty in honoring its liabilities, due to unexpected developments, as a result thereof, the Group would be obliged to raise funds and/or realize assets in a manner causing it material losses.

Operating risk. Risk of a loss, as a result of impropriety or failure of internal processes, failure of the Group's systems, external events, including business continuity events, human errors, fraud and embezzlements or as a result of the absence of proper control processes.

IT risk. Operational risks affecting IT systems in production, cross-organizational IT processes and new activities: project risks and risks associated with the launch of systems into production. Likewise, a risk of business harm to the value of the Group and to its ability to attain its goals, as a result of lack of technological preparedness, including in business continuity situations.

Data protection and cyber risks. Risks of harm, as a result of events during which an attack is perpetrated on the computer systems and/or on the computer-based infrastructure systems, by, or on behalf of, adversaries (from either outside or inside the corporation).

Legal and regulatory risk. Legal risk is the risk of loss, inter alia, as a result of absence of the possibility to legally enforce fulfillment of a contract, or from exposure to legal proceedings against the Bank, or from exposure to fines or penalties, punitive damages resulting from supervisory activities, as well as from private settlements, etc. Legal risks include regulatory risks of a legal nature, stemming, among other things, from the non-implementation, or incorrect implementation of various regulatory instructions, under the power of which, various duties are imposed on the Bank.

Cross-border risks. Risk of loss, as a result of a statutory or regulatory sanction, or harm to the reputation, as a result of noncompliance with foreign statutory or regulatory provisions, applicable to the cross-border activity of the Group and as result of the Group’s responsibility for the cross-border activity of its customers, conducted by means of the services of the Bank.

Compliance, Money Laundering and Financing of Terror risks. Risk of loss, as a result of statutory or regulating sanction, or harm to the reputation, as a result of non-compliance with the provisions of the law or regulation, in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror.

Reputation risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of damage to image following true or erroneous publications, external events, including events in the competition environment and/or internal events, including mistaken business decisions, material computer failures, strikes, embezzlements, material violation events in the cross-border risks, compliance risks and money laundering fields, etc.

Strategic risk. Business risk, either of action, such as misled business decisions or improper implementation of business decisions, or neglect, such as, lack of response to changes in competition which, if it materializes, could lead to impairment in the Group's value and its ability to attain its goals.

For additional details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Disclosure in accordance with the 3rd Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented below in Chapter C "Risks Review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2019 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2019 annual report.

Goals and business strategy

The Bank is engaged in realizing the vision of the Bank in accordance with its multiannual strategic plan that was approved in 2014 and updated in 2016 and in 2018, in accordance with market developments.
The meticulous implementation in recent years of the strategic plan led the Bank to a consistent and continuous track of improved profitability and return on equity, in volumes that support both the very significant growth in the credit portfolio, in the targeted segments in particular, and the dividend distribution that started in the first quarter of 2018, and everything while maintaining and even improving the capital adequacy. Concurrently, the Bank has taken a quantum leap as regards its digital capabilities, which positions it at the front of technology and user experience in the banking industry.
The strategic plan is based on a leading goal – leading in the Bank's customer satisfaction by means of customer adapted banking, and comprises three principal layers:
- Continuation of growth and efficiency;
- a transformation in traditional banking;
- development of innovative banking models.

Continuation of growth and efficiency

This layer represents a continuation of the original strategic plan from 2014, which includes the following tiers:

A. Efficiency and stringent management of expenses, including:
- reducing the size of the Discount Group's workforce;
- merging of branches and foreign extensions, as well as making efficiencies in the Bank's head office space;
- making savings in procurement costs and other expenses.

B. Customer focused growth:
- a moderate growth in consumer credit, at the Bank and at the subsidiaries, MDB and ICC;
- considerable growth in housing credit and growth exceeding the market growth rate in credit to small businesses, to middle market banking and to corporate banking;
- nurturing the connection with the Bank's customers by means of upgrading suitable and useful value offers across the spectrum of distribution channels, while implementing technological improvements and enhancing the customer experience;
- transferring operational activities from the branches to the back-office – "the Banking Service Center", as well as assimilation of faster and more simple work processes at the branches.

C. Assimilating a change supporting organizational culture.

Strict management of ongoing expenses has continued, while striking a balance between further cost-cutting of ongoing expenses and increasing expenses that support the strategic plan and the future growth infrastructures. In this framework the adaptation of the branch network and of the tellers to the changing needs of the market continues.

Transformation in traditional banking

In order to prepare for significant changes expected in the banking field, stemming from regulation, technology, customer expectations and the competition image, the Bank, as part of refreshing its strategic plan, defined in 2018 a new retail operation model, which is to be gradually integrated in the coming years. The essence of the model refers to:

A. Upgrade of the digital experience and inducement of self-service transactions by customers;
B. Upgrade of service experience on the human channels – prearranged meetings, integration of quick bank officers and more;
C. Leveraging of the multi-channel management platform integrated in 2018, improving customer experience in all service channels;
D. Producing information-based business perceptions aimed at enabling customers to receive the value proposition that is best and most suited to them;
E. Introduction of innovative customer moves, creating competitive differentiation.

Furthermore, the Bank shall act to continue and advance the strategy in a variety of areas:

A. Integration of the new model of operation for small businesses;
B. Integration of the multi-channel management platform for corporate and middle market banking;
C. The continuing improvement of the computer and human resources infrastructure.

Development of Innovative Banking Models

The Bank is putting to the test a number of solutions and innovative banking models. This, with a view of expanding to new customer populations and to additional platforms and services, as part of the value offer by the Bank.

Strategies for the Subsidiary Companies

Concurrently with the updated strategic plan at the Bank, the Group continues to implement the unique strategies defined for the central subsidiaries – ICC, IDBNY and MDB – with the aim of aligning their modus operandi to the new competitive environment.

Invigoration of the foci in the strategic plan

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

Goals of the Strategic Plan

Within the framework of the strategic plan, several financial goals were set, the principal of which are achieving a return on capital of approx. 10% by 2021 and achieving an efficiency ratio approx. 60% by 2021. Within the context of the strategic invigoration, the multiyear financial plan will also be updated, including examination of the efficiency ratio goal.

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

For the definition of the term "forward looking information", see "Appendix No. 8 – Glossary".

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

Material trends, occurrences, developments and changes

Management's handling of current material issues

2019 was the fifth year of operation in which was implemented the strategic plan announced by the Discount Group in August 2014. The Group continued in 2019 the implementation of the multi-annual strategic plan, with an emphasis on: continuation of growth and efficiency, transformation of traditional banking and development of innovative banking models and the continued strengthening of the capital, technological and human infrastructure, enabling future growth.

The data for 2019, point at the continuation of the growth momentum and the considerable improvement in the performance of the Bank and of the Group, even exceeding the outline of the multi-annual strategic plan. The credit portfolio continued to grow, inter alia, in view of the growth in the retail segment, focused on the mortgage, small and minute business, corporate banking and large business segments.

The Group's activity during 2019 formed a direct continuation of its activity in 2018, this in accordance with and within the framework of the implementation of the strategic plan of the Group. The Group's capital management is strict. The financial base of the Group continues to be stable. The ratio of equity capital Tier 1 amounts to 10.31% and the liquidity coverage ratio amounts to 121.2%. This is the capital infrastructure that allows the Group to continue growing.

The central challenges and issues in 2019 were:

Merger of Municipal Bank

A merger agreement was signed between MDB and Municipal Israel Bank Ltd. (hereinafter: "Municipal Bank") on November 13, 2018.

The merger was completed on December 1, 2019, following fulfillment of all conditions precedent to the merger. Following the merger, Municipal Bank ceased to exist.

For additional details, see Note 26 B 18 to the financial statements.

It should be noted that the reports of Municipal Bank up to and including the interim financial statements as of September 30, 2019, are available for perusal on the Magna website of the Israel Securities Authority and on the Maya website of the Tel-Aviv Stock Exchange Ltd. It is further noted, that the pro-forma financial statements of Municipal Bank as of November 30, 2019 (proximately prior to the consummation date of the merger) are available for review on the website of MDB.

Issuance of deferred debt notes (Series F)

On October 29, 2019, the Bank, through its subsidiary Discount Manpikim Ltd. (hereunder: "Manpikim"), completed the process of issuing deferred debt notes (Series F), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of NIS 1,231 million. On January 7, 2020, the Bank (through Manpikim) issued to a classified investor in a private placement, additional subordinate debt notes (Series "F"), in the nominal value of NIS 100 million.

Issue of Bonds (Extension of Series M and Series N)

On December 10, 2019, the Bank, through Manpikim, has completed the issue of two series of bonds carrying a fixed non-linked shekel interest in a total amount of NIS 2,668 million. The raising of this debt was effected within the framework of the multi-annual financing strategy, which is intended to expand and diversify the Bank's financing sources mix.

Uncompromising continuation of the strategic plan

In 2019, the strategic teams at the Bank and at the subsidiary companies have acted towards meticulous implementation of the projects stemming from the strategic plan, including the business focus on growth, in a change in the organizational culture, in improvement in the infrastructure, in improved customer experience and in the promotion of innovative aspects. In light of the significant progress over the last five years in implementing the multiyear strategic plan, and against the background of the changes that have taken place in the banking and financing world and market conditions, the Bank's Board of Directors and Management have decided to carry out a strategic invigoration and to construct a multiyear financial plan.

Fintech and Innovation

The Bank adjusts itself to the changing world and is active in creating innovative banking models, that would provide customers with advanced service modified to their needs.
The Bank is continuing to expand the payments operations among customers of all banks in Israel, under the brand name of "PayBox", by means of the cellular application and the Internet website. While doing so, the Bank integrated into the "PayBox" application the solution provided by HopOn Mobility Ltd. for the recharging of the public transport card ("Rav-kav" card), so that users of the "PayBox" application would be able to recharge their "Rav-kav" card by means of the application. In addition, in July 2019 the Bank introduced a designated area in the application, which enables the transfer of donations to a variety of associations. The Bank, in cooperation with HopOn Mobility Ltd. and Cellopark Technologies Ltd., had submitted a proposal for a procedure by the Ministry of Transport for the payment of public transport fares by means of a cellular application, which was chosen as a candidate for obtaining an operating permit.
The Bank is preparing for the expansion of the open banking platform (introduced within the framework of the cooperation with iCount Company), and introduced an API (Application Programming Interface) shop that offers to third parties to interface with the Bank in order to enjoy a variety of banking services by means of the API in a controlled and secured manner.
In addition, the Bank signed an agreement with the Fintech Center of the Hebrew University in Jerusalem, in which both organizations agreed to cooperate in promoting banking data based applied research, with the aim of improving the service and value offers of the Bank to its customers.
For additional details, see below in "Technological improvements and innovation".

Preparing for the transformation in traditional banking and the future challenges

Within the framework of the Bank's preparations for a changing work environment as a result of acceleration in the digital deployment within the organization, the Bank executed, since the beginning of 2019, a number of measures related to the development of managers for leading and leadership in the digital world.
For additional details, see below in "The Human Capital".

Increase in competition and reduction in concentration Act

The preparation for changes in the financial system is continuing, both at the Bank and at ICC, following the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act. In February 2019, the Bank began the issuance of credit cards jointly with MAX. Concurrently, ICC began the issuance of credit cards jointly with Bank Leumi and with Bank Hapoalim. For additional details, see Note 36 B to the financial statements.

Breakout of the Corona virus

The continued spread of the corona virus throughout the world and the measures being taken by countries, including Israel, raise the chances of significant global and local economic damage. The economic implications depend on how rapidly the virus spreads, on the length of time until it is brought under control and the severity of the measures to be taken in Israel and worldwide. For details regarding developments in this respect, see "Principal Economic Developments" below. As part of the credit risk management, the Bank and the principal subsidiaries are tracking developments on this topic and are examining the possible implications for sectors and customers, which may be affected by the situation (including the effect of deteriorating markets). There is a concern regarding the Group's profitability being impaired, however at this stage its scope cannot be estimated.
Also examined are continuity of service aspects in different scenarios.

Additional issues

- **Malfunction in the PayBox Application.** For details, see below "Operational risks" in Chapter "C - Risks review".
- **Rating.** S&P Ma'alot has raised the domestic rating of the Bank and of MDB to a level of AAA- with a stable outlook. At the same time, S&P raised the international rating outlook of the Bank and of IDB New York, which at present is "BBB+", to a positive outlook. Midroog rating agency has raised the rating for long-term deposits and for the senior debt of the Bank to Aaa.il. For additional details, see below "Rating of Liabilities of the Bank and some of its Subsidiaries";
- **Discount Campus.** Construction work on the campus commenced in the reported period. For additional details, see Note 26 C 17 to the financial statements and "Fixed assets and installations" below;
- **Sale of shares in ABS**, for the purpose of complying with the requirements of the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, see "Legislation and Supervision" below;
- **The sale of holdings in Super-Pharm.** The transaction for the sale of the holdings in Super-Pharm was consummated in May 2019. For additional details, see below "Financial Management Segment (Domestic operations) - additional details";
- **Wage agreement at ICC.** For details, see “The Human Capital”.

Principal Economic Developments

Presented below are the main economic developments, that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in 2019.
Growth. In 2019, the global economy grew at a slower pace than in 2018, following a sharp downturn in the industry and the trade war between the USA and China. Toward the end of the year, the data stabilized, and the risks of serious worsening decreased. The U.S. economy grew at a slower rate than that recorded in 2018 (2.3% compared to 2.9%) and growth in the Eurozone also slowed down (1.2% as compared with 1.9%). In 2019, the Israeli economy grew at a rate of 3.5%.
Exchange rates. The dollar basket (the “dollar index”) remained stable in 2019. Nevertheless, there have been some differences in the rate at which major currencies have changed in relation to the U.S. dollar. The trend of the shekel has changed direction and appreciated against most of the major currencies. Against the dollar, the shekel appreciated by 7.8% and, as against the effective currencies basket by 8.3%.
Inflation. The inflation in Israel fell in the second half of 2019 and amounted to 0.6% at the end of the year (2018 – 0.8%). “Core inflation” (CPI without energy, vegetables and fruit) showed a similar trend (also amounting to 0.6%). It should be noted that inflation expectations for a range of one year ranged at the end of the year around 0.8%-0.9%.
Monetary policy. During the second half of 2019, some of the world’s central banks began taking expansionary measures to support the economy. The Fed lowered interest three times, to 1.5%-1.75%. In the Eurozone, the ECB lowered interest on bank deposits by 0.1% to -0.5%, and restarted its bonds purchasing program. In Israel, even though the interest rate has remained unchanged, at a level of 0.25%, the Bank of Israel changed its “future intention” and is of the opinion that the interest should be kept at its current level for some considerable time or be lowered. Moreover, in the last quarter, the central bank began purchasing dollars in significant amounts.
Financial markets. During 2019, global equities trading was characterized by steep price rises, against the background of a renewal in the process of monetary expansion in the various economies. In line with this, the Tel Aviv equity indices showed a positive trend. Government bond returns in Israel fell steeply, against the background of the global trend and developments in the local market (a lowering of expectations for a hike in the Bank of Israel interest rate). At the end of the year, the return on 10-year shekel bonds (government shekel bonds – Series 928) stood at 0.85%, compared with 2.29% at the end of 2018.

First quarter of 2020. The breakout of the Corona virus caused concern in the markets as well as a flight to safety. Trading on the capital markets was subject to high volatility and have been affected by reports concerning the virus and the rate at which it has spread in China and beyond. The measures taken by the Chinese Government to contain the spread are expected to lead to significant short-term damage to growth in China and in additional countries that are highly dependent on China. An additional rise in risks and in uncertainty has recently taken place following an increase in contamination cases outside China. At this stage, it is difficult to estimate the effect upon the global economy, however, the continuing expansion of the Corona virus and the risk of its turning into an epidemic, increases the chances for a considerable damage to the global economy. The implications on the Israeli economy depend on the force and length of time of the damage to the global economy and on the measures taken in Israel.

In a surprise move, the Fed cut interest by 0.5% on March 3, 2020, and announced its intention to continue acting to support the economy. Additional central banks are expected to announce relief measures shortly. Even prior to this, on February 24, the Bank of Israel left interest unchanged, although recent developments had raised expectations that interest in Israel would be reduced to 0.1%. On March 4, the Bank of Israel released its comments regarding the recent economic developments following the spread of the corona virus and noted that in the event of a serious deterioration in the economic or financial conditions, the committee has a variety of tools at its disposal whenever needed.

Prices of commodities have dropped steeply since the beginning of the year, led by the price of oil.

The equities markets traded, as stated, under exceptional fluctuations, when since the beginning of the year the S&P 500 and the TA 125 equities indices fell by approx. 11% and approx. 18%, respectively. Returns on ten year US Government bonds fell by 120 basis points, trading at a low level of 0.72%. The decline in returns in Israel was moderate in comparison to the US (the shekel return for ten years fell by 35 basis points).

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

For further details, see "Main developments in Israel and around the world in 2019" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Material leading and developing risks

In accordance with the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.

Following are details regarding the most material leading and developing risks.

Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry.

The Dynamics and pace of changes lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine forward looking, advanced and flexible solutions, which would ensure the continued positioning of the Group as a leading banking group also in the future.

Accordingly, the Group directs significant efforts to the digital fields, customer experience, innovation (Fintech) and the development of models for new banking, alongside the constant testing of changes in international and domestic banking that lead to the initiation of new projects and adjustments in the Group's preparations.

Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks, especially as regards aspects of supply chain, quality and control protection, exposure to cyber risks, leakage of information and protection of privacy. The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.

Furthermore, with the focus intensification on technology-based banking and expertise, so does the need develops for proper management of the transformation required in the workforce and its suitability, along with developing the ability to continue attract and retain personnel in the fields of technology, cyber, models and analysis. These aspects are managed within the framework of a designated, strategic project that is led jointly by the Planning, Strategy and Finance Division and the Human Resources and Properties Division.

Cyber risks and data protection. Cyber risk continues to comprise one of the significant and developing threats in the world generally and in the banking system in particular. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies. The threat is intensifying, because due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cybernetic world has grown (cooperation with third parties, open banking, cloud computer services, use of open code and more).

With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate abundant resources for the facing of such threats, including their direct involvement. The policy, the methodologies and the tools supporting management of the risk, are being updated and developed on a current basis, while emphasizing the continuous improvement of monitoring and protection tools used against internal and external threats and the preparations made for providing immediate response to events. This, concurrently with a current dialogue with the Regulator and with the Israel National Cyber Directorate.

Model risks. The ever-increasing emphasis on digital banking, along with customers' heightened expectations for value maximalization, for insights and for customized, available and immediate products leads to the fact that organizations in general and in the banking system in particular are becoming more and more data-based and model-based, including the assimilation of sophisticated, AI-based models and machine learning. These aspects create developing challenges in the field of model development, as well as in the fields of validation and model risk management. The Group is working in accordance with a multiyear work program, to develop advanced models, as well as to constantly improve the tools and methodologies that support the model risk management.

Privacy protection. Privacy protection aspects are garnering ever-more attention and importance in Israel and throughout the world, against the background of greater digital and data use. and the issue was identified by the Group as a developing risk. The Group invests considerable efforts in applying regulation and in the integration of privacy protection aspects into processes, systems, models and in the training of the human resource. The Group is acting to maintain the proper balance between the use of information for Bank purposes and maintaining the privacy protection aspects of its customers, its employees and suppliers. The privacy protection aspects constitute an important component in examining new products and/or technologies and/or services and/or models, while ensuring proper protection of sensitive information and protection against the potential of information leakage.

Conduct risk. The importance of the values of fairness, decency and transparency vis-à-vis the Bank's customer including the prevention of prohibited discrimination between customers constitutes, itself, a developing risk that is managed as an integral part of the management of compliance risk at the Bank. The Bank is constantly acting to assimilate these values in the spectrum of relevant processes and is working to raise employee awareness regarding their importance.

For additional details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", on the MAGNA site of the Israel Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Initiatives concerning the Banking Sector and its Operations

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

In the first stage, the separation from the banks of the ownership of credit card companies would not apply to ICC holders but only to Isracard and MAX. Only within a range of 4 to 6 years from date of publication of the Act, would the issue of separating the ownership of ICC be re-examined. This and more, if in the past the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, MAX and ICC), so that competition exists now between the companies. Concurrently, any bank who held means of control of the clearing agent is required to transfer a part of the new cards issued to its customers to another clearing agent, at least one, with whom it had had no business relations in the past. From the view point of ICC, although there is a reduction in the issue of credit cards to customers of the owner banks, ICC now has the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

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

The additional tax that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of December 31, 2019, is estimated at NIS 57 million.

For details regarding the said Act and additional legislation initiatives concerning the banking sector, see "Legislation and Supervision" in the Chapter "Corporate governance, audit and additional details regarding the business and manner of management of a banking corporation". For details in respect of agreements between ICC and certain banks on the one hand, and between the Bank and LeumiCard on the other hand, see Note 36 B to the financial statements. For details in the matter of "Changes regarding competition in the credit card market", see "Credit Card Operations" below.

Continuation of the plan for strengthening competition in the banking market. For further details, see “Legislation and Supervision”.

Reduction of the cross-commission rate. The Banking Oder (Customer service)(Supervision over cross-clearing service for transactions made by charge cards and for immediate debit transactions), 2018, was published on November 2, 2018, establishing an outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five stages during the coming years, and an outline with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date to a rate of 0.25%. The Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated. For additional details, see Note 36 item A 1 to the financial statements.

For details regarding the exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expired on December 31, 2018), published by the Competition Commissioner, see the said Note.

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

Efficiency of the Banking Industry

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

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

For details regarding the 2016 Efficiency plan, see the 2017 Annual Report (p. 21). For details regarding the 2018 Efficiency plan, see the 2018 Annual Report (p. 21).

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2019, the independent auditors drew attention to Note 26 C, item 13, regarding different proceedings filed against the Bank and against investee companies.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The Discount Group's Net profit in 2019 amounted to NIS 1,702 million, compared with NIS 1,505 million in 2018, an increase of 13.1%.

Return on equity, net, attributed to the Bank's shareholders for 2019 was 9.4%, compared with 9.3% in 2018.

Net earnings per one share of NIS 0.1 par value amounted in 2019 to NIS 1.46, compared with NIS 1.29 in 2018.

The main factors that had an effect on the business results of the Group in 2019, compared with 2018:

a. An increase in interest income, net, in an amount of NIS 367 million (6.6%), which was mainly effected by the increase in the credit portfolio.

b. An increase in credit loss expenses, in an amount of NIS 150 million (27.8%). The increase was mainly affected by an increase in the expenses for a specific allowance.

c. An increase in the total non-interest income, of NIS 277 million (7.9%), affected mostly from an increase of NIS 156 million in non-interest financing income (26.6%) and from an increase of NIS 121 million in commissions (4.2%), mainly an increase in credit card commissions[2].

d. An increase of NIS 151 million in operating and other expenses (2.5%), affected, mainly, from a NIS 59 million rise in maintenance and depreciation of buildings and equipment (5.7%), from an increase of NIS 134 million in other expenses (7.8%), mostly an increase in long-term benefits and credit card commission expenses in ICC[2], which were partly offset by a decrease of NIS 42 million in salaries (1.2%).

e. Tax provision of NIS 932 million on earnings in 2019, compared with NIS 789 million in 2018.

Additional details and explanations are presented below.

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2019 amounted to NIS 325 million, compared with NIS 427 million in the third quarter of the year, a decrease in a rate of 23.9%, and compared with NIS 324 million in the fourth quarter of 2018, an increase of 0.3%.

The major factors affecting the business results of the Group in the fourth quarter of 2019, compared with the previous quarter, were:

A. An increase in interest income, net, in an amount of NIS 81 million (5.8%).

B. An increase in credit loss expenses, in an amount of NIS 109 million (71.7%). The rise was affected by the growth in specific allowance expenses.

C. A decrease of NIS 19 million (2.0%) in non-interest income, which was affected mainly from a decrease of NIS 50 million in income from non interest financing income, which was partly offset by a rise from other income in the amount of NIS 28 million, mainly due to the realization of assets.

D. An increase in operating and other expenses, in an amount of NIS 133 million (8.7%), which was effected by a decrease of 9 million in salaries and related expenses (1.1%), from an increase of NIS 22 million in maintenance expenses and depreciation of buildings and equipment (8.1%) and from an increase of NIS 120 million in other expenses (27.5%) (see hereunder).

E. In the fourth quarter of 2019, provision for taxes on the profit was recorded, in the amount of NIS 168 million, compared with NIS 240 million in the previous quarter.

2 The increase in income and expenses regarding credit card commissions stems from the expansion in the activities of ICC, in particular in the customer clubs field.

Developments in Income and Expenses

Developments in certain profit and loss statement items in 2017-2019

	For the year ended December 31,			Change in %	
	2019	2018	2017	2019 compared to 2018	2018 compared to 2017
	In NIS millions				
Interest income	7,567	7,053	6,213	7.3	13.5
Interest expenses	1,674	1,527	1,238	9.6	23.3
Interest income, net	5,893	5,526	4,975	6.6	11.1
Credit loss expenses	690	540	574	27.8	(5.9)
Net interest income after credit loss expenses	**5,203**	**4,986**	**4,401**	**4.4**	**13.3**
Non-interest Income					
Non-interest financing income	742	586	595	26.6	(1.5)
Commissions	2,972	2,851	2,676	4.2	6.5
Other income	57	57	87	-	(34.5)
Total non-interest income	**3,771**	**3,494**	**3,358**	**7.9**	**4.1**
Operating and other Expenses					
Salaries and related expenses	3,343	3,385	3,204	(1.2)	5.6
Maintenance and depreciation of buildings and equipment	1,098	1,039	1,044	5.7	(0.5)
Other expenses	1,858	1,724	1,446	7.8	19.2
Total operating and other expenses	**6,299**	**6,148**	**5,694**	**2.5**	**8.0**
Profit before taxes	2,675	2,332	2,065	14.7	12.9
Provision for taxes on profit	932	789	747	18.1	5.6
Profit after taxes	1,743	1,543	1,318	13.0	17.1
Bank’s share in profit of affiliated companies, net of tax effect	16	6	1	166.7	500.0
Net profit attributed to the non-controlling rights holders in consolidated companies	(57)	(44)	(60)	29.5	(26.7)
Net Profit attributed to Bank's shareholders	**1,702**	**1,505**	**1,259**	**13.1**	**19.5**
Return on equity attributed to the Bank's shareholders, in %	9.4	9.3	8.4		
Efficiency ratio in %	65.2	68.2	68.3		
Net Profit attributed to Bank's shareholders - disregarding certain components (see below)	**1,740**	**1,600**	**1,309**	**8.7**	**22.2**
Return on equity attributed to the Bank's shareholders, in %- disregarding certain components (see below)	9.7	9.9	8.7		
Efficiency ratio in % (see below)	64.6	66.6	67.9		

Profitability - disregarding certain components

		For the year ended December 31			Change in %	
		2019	2018	2017	2019 compared to 2018	2018 compared to 2017
	Notes	in NIS millions				
Net Profit Attributed to the Bank's Shareholders - as reported		1,702	1,505	1,259	13.1	19.5
Disregarding[1]:						
One-time award at MDB		-	37	-		
Effect of settlement	23 I, K	38	58	21		
Effect of the change in the tax rate	8 I	-	-	29		
Net Profit Attributed to the Bank's Shareholders - disregarding the above components		**1,740**	**1,600**	**1,309**	**8.7**	**22.2**

Footnote:

(1) See below "Details regarding eliminated components".

Developments in certain profit and loss statement items in the fourth quarter of 2019, compared with the third quarter of 2019 and the fourth quarter of 2018

	2019		2018	Q4 2019 compared to	
	Q4	Q3	Q4	Q3 2019	Q4 2018
	In NIS millions			in %	
Interest income	1,860	1,751	1,852	6.2	0.4
Interest expenses	381	353	432	7.9	(11.8)
Interest income, net	1,479	1,398	1,420	5.8	4.2
Credit loss expenses	261	152	176	71.7	48.3
Net interest income after credit loss expenses	**1,218**	**1,246**	**1,244**	**(2.2)**	**(2.1)**
Non-interest Income					
Non-interest financing income	145	195	177	(25.6)	(18.1)
Commissions	768	765	732	0.4	4.9
Other income	38	10	28	280.0	35.7
Total non-interest income	**951**	**970**	**937**	**(2.0)**	**1.5**
Operating and other Expenses					
Salaries and related expenses	815	824	903	(1.1)	(9.7)
Maintenance and depreciation of buildings and equipment	294	272	276	8.1	6.5
Other expenses	557	437	527	27.5	5.7
Total operating and other expenses	**1,666**	**1,533**	**1,706**	**8.7**	**(2.3)**
Profit before taxes	503	683	475	(26.4)	5.9
Provision for taxes on profit	168	240	144	(30.0)	16.7
Profit after taxes	335	443	331	(24.4)	1.2
Bank's share in profit of affiliated companies, net of tax effect	5	-	4	-	25.0
Net profit attributed to the non-controlling rights holders in consolidated companies	(15)	(16)	(11)	(6.3)	36.4
Net Profit attributed to Bank's shareholders	**325**	**427**	**324**	**(23.9)**	**0.3**
Return on equity attributed to the Bank's shareholders, in %(1)	7.2	9.7	8.0		
Efficiency ratio in %	68.6	64.7	72.4		
Net Profit attributed to Bank's shareholders - disregarding certain components (see below)	**337**	**439**	**402**	**(23.2)**	**(16.2)**
Return on equity attributed to the Bank's shareholders, in %(1) - disregarding certain components (see below)	7.4	9.9	10.0		
Efficiency ratio in % (see below)	67.8	64.0	67.3		

Footnote:
(1) On an annual basis.

Profitability - disregarding certain components

		2019		2018	Q4 2019 compared to	
		Q4	Q3	Q4	Q3 2019	Q4 2018
	Notes	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported		325	427	324	(23.9)	0.3
Disregarding(1):						
One-time award at MDB		-	-	37		
Effect of settlement	23 I, K	12	12	41		
Net income attributed to the Bank's shareholders - disregarding the above components		**337**	**439**	**402**	**(23.2)**	**(16.2)**

Footnote:
(1) See below "Details regarding eliminated components".

Details regarding Eliminated Components

Effect of settlement. Acceleration of the amortization of actuarial profits and losses following the payment of severance pay to retirees.

One-time award at MDB. With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi, see "The Human Capital" below.

Effect of change in the tax rate. The reduction in the balances of deferred taxes of IDB New York (reduction in profit) in 2017, following the effect of the tax reform in the U.S. (which is in excess of the amount complementing the tax that would have been chargeable in Israel; see Note 8 I to the financial statements).

In addition, net income from investment activity of Discount Capital (net of deductions for impairment in value and before the tax effect) in 2019 amounted to NIS 76 million, compared with NIS 93 million in 2018 and NIS 221 million in 2017.

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

Interest income, net. In 2019, interest income, net, amounted to NIS 5,893 million compared with NIS 5,526 million in 2018, an increase of 6.6%. The rise in the interest income, net, in the amount of NIS 367 million, is explained by a negative price impact of approx. NIS 70 million, and from a positive quantitative effect in the amount of approx. NIS 437 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).

The interest spread relating to balance sheet activity, reached a rate of 2.45% in 2019, compared with 2.44% in 2018.

The average balance of interest bearing assets has increased by a rate of approx. 6.6%, from an amount of NIS 206,710 million to NIS 220,394 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 8.3%, from an amount of NIS 157,883 million to NIS 170,925 million.

Net interest income according to linkage segments

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

	2019			2018		
	Volume of activity[1] in %	Interest income, net in NIS millions	Interest margin in %	Volume of activity[1] in %	Interest income, net in NIS millions	Interest margin in %
Unlinked shekels	68.7	4,606	2.95	67.6	4,165	2.90
CPI-linked shekels	8.5	202	(0.49)	8.8	225	(0.72)
Foreign Currency	22.8	1,085	2.00	23.6	1,136	2.12
Interest income, net and the interest margin	**100.0**	**5,893**	**2.45**	**100.0**	**5,526**	**2.44**

Footnote:

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

In the non-linked shekel segment, net interest income increased in 2019 at a rate of 10.6%. Income from this segment constituted 78.2% of total net interest income in 2019, compared with 75.4% in 2018.

The average balance of assets in this segment increased in 2019 by 8.5% compared with 2018.

The increase in the segment's profit is due to a rise in the scope of interest-bearing assets, net, primarily credit to the public, and to a rise in the interest margin. The rise in the interest margin was affected, inter alia, by the change in the mix of assets and liabilities and from a rise in the Bank of Israel's interest rate.

The CPI-linked Shekel segment, net interest income decreased in 2019 at a rate of 10.2% and its proportion of total net interest income in 2019 was 3.4%, compared with 4.1% in 2018. The average asset balance in this segment in 2019 increased by a rate of 2.5% compared with 2018.

The Bank has a surplus of balance-sheet assets over its balance-sheet liabilities and the decrease in the profit is due to the fact that the CPI in 2019 rose at a lower rate than in 2018. The reduction in profits of this segment was offset by the increase in volume of net interest bearing assets.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income decreased in 2019 by a rate of 4.5%. Its proportion of all Net profit was 18.4% in 2019, compared with 20.5% in 2018.

In 2019 the average balance of assets in this segment increased at a rate of 2.9% compared to 2018.

The decrease in profits of the segment stemmed from a decrease in the volume of net interest bearing assets, and from a decrease in the interest margin. The reduction in the interest margin was affected, inter alia, by the rise in the cost of attracting deposits from the public.

Non-interest financing income increased in 2019 at a rate of 26.6%, compared with 2018. The increase stemmed mostly from an increase in profit from the realization of bonds.

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

Composition of net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2019		
Interest income	7,567	1,860	1,751	2,150	1,806
Interest expenses	1,674	381	353	555	385
Interest income, net	5,893	1,479	1,398	1,595	1,421
Non-interest financing income	742	145	195	230	172
Total net financing income	**6,635**	**1,624**	**1,593**	**1,825**	**1,593**
			2018		
Interest income	7,053	1,852	1,782	1,883	1,536
Interest expenses	1,527	432	370	463	262
Interest income, net	5,526	1,420	1,412	1,420	1,274
Non-interest financing income	586	177	160	145	104
Total net financing profit	**6,112**	**1,597**	**1,572**	**1,565**	**1,378**

Analysis of the total net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2019		
Financing Income from current operations	6,199	1,586	1,528	1,556	1,529
Effect of CPI	14	(12)	(33)	73	(14)
Net profit from realization and adjustment to fair value of bonds*	211	23	65	66	57
Profit from investments in shares**	123	5	37	71	10
Adjustment to fair value of derivative instruments	(36)	6	(51)	44	(35)
Exchange rate differences, options and other derivatives*	117	16	47	14	40
Net profit on the sale of loans	7	-	-	1	6
Total net financing income	**6,635**	**1,624**	**1,593**	**1,825**	**1,593**
*Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	(53)	6	(19)	(5)	(35)
**Of which: income from realizations in Discount Capital.	53	(1)	14	36	4
			2018		
Financing Income from current operations	5,735	1,518	1,482	1,402	1,333
Effect of CPI	58	5	12	50	(9)
Net profit from realization and adjustment to fair value of bonds*	20	(9)	4	(17)	42
Profit from investments in shares**	107	48	50	5	4
Adjustment to fair value of derivative instruments	36	6	(5)	70	(35)
Exchange rate differences, options and other derivatives*	150	29	29	55	37
Net income on the sale of loans	6	-	-	-	6
Total net financing profit	**6,112**	**1,597**	**1,572**	**1,565**	**1,378**
*Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	88	40	(7)	43	12
**Of which: income from realizations in Discount Capital.	84	49	27	5	3

Financing income, net, increased in 2019 at a rate of 8.6%. The growth stemmed, mostly, from an increase of NIS 464 million in profit from current operations and from an increase in the amount of NIS 191 million in profits from realization and adjustment to fair value of bonds, which were offset by a NIS 72 million decrease in profits from investments in bonds, in adjustment to fair value of derivative instruments and from a reduction of NIS 44 million in the effect of the CPI.

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

Interest margin, including derivatives not for trading reached 2.04% in 2019, compared to 2.18% in 2018.

Financing income, net, increased in the fourth quarter of 2019, at a rate of 1.7%, compared with the corresponding quarter last year, and at a rate of 1.9% compared with the third quarter of 2019.

The interest margin relating to balance-sheet activity reached a rate of 2.45% in the fourth quarter of 2019, as against 2.47% in the corresponding quarter last year and against 2.38% in the third quarter of the year.

Interest margin, including derivatives not for trading reached in the fourth quarter of 2019 a rate of 2.08%, compared to 2.05% in the corresponding quarter last year and compared to 2.06% in the third quarter of the year.

Development of interest income, net, by regulatory operating segments

	For the year ended December 31,		
	2019	2018	Change
	In NIS millions		in %
Domestic operations:			
Households	1,959	1,740	12.6
Private banking	84	79	6.3
Small and minute businesses	1,563	1,451	7.7
Medium businesses	324	297	9.1
Large businesses	744	715	4.1
Institutional bodies	42	34	23.5
Financial management	260	321	(19.0)
Total Domestic operations	**4,976**	**4,637**	**7.3**
International operations:			
Private Individuals	123	168	(26.8)
Business operations	709	680	4.3
Other	85	41	107.3
Total International operations	**917**	**889**	**3.1**
Total	**5,893**	**5,526**	**6.6**

For details regarding income from trading activities, see "Financial Management Segment (Domestic operations)" below.

Credit loss expenses amounted to NIS 690 million in 2019, compared with NIS 540 million in 2018, an increase of 27.8%. The increase in the credit loss expense for 2019 stemmed, mostly, from an increase in expenses in respect of the specific allowance.

For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 31 to the financial statements.

The increase in expenses stemmed from a rise of NIS 92 million in the expenses at MDB (mainly a growth in expenses on a specific basis, stemming both from the increase in allowances for credit losses in respect of specific business customers whose repayment ability has been reduced and have been classified as impaired debts, and also growth in credit loss expenses on a group basis, in respect of customers classified as problematic) and an increase of NIS 50 million in the expenses at IDB New York (mainly as a result of an increase in the group allowance stems from a growth in the performing credit in 2018, as well as from the effect of changing the rate of the allowance).

Details of the annual development in the credit loss expenses

	2019	2018
	In NIS millions	
On a specific basis		
Change in allowance	126	18
Gross accounting write-offs	275	366
Collection	(220)	(307)
Total on a specific basis	**181**	**77**
On a group basis		
Change in allowance	168	107
Gross accounting write-offs	602	570
Collection	(261)	(214)
Total on a group basis	**509**	**463**
Total	**690**	**540**
Rate of credit loss expenses to the average balance of credit to the public	0.40%	0.34%

Details of the quarterly development in the credit loss expenses

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in allowance	84	34	18	(10)	14	31	(1)	(26)
Gross Accounting Write-offs	78	62	70	65	92	64	76	134
Collection	(50)	(72)	(46)	(52)	(55)	(83)	(53)	(116)
Total on a specific basis	**112**	**24**	**42**	**3**	**51**	**12**	**22**	**(8)**
On a group basis								
Change in allowance	69	44	(2)	57	50	15	16	26
Gross Accounting Write-offs	148	146	160	148	131	140	143	156
Collection	(68)	(62)	(64)	(67)	(56)	(44)	(52)	(62)
Total on a group basis	**149**	**128**	**94**	**138**	**125**	**111**	**107**	**120**
Total	**261**	**152**	**136**	**141**	**176**	**123**	**129**	**112**
Rate of credit loss expenses to the average balance of credit to the public(1):								
The rate in the quarter:	0.58%	0.35%	0.32%	0.33%	0.44%	0.31%	0.33%	0.29%
Cumulative rate since the beginning of the year:	0.40%	0.25%	0.32%	0.33%	0.34%	0.31%	0.31%	0.29%

Footnote:
(1) On an annual basis.

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

Commissions amounted to NIS 2,972 million in 2019, compared with NIS 2,851 million in 2018, an increase of 4.2%. The increase in commissions was affected, primarily, from an increase in credit card commissions.

Distribution of commissions

	For the year ended December 31		
	2019	2018	Change in %
	in NIS millions		
Account Management fees	470	480	(2.1)
Credit cards	1,406	1,267	11.0
Operations in securities and in certain derivative instruments	326	336	(3.0)
Commissions from the distribution of financial products	153	149	2.7
Handling credit	182	177	2.8
Conversion differences	133	136	(2.2)
Foreign trade services	56	58	(3.4)
Net income from credit portfolio services	5	6	(16.7)
Commissions on financing activities	163	157	3.8
Other commissions	78	85	(8.2)
Total commissions	**2,972**	**2,851**	**4.2**

Salaries and related expenses amounted to NIS 3,343 million in 2019, compared with NIS 3,385 million in 2018, a decrease of 1.2% (for details as to the components of this item, see Note 6 to the financial statements). Eliminating the effect of certain components as detailed below, a decrease of 0.1% would have been recorded.

Details of the effects of certain components on salaries and related expenses

	For the year ended December 31		
	2019	2018	Change in %
	In NIS millions		
Salaries and Related Expenses - as reported	3,343	3,385	(1.2)
Awards	(285)	(299)	
One-time award at MDB[1]	-	(56)	
Reversal of excess provisions (Note 8 C 2)	-	31	
Salaries and Related Expenses - Disregarding certain components	**3,058**	**3,061**	**(0.1)**

Footnote:

(1) With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi, see “The Human Capital” below.

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

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	815	824	857	847	903	826	838	818
Awards	(59)	(64)	(94)	(69)	(75)	(82)	(83)	(59)
One-time award at MDB[1]	-	-	-	-	(56)	-	-	-
Reversal of excess provisions (Note 8 C 2)	-	-	-	-	-	-	-	31
Salaries and Related Expenses - Disregarding certain components	**756**	**760**	**763**	**778**	**772**	**744**	**755**	**790**

Footnotes:

(1) With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi, see “The Human Capital” below.

Other expenses amounted to NIS 1,858 million in 2019, compared to NIS 1,724 million in 2018, an increase of 7.8%. The increase stems mainly from the following factors:

- An increase of NIS 60 million in long-term benefits, stemming from current year actuarial losses as against actuarial profits in 2018;
- An increase of NIS 68 million in commissions, affected, mostly, by the expansion in the activity of ICC, in particular in the customer club field (Shufersal).

For additional details, see Note 7 to the financial statements

Investments and Expenses in respect of the Information Technology System

Expenditure in respect of the information technology system includes salaries and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.

The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.

The allocation of salaries and related costs is based upon attribution to subunits. Allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D 12 to the financial statements.

It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

Investments and expenses in respect of the information technology system

	December 31, 2019				December 31, 2018			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses in respect of the information technology system, as included in the statement of profit and loss:								
Payroll and related expenses[1]	164	82	32	278	179	72	13	264
Acquisitions or license fees not capitalized to assets	125	4	-	129	117	3	-	120
Outsourcing expenses	52	25	17	94	47	28	23	98
Depreciation expenses	285	77	8	370	223	87	8	318
Other expenses	85	30	110	225	87	21	103	211
Total	**711**	**218**	**167**	**1,096**	**653**	**211**	**147**	**1,011**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	87	-	-	87	82	-	-	82
Outsourcing costs	234	-	-	234	198	-	-	198
Acquisition or license fee costs	96	7	-	103	66	20	-	86
Equipment, buildings and real estate costs	20	54	7	81	27	43	11	81
Total	**437**	**61**	**7**	**505**	**373**	**63**	**11**	**447**
Balances of assets in respect of the information technology system:								
Total amortized cost	**995**	**181**	**144**	**1,320**	**883**	**191**	**149**	**1,223**
Of which: in respect of salaries and related expenses	747	-	-	747	660	-	-	660

Footnote:
(1) Payroll and related expenses included in the statement of profit and loss also include, for presentation purposes in this table, costs that have been classified since January 1, 2018 as "Other expenses".

Developments in the Comprehensive Income

Condensed statement of comprehensive income

	For the year ended December 31,		
	2019	2018	Change
	in NIS millions		in %
Net Profit attributed to the Bank's shareholders	1,702	1,505	13.1
Changes in components of other comprehensive income , attributed to the Bank's shareholders:			
Other comprehensive income , before taxes[(1)]	258	133	
Effect of attributed taxes	(178)	23	
Other comprehensive income , attributed to the Bank's shareholders, after taxes	80	156	
Comprehensive income, attributed to the Bank's shareholders	**1,782**	**1,661**	**7.3**

Footnote:

(1) For details regarding changes in the components of other comprehensive income, see Note 10 to the financial statements.

Other comprehensive income after taxes amounted to NIS 80 million in 2019. The main items comprising the other comprehensive income (loss) are:

- Net adjustments in respect of the presentation of available-for-sale bonds at fair value – in 2019, the returns on the bonds held by the Bank Group fell, which resulted in other comprehensive income after attribution of tax in the amount of NIS 531 million;
- Adjustments from the translation of the New York subsidiary's financial statements – in 2019, the exchange rate of the shekel against the US dollar appreciated by 7.8%. Accordingly, other comprehensive loss was recorded due to a decline in the shekel value of the investments in this subsidiary, in the amount of NIS 283 million;
- Adjustments in respect of employee benefits – employee benefits in respect of their post-retirement rights and other long-term benefits for working employees are calculated, in conformance with the directives of the Supervisor of Banks, using a discount rate derived from the yield of Israeli government bonds plus an average margin of corporate bonds with an (international) rating of AA. Due to the decline in the return of Israeli government bonds in 2019, the other comprehensive loss in 2019 grew, after attribution of tax, in the amount of by NIS 175 million.

Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy

Developments of Assets and Liabilities

Total assets as at December 31, 2019 amounted to NIS 259,823 million, compared with NIS 239,176 million at the end of 2018, an increase of 8.6%.

Developments in the principal balance sheet items

	December 31, 2019	December 31, 2018	Rate of change
	in NIS millions		in %
Assets			
Cash and deposits with banks	26,044	21,858	19.2
Securities	37,745	37,898	(0.4)
Credit to the public, net	180,467	164,804	9.5
Liabilities			
Deposits from the public	201,450	188,916	6.6
Deposits from banks	6,419	6,886	(6.8)
Securities loaned or sold under repurchase arrangements	346	1,126	(69.3)
Subordinated debt notes	13,129	8,476	54.9
Equity attributed to the Bank's shareholders	18,678	17,151	8.9
Total equity	19,193	17,669	8.6

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

Credit to the Public

General. Credit to the public, net, as at December 31, 2019, amounted to NIS 180,467 million, compared with NIS 164,804 million on December 31, 2018, an increase of 9.5%. The increase is explained, inter alia, by Municipal Bank's merger (an amount of NIS 4,736 million). The ratio of credit to the public, net, to total assets reached 69.5% at the end of 2019, compared with 68.9% at the end of 2018.

For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, at the Discount Group, see "Credit risk" in Chapter C hereunder. For details regarding the quality of credit, see Note 31 to the financial statements. Also, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Composition of Credit to the Public by Linkage Segments

Composition of net credit to the public by linkage segments

	December 31, 2019		December 31, 2018		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	132,824	73.6	117,621	71.4	12.9
CPI-linked shekels	18,348	10.2	16,295	9.9	12.6
Foreign currency and foreign currency-linked shekels	29,295	16.2	30,888	18.7	(5.2)
Total	**180,467**	**100.0**	**164,804**	**100.0**	**9.5**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 5.2% compared with December 31, 2018. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$235 million as compared to December 31, 2018, an increase of 2.9%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency computed in dollar terms, increased by 11.0% as compared to December 31, 2018.

Composition of Credit to the Public by Regulatory Operating Segments

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

	December 31, 2019	December 31, 2018	change
	In NIS millions		in %
Domestic operations:			
Households*	69,211	62,042	11.6
Private banking*	326	200	63.0
Small and minute businesses	36,837	33,595	9.7
Medium businesses	12,628	10,068	25.4
Large businesses	39,529	37,156	6.4
Institutional bodies	676	733	(7.8)
Total Domestic operations	**159,207**	**143,794**	**10.7**
International operations:			
Private Individuals*	1,423	1,375	3.5
Business operations	22,361	21,909	2.1
Total International operations	**23,784**	**23,284**	**2.1**
Total credit to the public	**182,991**	**167,078**	**9.5**
Credit loss expenses	(2,524)	(2,274)	11.0
Total credit to the public, net	**180,467**	**164,804**	**9.5**
*Of which - Mortgages	37,159	32,924	12.9

The attainment of the Bank's capital adequacy goals, enabled the Bank to accelerate the rate of growth in credit in the last years. The increase in credit to the public in 2019 reflects growth in the focus points determined in the updated strategic plan.

The increase in credit to the medium businesses segment and to the large businesses segment is largely explained by the effect of the Municipal Bank merger.

Composition of Credit to the Public by Economic Sectors

Developments of overall credit exposure, by major economic sectors

Economic Sectors	December 31, 2019 Total credit to the public risk	Rate from total credit risk	December 31, 2018 Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	19,982	7.1	20,012	7.7	(0.1)
Construction and real estate - construction	31,382	11.2	28,763	11.1	9.1
Construction and real estate - real estate activity	22,973	8.2	21,478	8.3	7.0
Commerce	29,056	10.3	26,762	10.3	8.6
Financial services	24,224	8.6	24,151	9.3	0.3
Private individuals - housing loans	41,203	14.7	35,889	13.9	14.8
Private individuals - other	69,385	24.7	63,541	24.6	9.2
Other sectors	42,909	15.2	38,288	14.8	12.1
Total overall credit to the public risk	**281,114**	**100.0**	**258,884**	**100.0**	**8.6**

The data presented above indicates that in 2019, the overall risk regarding credit to the public increased by 8.6% compared with the end of 2018. This growth applied mostly to credit granted to private individuals – other, private individuals - housing loans, construction and real estate – construction, and commerce services.

Development of Problematic Credit Risk

For details regarding "problematic credit risk and nonperforming assets", see "Credit risk" in Chapter "C" below.
Following are details on credit to the public, as specified in Note 31 to the financial statements:
Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing and non-accruing) amounted at December 31, 2019 to NIS 1,814 million, compared to NIS 1,633 million at December 31, 2018, an increase at the rate of 11.1%.
Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2019 to NIS 1,166 million, compared to NIS 1,011 million at December 31, 2018, an increase at a rate of 15.3%.

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

Economic Sectors	December 31, 2019 Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	December 31, 2018 Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	19,982	856	4.3	20,012	(1)658	3.3
Construction and real estate - construction	31,382	323	1.0	28,763	316	1.1
Construction and real estate - real estate activity	22,973	705	3.1	21,478	584	2.7
Commerce	29,056	1,048	3.6	26,762	(1)677	2.5
Financial services	24,224	359	1.5	24,151	301	1.2
Private individuals - housing loans	41,203	378	0.9	35,889	340	0.9
Private individuals - other	69,385	566	0.8	63,541	566	0.9
Other Sectors	42,909	843	2.0	38,288	(1)688	1.8
Total Public	**281,114**	**5,078**	**1.8**	**258,884**	**4,130**	**1.6**
Banks	5,188	37	0.7	5,721	69	1.2
Governments	29,904	-	-	29,768	-	-
Total	**316,206**	**5,115**	**1.6**	**294,373**	**4,199**	**1.4**

Footnote:
(1) Reclassified -following improving of data of subsidiary.

In 2019 the ratio of problematic credit risk to the overall credit risk increased, as compared with 2018. The rate of the problematic debt increased in 2019, mostly in the sectors of commerce, industry, construction and real estate - real estate activity.

The Balances of the Allowance for Credit Losses

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,524 million as of December 31, 2019. The balance of this allowance constitutes 1.38% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,274 million, constituting 1.36% of the credit to the public as of December 31, 2018.

The balance of the specific allowance for credit losses. The outstanding balance of the allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 307 million on December 31, 2019, compared to NIS 223 million on December 31, 2018.

The balance of the group allowance for credit losses. The balance of the group allowance for credit losses excluding housing loans, amounted on December 31, 2019 to NIS 2,010 million, compared to NIS 1,864 million as of December 31, 2018, comprising an increase in the current allowance in the amount of NIS 146 million, a rate of approx. 7.8%. The increase stemmed, mostly, from the growth in the balance of credit, from changes in the rates of the allowance and from changes in the credit mix.

The Risk Characterization of the Credit to the Public Portfolio

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

	For the year ended December 31			
	2019		2018	
	Credit loss expense (expense reversal)	Rate of expense (expense reversal)	Credit loss expense (expense reversal)	Rate of expense (expense reversal)
sectors	In NIS millions	%	In NIS millions	%
Industry	44	0.4	41	0.3
Construction and real estate - construction	73	0.5	26	0.2
Construction and real estate - real estate activity	(36)	(0.2)	(51)	(0.3)
Commerce	149	0.7	(28)	(0.1)
Communications and computer services	(34)	(1.8)	135	6.3
Financial services	(13)	(0.1)	(1)	(0.0)
Other Sectors	168	0.5	56	0.2
Total Commercial	351	0.3	178	0.2
Private Individuals - Housing Loans	27	0.1	23	0.1
Private Individuals - Other	312	0.9	339	1.1
Total credit loss expenses	**690**	**0.40**	**540**	**0.34**

The data shown above indicates that the increase in the credit loss expense in 2019 was focused on the commerce and construction and real estate - construction sectors. On the other hand, a decrease in expenses took place in communications and computer services, private individuals – other and financial services sectors.

Developments in credit to the public, including off-balance sheet credit risk by borrower size (consolidated)

Approx. 99.4% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 38.6% of total credit to the public as at December 31, 2019, compared with 39.0% as at December 31, 2018. The credit bracket between NIS 1.2 million and NIS 200 million constitutes about 45.2% of all credit as at December 31, 2019, compared with 43.7% as at December 31, 2018. The 91 largest borrowers, in the credit brackets between NIS 200 million and NIS 5,656 million, were granted credit constituting 16.2% of total credit to the public as at December 31, 2019, compared with 80 borrowers that were granted credit constituting 17.3% of the total credit as at December 31, 2018. For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 7, item 3.

For additional details, see "Credit risks" in Chapter "C" below, and also "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Issue of credit-linked debt notes. The Bank had issued credit-linked notes (CLN), the balance of which at December 31, 2019, amounted to approx. NIS 193 million, which is presented in the item "bonds and subordinated debt notes".

A credit-linked debt note is a financial instrument that is connected to an asset of the Bank representing a debt of a third party legal entity and which bears the credit risk inherent in that entity. The purchaser of the note accepts the risk inherent in the debt asset. The Bank commits to redeem the amount of the liability (as well as interest in accordance with the terms of the note), when the Bank's liability is contingent on the non-materialization of the risk inherent in the debt asset. The deposit shall not be refunded to the purchaser of the note if the base asset, to which it is linked, would be in an insolvency situation, and the Bank shall only pay to the holder of the note the amounts it manages to collect in respect of the debt asset.
This product is considered collateral which is deductible in calculating the indebtedness of the customer, in accordance with Proper Conduct of Banking Business Directive No.313. It is also considered a qualified financial collateral in accordance with Sections 145 to 147 of Proper Conduct of Banking Business Directive No.203.

Securities

General. Securities in the nostro portfolio amounted to NIS 37,745 million as at December 31, 2019, compared with NIS 37,898 million at the end of 2018, a decrease of 0.4%.
Following are securities included in the "nostro" portfolio of the Discount Group, the investment in which as of December 31, 2019, amounted to 5% or over of the total amount of the portfolio: "government variable 1121", the "shekel government 0324", the "shekel government 0323" and the "government variable 520" security types, which amounted to approx. 7.6%, approx. 6.5%, approx. 5.7% and approx. 5.4%, of the total portfolio, respectively.
As of December 31, 2019, approx. 67.5% of the portfolio is invested in Government bonds, approx. 19.7% of the portfolio is invested in mortgage backed securities and agencies and approx. 1.8% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the Bank’s investments in bonds, according to economic sectors, see "Appendices to the annual report", appendix 6, items 1-3. For details regarding the segmentation of the investment in government bonds according to principal governments, see "Appendices to the annual report" – appendix 7, item 4.
Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.
The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.
In 2019, the Bank's securities portfolio increased by 10.3%, stemming mostly from the growth in Israel and foreign government bonds. Investments were made in accordance with the principles detailed above.
Market changes subsequent to balance-sheet date. Subsequent to balance-sheet date, changes occurred in the prices of securities on the markets. The Bank has examined the value of the marketable securities held by the Group as of March 8, 2020. The examination revealed that the prices of most bonds had risen; this rise will mainly affect the capital reserve. Notwithstanding, the prices of shares have experienced falls, with regard to which a loss will be recorded in the statement of profit or loss in the first quarter of 2020. However, the total amount is not material.

Composition of the Securities Portfolio by Linkage Segments

Composition of the securities portfolio by linkage segments

	December 31, 2019	December 31, 2018	Rate of change in %
	In NIS millions		
Non-linked shekels	20,486	19,734	3.8
CPI-linked shekels	685	1,544	(55.6)
Foreign currency and foreign currency-linked shekels	15,594	15,581	0.1
Shares - non-monetary items	980	1,039	(5.7)
Total	**37,745**	**37,898**	**(0.4)**

Securities in foreign currency and in Israeli currency linked foreign currency increased by 0.1% compared with December 31, 2018. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency increased by US$355 million, an increase of 8.5% as compared with December 31, 2018. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, increased by 3.1% as compared with December 31, 2018.

Composition of the Securities Portfolio according to Portfolio Classification

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

Composition of investments in securities portfolio according to portfolio classification

	December 31 ,2019			December 31 ,2018		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	4,753	4,998	4,753	6,722	6,791	6,722
Available for sale	29,091	29,562	29,562	28,167	27,950	27,950
Trading	2,442	2,450	2,450	2,194	2,187	2,187
Shares						
Available for sale	935	967	967	980	980	980
Trading	12	13	13	65	59	59
Total Securities	**37,233**	**37,990**	**37,745**	**38,128**	**37,967**	**37,898**

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds (2018 - available-for-sale securities) portfolio as of December 31, 2019, includes investments in corporate bonds in the amount of NIS 3,601 million (of which an amount of NIS 955 million is held by IDB New York), compared with NIS 3,488 million as of December 31, 2018, an increase of 3.2%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 12 to the financial statements.

Data by economic sectors. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see "Appendices to the annual report" – Appendix 6, item 1.

Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 12 C to the financial statements.

Investments in Mortgage and Asset Backed Securities

General. Discount Group’s securities portfolio as of December 31, 2019 includes investment in mortgage-backed and asset-backed bonds in an amount of NIS 7,444 million, compared with NIS 7,383 million as of December 31, 2018. The amount includes investment in mortgage backed securities in the amount of NIS 6,857 million, which are held by IDB New York, compared to an amount of NIS 7,197 million as at December 31, 2018, a decrease of 4.7%. Approx. 92.8% of the mortgage backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA-AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2019, the portfolio of mortgage and assets backed securities included unrealized net gains of NIS 2 million, compared with losses in an amount of NIS 169 million as of December 31, 2018.

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.

All of the GSE-MBS held by IDB New York are performing up to their conditions.

In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.

CLO. IDB New-York holds secured bonds of the CLO class in a total amount of NIS 490 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds bonds of the CLO class in the amount of NIS 572 million. The said securities are rated AA-AAA. For details, see Note 12 to the financial statements.

Details regarding Impairment in Value of Available for Sale Securities

General. For details regarding the review of impairment of securities, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements. For details regarding the adoption of standard FSP FAS 115-2, see Note 1 C 6 to the financial statements.

Based on a review of the impairment of the said securities as of December 31, 2019, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.

As of December 31, 2019 and 2018, unrealized accumulated losses on available-for-sale mortgage and assets backed securities amounted to total amounts of NIS 28 million and NIS 159 million, respectively. For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 12 E to the financial statements.

Adjustment in respect of the presentation of available-for-sale bonds according to fair value

The balance of the adjustments presented as part of equity, in respect of stating available-for-sale bonds at fair value, including in respect of bonds on loan, amounted at December 31, 2019, to NIS 573 million unrealized gains before tax effect, compared to unrealized losses before tax effect in an amount of NIS 226 million (in respect of available-for-sale securities) as of December 31, 2018.

Customer Assets

Deposits from the public as at December 31, 2019, amounted to NIS 201,450 million, compared with NIS 188,916 million at the end of 2018, an increase of 6.6%. The increase is explained, inter alia, by Municipal Bank's merger (an amount of NIS 4,073 million).

Composition of deposits from the public by linkage segments

	December 31, 2019		December 31, 2018		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	134,716	66.9	123,985	65.6	8.7
CPI-linked shekels	4,611	2.3	4,839	2.6	(4.7)
Foreign currency and foreign currency-linked shekels	62,123	30.8	60,092	31.8	3.4
Total	**201,450**	**100.0**	**188,916**	**100.0**	**6.6**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 3.4%, compared with December 31, 2018. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$1,942 million, an increase of 12.1% compared with December 31, 2018. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency computed in U.S. Dollar terms, increased by 9.4%, as compared with December 31, 2018.

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

	December 31, 2019	December 31, 2018	Change in %
	In NIS millions		
Domestic operations:			
Households	75,312	73,951	1.8
Private banking	16,368	16,765	(2.4)
Small and minute businesses	37,022	33,994	8.9
Medium businesses	7,590	5,925	28.1
Large businesses	20,305	18,968	7.0
Institutional bodies	18,076	13,044	38.6
Total Domestic operations	**174,673**	**162,647**	**7.4**
International operations:			
Private Individuals	9,047	9,216	(1.8)
Business operations	17,730	17,053	4.0
Total International operations	**26,777**	**26,269**	**1.9**
Total deposits from the public	**201,450**	**188,916**	**6.6**

The ratio of total credit to the public, net, to deposits from the public was approx. 89.6% as at December 31, 2019, compared with 87.2% at the end of 2018.

Deposits from the public of the three largest depositor groups amounted as of December 31, 2019, to NIS 4,725 million.

Securities held for customers. On December 31, 2019, the balance of the securities held for customers at the Bank amounted to approx. NIS 191.47 billion, including approx. NIS 1.61 billion of non-marketable securities, compared to approx. NIS 173.41 billion as at December 31, 2018, including approx. NIS 3.21 billion of non-marketable securities, an increase of 10.4%. For details as to income from security activities, see Note 4 to the financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2019, amounted to NIS 11.71 billion, compared with NIS 9.99 billion in December 31, 2018, an increase of 17.2%.

Investment portfolio management. On December 31, 2019, Tafnit was managing investment portfolios, overall valued at approx. NIS 8,539 million, as compared to approx. NIS 7,459 million as at December 31, 2018, an increase of 14.5%. The growth is explained by price increases on the capital market and by the attracting of new customers.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2019, amounting to NIS 19.6 billion, compared with NIS 15.9 billion as of December 31, 2018, an increase of 21.3%. The growth is explained by price increases on the capital market and by the attracting of new customers.

Capital and Capital Adequacy

The instructions. Instructions regarding "Basel III guidelines", which apply as from January 1, 2014, include a requirement for maintaining a minimal common equity tier 1 ratio of 9%, and a total capital ratio of 12.5%, as well as detailed reference with respect to transitional instructions. For details regarding the requirement concerning housing loans, see Note 25 item 1(b) to the financial statements.

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

Transitional instructions. In accordance with the transitional instructions, capital instruments not recognized any longer as regulatory capital, were recognized as from January 1, 2014, in an amount of up to 80% of their outstanding balance included in the regulatory capital at December 31, 2013, and in each consecutive year this maximum balance is being reduced by an additional 10% until January 1, 2022. In accordance with the above, the maximum balance in 2019 amounts to 30%. The aforesaid instruments are recognized in the amount of the said maximum balance or in their amortized amount, whichever is lower.

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

Relief regarding the efficiency plan. The Supervisor of Banks granted the Bank relief regarding its 2016 and 2018 efficiency plans. For further details, see above "Efficiency of the banking industry", and Note 23 H and I, and Note 25 1 C and D to the financial statements. Without the stated reliefs, the Common Equity Tier 1 ratio would have been 10.22% (instead of 10.31%). For additional details, see Note 25 1 J to the financial statements.
Effect of the acquisition of Municipal Bank. The effect of the acquisition of Municipal Bank on the Common Equity Tier 1 ratio, totaled to a decrease of approx. 0.13%.
Issuance of deferred debt notes (Series "F"). Issuance of debt notes, through Manpikim, in October 2019, increased the total capital ratio by 0.67%.
Premature repayment of deferred capital notes (Series 1). In accordance with the terms of the capital notes, as detailed hereunder in Note 25 L to the financial statements, on February 20, 2020, Manpikim announced the full, early redemption of the deferred capital notes (Series 1), on April 20, 2020, after having received the Supervisor of Banks approval to implement the aforesaid early redemption. All as detailed in Manpikim's immediate report of February 20, 2020 (Ref. No. 2020-01-017649). Had the premature redemption been performed on December 31, 2019, the Bank's total capital ratio would have been reduced by 0.67%.

For details regarding the purchase of credit risk insurance, including guaranties, see "Large business segment (Domestic operations) – additional details".
For further details, see "Basel III" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Common Equity Tier 1 Goal

The policy approved by the Board of Directors, which reflects the Bank's risk appetite, is to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test.
On December 22, 2019, the Board of Directors, on the basis of ICAAP and SREP processes, adopted a minimum common equity tier 1 target level of 9.9% for 2020.

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in the outline, which enables attainment of the Board of Directors' goals while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived. The allocation of the risk assets between the business units and the subsidiaries is in line with the strategic plan, while optimizing the Group's return on equity.
The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations in accordance with transitional instructions. The Bank examines a number of scenarios in arriving at the prescribed capital ratios.
As part of the capital management process, the Bank routinely examines its ability to attain the internal capital targets set by the Board of Directors and included in the work plan. Should the forecasted capital ratio differ considerably from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.
For additional details, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2019 Annual Report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Components of Capital

Total capital as at December 31, 2019, amounted to NIS 19,193 million, compared with NIS 17,669 million at December 31, 2018, an increase of 8.6%. The increase stems, mostly, from the profit for the year.
Equity attributed to the Bank's shareholders as at December 31, 2019, amounted to NIS 18,678 million, compared with NIS 17,151 million at December 31, 2018, an increase of 8.9%.
The change in equity attributed to the Bank's shareholders in 2019 was affected, among other things, by the net earnings during the year, by an increase NIS 531 million from adjustments for fair value of available-for-sale securities, from net actuarial loss in an amount of NIS 175 million from financial statements translation adjustments in an amount of NIS 283 million.
The ratio of total capital, to total assets as at December 31, 2019, stood at 7.4%, similar to December 31, 2018.

Components of the Regulatory Capital as of December 31, 2019

General. As stated, as of January 1, 2014, the new instructions in accordance with the Basel III guidelines gradually came into effect. The data presented below reflects deductions, in accordance with the transitional instructions. The transitional instructions relating to the reductions and deductions from common equity tier 1 ceased to be in effect from January 1, 2018.
Ratio of common equity tier 1 on December 31, 2019, amounted to 10.31%, as compared with 10.24% on December 31, 2018.
Total capital ratio as of December 31, 2019, amounted to 13.86%, as compared with 13.67% on December 31, 2018.

Components of the regulatory capital as of December 31, 2019

	December 31,	
	2019	2018
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	19,009	17,504
Additional tier 1 capital after deductions	534	712
Tier 1 capital	19,543	18,216
Tier 2 capital	6,021	5,140
Total capital	**25,564**	**23,356**
2. Weighted risk assets balance		
Credit risk(2)	165,883	153,081
Market risk	2,858	3,412
CVA risk	1,489	1,441
Operational risk	14,216	12,987
Total weighted risk assets balance	**184,446**	**170,921**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.31	10.24
Ratio of total capital to risk assets	13.86	13.67
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1(1)	9.20	9.19
Total capital ratio(1)	12.70	12.69

Footnotes:
(1) With an addition of 0.20% (December 31, 2018: 0.19%), in accordance with the additional capital requirements with respect to housing loans - see Note 25 to the financial statements.
(2) The total weighted balances of the risk assets have been reduced by NIS 10 million (December 31,2018: NIS 32 million) due to adjustments in respect to the efficiency plan.

Raising of Resources

Issuances of tier 2 capital. In October 2019 the CoCo bonds issue in a total amount of NIS 1,231 million was completed. On January 7, 2020, an additional Coco issuance was concluded, with an overall scope of NIS 100 million. For additional details, see Note 25 1 N to the financial statements.
Subtraction of regulatory capital instruments in 2020. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2021. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2021. Regulatory capital instruments, which are to be subtracted in the course of 2020, in accordance with the transitional provisions, amount to NIS 787 million (in accordance with the Basel II instructions an amount of NIS 244 million would have been deducted).
Taking into consideration the deduction in 2020 of regulatory capital instruments (Tier 2 capital), the Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2020 and market conditions, in order to maintain the total capital targets for 2020.

Additional Disclosure according to the Third Pillar of Basel

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

Dividends Distribution

On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter. On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy, according to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%.

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

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

For details of the dividend distribution from the profits of the various quarters of 2018-2019, see Note 24 E (5) to the financial statements.

For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 E (2) to the financial statements.

In accordance and in continuation with the policy, as stated, the Bank's Board of Directors decided, on March 15, 2020, to distribute a dividend at the rate of 15% of the profits of the fourth quarter of 2019, in the amount of approx. NIS 48.75 million, comprising approx. 4.19 Agora for each ordinary A share of NIS 0.1 par value. Additional details regarding the resolution of the Board of Directors, including the dates fixed as the ex-dividend date and the date of payment, are included in the immediate report published by the Bank together with the publication of this report.

Activity of the Group according to Principal Segments of Operation – Principal Quantitative Data and Main Developments

General

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

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). However, in accordance with directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only. Note 30 to the financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements.

A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - Condensed description" under "The Discount Group - Condensed description and principal areas of operation".

Details regarding the distribution of human resources in the Group according to segments of operation are included under "the human capital" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 29 D to the financial statements.

Allocation of indirect expenses. Indirect expenses are allocated to the different segments in accordance with the model, as detailed in Note 29 D Item 2. The principal variables affecting the allocation are the scope of operations of the customers and the number of employees.

Validation and updating of the expense allocation model. The Bank is in the midst of a process for the updating and the validation of the expense allocation model used in the preparation of the operating segments data. Completion of the process is planned for 2020. Changes in the expense allocation model might lead to material changes in the reported results for the different segments, both regulatory and managerial.

Administrative Structure

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.

The Bank's business operations in 2019 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.

The Retail Banking Division conducts business with households and small businesses, digital banking customers and private banking customers (both Israeli and international). The Division is responsible for the operation of the investment consultants operating in branches and investment centers and for mortgage activity, by means of mortgage consultants placed at some of the branches.

The Corporate Division is responsible for conducting business with large business corporations and medium corporations (middle market), as well as building (closed real estate projects) and infrastructure corporations, major participants in the capital market, institutional bodies and customers engaged in the diamond sector. In addition, the Division has a complex credit products wing, which incorporates under it the syndication unit and the complex foreign trade finance unit. The operational services to customers of the Corporate Division is principally provided at the Tel Aviv Main Branch. Furthermore, the Foreign Trade unit, providing foreign trade services to all Bank customers, is also subject to the Division.

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

The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.
In addition, alongside the above mentioned divisions, two additional business activities divisions operate at the Bank: the Digital, Data and Innovation Division, which is responsible for the online channels area, the data, the CRM, the PayBox cellular payments application and the innovation, and the Planning, Strategy and Finance Division, which is responsible, among other things, for pension advisory services activity.

Household Segment (Domestic operations)

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of 182 branches located all over the country, in addition to a variety of direct channels. The customers are classified into groups according to their age, financial wealth and additional parameters.

Scale of Operations and Net Profit of the Segment

The segment's profit in 2019 amounted to NIS 22 million, compared to a loss in an amount of NIS 138 million in 2018.
Credit loss expenses in this segment amounted to NIS 339 million in 2019, compared to NIS 363 million in 2018, a decrease of 6.6%.

Principal data regarding the Household segment (Domestic operations)

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	3,561	(2)3,269
Credit loss expenses	339	363
Total Operating and other expenses	3,144	(1)3,084
Net Profit (Loss) Attributed to the bank's shareholders	22	(138)

Footnotes:
(1) Reclassified - see Note 29 C (2) to the financial statements.
(2) Reclassified - see Note 29 C (3) to the financial statements.

Developments in the segment

The Bank continued in 2019 to implement the Group strategic plan, which defined the household segment as one of the segments, which the Group intends to focus on in the coming years, as a central growth generator.
In 2019 the Bank continued implementing moves to achieve the multi-year targets:
- Continuing with measures to improve service and sales to customers, as a direct result of completing the measure for the removal of operational activity from the branches;
- Continuing the management of customer relations through the different communication channels by means of an upgraded CRM system: encrypted mail, communication with the banker through the cellular application and a "call back" telephone service;
- Continuing the management of telephone call availability by means of a smart telephone system operated by teams;
- Management of the frontal scene at the branches by means of a queue management system, the possibility of arranging an appointment with a banker by means of the application and the positioning of a quick response banker assisting in the conduct of simple and quick banking operations at branches serving in person a large number of customers;
- Continuing to regulate workload at the branches in all communication channels: frontal, telephonic and digital, through a command and control center established at the Banking Division;
- Continuing to expand and improve the telephone center with the aim of increasing the availability of this service;
- Continuing the upgrading of the digital channels and the directing of operations to these channels.

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

Private Banking Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The segment's net profit in 2019 amounted to NIS 23 million, compared with NIS 19 million in 2018, an increase of 21.1%.

Principal data regarding the Private banking segment (Domestic operations)

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	152	149
Credit loss expenses	2	1
Total Operating and other expenses	116	(1)119
Net Profit Attributed to the bank's shareholders	23	19

Footnote:
(1) Reclassified - see Note 29 C (2) to the financial statements.

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

Small and Minute Businesses Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2019 amounted to NIS 379 million, compared with NIS 344 million in 2018, an increase of 10.2%.
Credit loss expenses in this segment amounted to NIS 234 million in 2019, compared to NIS 111 million in 2018, an increase of 110.8%.

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

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	2,153	(2)2,018
Credit loss expenses	234	111
Total Operating and other expenses	1,329	(1)1,366
Net Profit Attributed to the bank's shareholders	379	344

Footnotes:
(1) Reclassified - see Note 29 C (2) to the financial statements.
(2) Reclassified - see Note 29 C (3) to the financial statements.

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

Medium Businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2019 amounted to NIS 43 million, compared with NIS 116 million in 2018, a decrease of 62.9%.
Credit loss expenses amounted to NIS 107 million in 2019, compared to expenses reversal in the amount of NIS 40 million in 2018.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	451	(2)416
Credit loss expenses (expenses reversal)	107	(40)
Total Operating and other expenses	278	(1)276
Net Profit Attributed to the bank's shareholders	43	116

Footnotes:
(1) Reclassified - see Note 29 C (2) to the financial statements.
(2) Reclassified - see Note 29 C (3) to the financial statements.

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

Large Businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2019 amounted to NIS 393 million, compared with NIS 319 million in 2018, an increase of 23.2%.
Credit loss expenses in this segment amounted to an expense reversal of NIS 21 million in 2019, compared to expenses in an amount of NIS 120 million in 2018.

Principal data regarding the Large businesses segment (Domestic operations)

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	1,114	(2)1,070
Credit loss expenses (expenses reversal)	(21)	120
Total Operating and other expenses	537	(1)462
Net Profit Attributed to the bank's shareholders	393	319

Footnotes:
(1) Reclassified - see Note 29 C (2) to the financial statements.
(2) Reclassified - see Note 29 C (3) to the financial statements.

For additional details regarding the Large Businesses Segment (Domestic operations), including Real Estate activity, see in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

Institutional Bodies Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The segment's loss in 2019 amounted to NIS 5 million, compared with NIS 4 million in the previous year.
Credit loss expenses in this segment amounted to expenses reversal of NIS 5 million in 2019, compared to an expense of NIS 1 million in 2018.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	48	46
Credit loss expenses (expenses reversal)	(5)	1
Total Operating and other expenses	61	52
Loss Attributed to the bank's shareholders	(5)	(4)

Footnote:
(1) Reclassified - see Note 29 C (2) to the financial statements.

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

Financial Management Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The segment's net profit in 2019 amounted to NIS 543 million, compared to NIS 515 million in 2018, an increase of 5.4%. The profit in 2019 was effected, inter alia, by a decrease in the realization of investments in Discount Capital. For further details, see "Non-financial investments" below under "Activity of the Group by regulatory operating segments – additional details".

Principal data regarding the financial management segment (Domestic operations)

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	1,041	(2)986
Total Operating and other expenses	181	(1)179
Net Profit Attributed to the bank's shareholders	543	515

Footnotes:
(1) Reclassified - see Note 29 C (2) to the financial statements.
(2) Reclassified - see Note 29 C (3) to the financial statements.

Main Developments in the Segment

Negative interest environment. The Bank continues to charge large businesses customers with interest on current account credit balances in the Euro, following the transition to a negative interest environment.

Income from trading activities

The income from trading activities in the financial management segment amounted to NIS 298 million in 2019, compared with NIS 418 million in 2018 (see Note 29 H to the financial statements). The income from trading activities that was included within the framework of interest income and within the framework of non-interest financing income amounted to NIS 279 million in 2019, compared with NIS 382 million in 2018 (see Notes 2 and 3 to the financial statements).
The gap is explained, primarily, by foreign currency exchange differences – a total of NIS 58 million in 2019, compared with NIS 61 million in 2018. The gap is due to a difference in the types of activities for which foreign currency exchange differences are calculated.
Additional gaps arise from overseas activity, which is included solely within the framework of non-interest financing income (NIS 60 million in 2019, compared with NIS 27 million in 2018) and from commissions from securities and inter-segment net interest income, which are included solely within the framework of income from trading activity in the financial management segment (NIS 21 million net in 2019, compared with NIS 2 million net in 2018).

For additional details regarding the financial management segment (Domestic operations), and details regarding non-financial companies activity, and details as to the dealing room activity, asset and liability management and Global Treasury, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

International Operations Segment

Scale of operations and Net Profit of the Segment

The net gain in 2019 amounted to NIS 304 million, compared to NIS 334 million in 2018, a decrease of 9.0%.
Credit loss expenses in this segment in 2019 amounted to NIS 34 million, compared to an expense reversal in the amount of NIS 16 million in 2018.

Principal data regarding the International operations segment

	For the year ended December 31,	
	2019	2018
	in NIS millions	
Total income	1,144	1,066
Credit loss expenses (expenses reversal)	34	(16)
Total Operating and other expenses	653	610
Net Profit Attributed to the bank's shareholders	304	334

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

Main investee companies

General

The Bank’s Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2019, amounted to NIS 10,317 million, compared with NIS 9,617 million on December 31, 2018, an increase of 7.3%.

Distribution of Net profit by the Group’s structure

	Contribution to the Group’s profit				
	For the year ended December 31,				
	2019		2018		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	906	53.2	763	50.7	18.7
Mercantile Discount Bank	305	17.9	239	15.9	27.6
Overseas - Discount Bancorp	288	16.9	323	21.5	(10.8)
Other Activities:					
Israel Credit Cards	123	7.2	95	6.3	29.5
Discount Capital	63	3.7	70	4.6	(10.0)
Other financial services	17	1.0	15	1.0	13.3
Net profit	**1,702**	**100.0**	**1,505**	**100.0**	**13.1**

At the end of 2019, 22.86% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 12.96% were assets of the overseas consolidated company. The contribution to the Net profit by the consolidated companies in Israel amounted to NIS 499 million in 2019 (NIS 413 million in 2018). The contribution to the Net profit by overseas consolidated companies amounted to NIS 289 million in 2019 (NIS 325 million in 2018), and the contribution to the Net profit by affiliated companies amounted to NIS 8 million in 2019 (NIS 4 million in 2018).

The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 796 million in 2019, compared with NIS 742 million in 2018, an increase of 7.3%.

Following are the main developments in principal investee companies.

Discount Bancorp, Inc.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York), which is the largest Israeli bank operating overseas.

Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB New York may not be sold by Bancorp unless the Bank has given its consent.

The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

Discount Bancorp, Inc. – principal data

	Forth Quarter		Year	
	2019	2018	2019	2018
	In US$ millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	21	18	100	96
Interest income, net	61	64	250	246
Credit loss expenses (expenses reversal)	1	1	9	(4)
Non-financing income	19	16	77	56
Non-financing expenses	51	56	190	182
Principal balance sheet data for the end of the reporting period:				
Total assets	9,777	9,229	9,777	9,229
Credit to the public, net	6,778	6,109	6,778	6,109
Securities	2,440	2,398	2,440	2,398
Deposits from the public	8,164	7,460	8,164	7,460
Total equity	1,078	948	1,078	948
	In %			
Principal performance indices:				
Return on equity	7.9	7.7	9.8	10.4
Efficiency ratio	63.8	70.0	58.1	60.3
Ratio of total capital to risk assets	15.2	15.2	15.2	15.3
Ratio of credit loss expenses to the average balance of credit to the public	0.09	0.05	0.14	(0.07)
Total net return on interest bearing assets	2.63	3.04	2.74	2.85

The improvement in the business results for 2019, stemmed mostly from the growth in interest income (US$4 million) and from the increase in credit loss expenses (US$13 million). On the other hand, an increase occurred in non-interest income (US$21 million) and in interest expenses (US$18.6 million).

Distribution of dividend. In 2019, Bancorp distributed dividend to Discount Bank in a total amount of US$4.4 million (2018– US$42.25 million). In February 2020, Bancorp resolved to distribute a dividend of US$15 million.

The contribution of Bancorp to the Bank's net results reached a profit of NIS 288 million (after deducting a provision for taxes of NIS 58 million) in 2019, compared with NIS 323 million in 2018 (net of provision for taxes in the amount of NIS 37 million).

Change of President and CEO. For details, see "Board of Directors and Management" below.

Strategic plan. For details regarding the plan that was approved in December 2017, see above "Goals and business strategy".

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

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank. At the end of 2019, MDB operated through 75 branches (compared with 76 branches in 2018).

Mercantile Discount Bank Ltd. – principal data

	Forth Quarter		Year	
	2019	2018	2019	2018
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	77	30	305	239
Interest income, net	313	282	1,201	1,080
Credit loss expenses	58	26	188	96
Non-financing income	97	84	367	368
Non-financing expenses	233	293	913	985
Principal balance sheet data for the end of the reporting period:				
Total assets	44,434	36,219	44,434	36,219
Credit to the public, net	31,967	25,675	31,967	25,675
Securities	4,806	6,599	4,806	6,599
Deposits from the public	36,232	30,551	36,232	30,551
Total equity	3,058	2,723	3,058	2,723
	In %			
Principal performance indices:				
Return on equity	10.6	4.6	10.5	9.2
Efficiency ratio	56.8	80.1	58.2	68.0
Ratio of total capital to risk assets	13.65	14.02	13.65	14.02
Ratio of credit loss expenses to the average balance of credit to the public	0.85	0.42	0.69	0.39
Total net return on interest bearing assets	3.39	3.41	3.40	3.26

The ratio of capital to risk assets. The Board of Directors of MDB determined the minimum rates of capital adequacy ratios, as follows: the common equity Tier I ratio shall not be lower than 9.5%; the comprehensive capital adequacy ratio shall not be lower than 13.0%.

The principal factors affecting the business results. The profit in 2019 was affected, inter alia, from an increase of NIS 121 million in interest income, net (11.2%); a decrease of NIS 11 million in non-interest financial income (22.4%); from an increase of NIS 92 million in credit loss expenses (95.8%); and from a decrease of NIS 72 million in operating and other expenses (7.3%), stemming mainly from the payment of one-time awards of NIS 67 million, which were paid in 2018 (NIS 56 million in respect of surrendering the linkage to Bank Leumi terms, and NIS 11 million in respect of an award regarding the 100th anniversary of this bank; see hereunder "the Human Capital").

Distribution of dividend. During 2018-2019 Mercantile Discount Bank did not distribute dividend.

The strategic plan. The Board of Directors of the Mercantile Discount Bank approved in 2015 a strategic plan for the years 2016-2020. The program contains two main lines of action: the one – expansion of retail operations (households and small businesses), within the framework of which, Mercantile Discount Bank is intended to focus on specific sections of the population, in respect of which this bank has many years of experience in the granting of banking services matching their unique needs. The other – streamlining operations by means of strict management of operating expenses and improvement in income structure.

2016 plan. The Board of Directors of MDB approved in the second half of 2016, a strategic plan to intensify the activity in the retail segment, including the focusing on designated segments of population, in respect of which the bank has acquired over many years specialization in providing banking services.

Major projects implementation. Execution of the said strategic plan involves the implementation of structural changes and changes in work processes, which are integrated at the Mercantile Discount Bank within the framework of projects, including:

- Expanding the operations of the "back-office operating unit" – within the framework of which, certain operating activities are removed from the branches to back-office operating centers, so as to increase the branch resources available to the customers, for the provision of service.
- Improvement of the computer infrastructure – including infrastructure relating to the development of activity in the retail segment, such as: enlarging the channels used for granting banking services, improving the technological infrastructure enabling the

conduct of operations without the physical signature by the customer, upgrading and increasing the number of automatic devices at the branches and the development of advanced digital applications, which enable customers to obtain available information and carry-out banking operations by means of use of mobile communication devices.

Merger of Municipal Bank. On December 1, 2019, the merger of Municipal Bank with and into MDB was concluded. For details see Note 26 C 18 to the financial statements. The material balance-sheet changes in the financial statements of MDB stem, mainly, from the aforesaid merger.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits and additional proceedings filed against MDB, see Note 26 C to the financial statements, items 12.4, 12.8 and 13.1.

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

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2019, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First International Bank held the balance of the rights in ICC.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

Israel Credit Cards Ltd. – principal data

	Forth Quarter		Year	
	2019	2018	2019	2018
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	52	36	201	157
(1)The contribution to the Bank's business results	32	22	123	95
Income from credit card transactions	352	320	1,356	1,222
Interest income, net	130	120	505	464
Non-financing income	2	2	2	12
Non-financing expenses	412	394	1,587	1,485
Of which: Credit loss expenses	30	38	147	156
Principal balance sheet data for the end of the reporting period:				
Total assets	19,159	16,015	19,159	16,015
Interest bearing credit to the public	6,502	5,678	6,502	5,678
Total equity	1,820	1,838	1,820	1,838
	In %			
Principal performance indices:				
Return on equity	11.8	8.3	11.0	9.0
Efficiency ratio	78.9	80.5	77.3	78.3
Ratio of total capital to risk assets	14.0	15.9	14.0	15.9
Turnover of credit card transactions – in NIS millions	28,171	24,697	107,096	93,383
Number of active cards	2,877	2,629	2,877	2,629

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

The principal factors affecting the business results. The business results of ICC for 2019, compared with 2018, were mainly affected by a rise in income from credit card transactions (NIS 134 million, 11.0%) and net interest income (NIS 41 million; 8.8%), as a result of the growth in volume of consumer credit and from a decrease occurred in credit loss expenses (NIS 9 million; 8.8%). On the other hand, an increase occurred in operating expenses (NIS 60 million; 10.8%), and an increase in sales and marketing expenses (NIS 46 million; 33.1%) explained mostly by the growth in customer attraction and retention.

The ratio of capital to risk assets. A resolution of the Board of Directors of ICC states a targeted core capital ratio of 9.6% and a targeted total capital ratio of 13.3%.

Distribution of dividend. In 2019, ICC distributed dividends in the amount of NIS 200 million (the Bank's share – NIS 143.6 million). During 2018, ICC did not distribute a dividend.

Strategic plan. In August 2019, the Board of Directors of ICC approved a multi-annual plan (2019-2023), comprising a continuation of the strategic plan approved on May 23, 2017 (2017-2021).The multi-annual plan had been formed, taking into account the changes taking place in the credit card field around the world, generally, and in Israel, in particular, following enactment of the Increase in Competition and Reduction of Concentration and Conflict of Interests in the Banking Market in Israel Act, 2016, as well as additional regulatory initiatives. The plan focuses on continuous actions for the positioning of ICC as leader in the payment and off-banking credit activities.

The strategic focal points of ICC are:

- Utilizing the income potential from ICC's broad customer base;
- Further growth in credit operations;
- Enlarging the use of information and the leveraging thereof in the decision making processes;
- Promoting advanced payment solutions, both on the part of the payer and on the part of the beneficiary (trading houses);
- Operating excellence while improving customer experience alongside organizational effectiveness;
- Continuing the upgrading of the digital infrastructure in its principal activities, and providing customers with utmost experience regarding the digital platforms.

From time to time, ICC tests and validates the strategic foci and the strategic measures deriving therefrom as a result of the developments and trends in its operations and in the business and regulatory environment in which it operates.

In the opinion of Management of ICC, the implementation of the strategic plan would enable it to deal, in the best possible manner, with the challenges of the financial market in Israel in the coming years. It should be noted, that the success of the plan depends on a number of factors, the realization of which is not certain.

Breakout of the Corona virus. The spread of the virus could have a detrimental effect on ICC's results, due to a downturn in the scope of credit card use, particularly on the activity turnovers of Israelis overseas and of tourists in Israel (and consequently, on noncompliance with the goals of the international organizations, depending on the scope of the downturn), and on ICC's activities in the sphere of private and business credit. Moreover, there could be a detrimental effect on businesses in the spheres of tourism, hotels and aviation and on ICC's activities with clubs operating in these spheres. In addition, ICC is examining aspects of continuity of service under various scenarios. At this stage, it is not possible to estimate the effects of the further spread of the virus on the business results of ICC.

For details regarding activity in the credit card field in Israel, see in the chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and in Note 36 to the financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, see Note 26 C to the financial statements, items 12.1 and 12.5.

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

Discount Capital Ltd.

Discount Capital, a fully owned and controlled subsidiary of the Bank, which is engaged in three main areas of operation:
- Investments in companies, private equity funds and in venture capital funds and mezzanine;
- Investment banking, including consulting and management of mergers and acquisitions (M&A), corporate finance consulting and advising in rating processes;
- Initiating and advising public offerings and private placements and providing underwriting and distribution services, by means of the subsidiary, Discount Capital Underwriting Ltd.

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the year:	2019	2018	Change in %
Net profit attributed to the shareholders	78.2	71.4	9.5
The contribution to the Bank's business results[(1)]	62.9	70.0	(10.1)
Principal balance sheet data for the end of the reporting period:	December 31, 2019	December 31, 2018	Change in %
Total assets	1,621.0	1,571.0	3.2
Total equity	829.7	751.9	10.3

Footnote:
(1) Differences between net income and the contribution to the Bank's business results is derived from differences in the implementation of generally accepted accounting principles and recognition of current tax liability in respect of the investment in the company.

The profit in the years 2018-2019 was affected mainly by different realizations.
Realizations in 2020. As assessed by Discount Capital, due to the uncertainty and the drop in prices in the markets, realizations that were in the process of being carried out or that were planned for 2020 are being deferred, and mostly for the first half of the year.
During 2019, Discount Capital, through a subsidiary, participated in 56 public offerings of which, two public offering for the Discount Group and in 22 private placements, with a total volume of approx. NIS 27.2 billion (in 2018 - 66 public offerings of which, one public offering for the Discount Group, and 21 private placements with a total of approx. NIS 31.4 billion).

• CHAPTER "C" – RISKS REVIEW

General Description of the Risks and Manner of Management thereof

Risk Profile of the Discount Group - Risk Environment

The Discount Group is engaged in a wide range of financial operations involving risk taking. The Group has focused the geographical distribution, and at the present time maintains international presence through the New York subsidiary only. The complexity of the risk environment (domestic and international, regulatory and internal), as well as the dynamics and pace of changes occurring in the risk environment, create challenges in the risk management field alongside the business challenges. For a wider discussion in the matter of main developments in the economic environment, see above "Principal economic developments" under "Material trends, occurrences, developments and changes".
Following are the major external effects, to which the Group is exposed, are:
- **Intensified competition, profitability risks and the business model.** the forecasts for a continuing low interest environment alongside the abundance of regulatory directives intended to support the increase in competition, innovation and technology, and expected structural changes in the banking industry (principally as regards credit, payments and digital), lead to the continued increase in competition in the banking industry, to wider cooperation with third parties and to the transition of banking activity to financial entities that are not banks. In consequence thereof, the banking industry faces challenges in the formation of a future banking concept and in identifying additional and alternative growth generators, including initiating and developing new products and cooperation. One of the tracks of the updated strategic plan is the promotion of new banking, while emphasizing the broadening of the services coverage, the means of communication and improving customer experience. The innovation and digitization aspects are being accompanied by representatives of risk management as from the initiation stages, including the conduct of new product processes;

- **Efficiency measures** – the above stated changes in competition require the continuous implementation of efficiency measures by the banking industry. Improvement of the operating efficiency ratios comprises a central axis in the Group's strategic plan. In recent years the Group demonstrates a continuing improvement in efficiency ratios, though the challenge continues to be significant in light of major streamlining in the system too. The Group implements a multiannual efficiency plan, which includes efficiency measures regarding manpower, expenses and properties (reduction in the number of branches) and also launched strategic projects, whose aim is to support and assist the Bank in coping with the competitive environment and the future banking. Furthermore, the Bank and the Group introduce from time to time additional efficiency projects;
- **Development of digital banking.** A growing trend of transition of activity to digital is observed in recent years. This development, combined with supporting regulation (online banking, open banking, mobility by keyboard click, encouragement of innovation at banks and at clearing agents, etc.) that lead to wider services and growing cooperation with third parties (outsourcing of operations, acquisition of new technologies, cooperation with third parties and technology companies, combining robotics and artificial intelligence in processes and services, the development of open banking etc.). These changes comprise on the one hand business opportunities and on the other hand create new challenges with respect to risk management, with an emphasis on data protection and cyber aspects as well as the supply chain and also model development and validation aspects.
  The Group is engaged in the continuous improvement of the risk management processes and of the supporting tools, including improvements in models, updating of policy documents, forming standardization, contractual regulation and processes as well as conducting "new product" processes for new products or operations;
- **Cybernetic risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber risks and to the regulators and supervisory authorities, in Israel and globally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, may develop also into a strategic business risk. The Group has a cyber policy and strategy as well as a multiannual work plan for improvement of cyber defense, including the strengthening of the network defense and its components, improving forestallment and monitoring tools, identification of irregular activity and upgrading infrastructure. In view of the potential effect of the events, the importance of verifying propriety of business continuation processes intensifies with respect to a variety of reference scenarios, including aspects of communication regarding the flow of information at the time of the event;
- **Fairness and decency** – the important values of fairness, decency and transparency vis-à-vis the Bank's customers, including the prevention of prohibited discrimination between customers, are also a developing risk that is managed as an integral part of the Bank's compliance risk management. The Bank works continuously to assimilate these values across the spectrum of relevant processes and is raising employees' awareness to their importance.
- **Protection of privacy** – privacy protection considerations continue to gain force and importance both in Israel and globally, against the background of increased digital and data use. Privacy protection regulation is undergoing numerous changes and developments in both domestic and global legislation (GDPR). This area has been identified by the Group as a developing risk and the Group has performed a thorough review thereof, aimed at ensuring the meeting of expectations and compliance with regulatory guidelines, along with attending to any gaps that will be identified. The Group is working to maintain a proper balance between the use of information for the Bank's purposes and safeguarding the various aspects of protecting its customers' privacy. Privacy protection considerations constitute an important element in examining new products and/or technologies and/or services and/or models, alongside assuring proper protection of sensitive information.

The Table of risk factors below presents the principal changes that had occurred in the Group's risk profile.
For details regarding the breakout of the Corona virus and its implications, see above "Management's handling of current material issues" and "Principal economic developments".

Principles of Risk Management

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process. The Bank is studying the various risks to which the Group is exposed from a forward looking Group standpoint. The Board of Directors and Management apply great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.
High-level principles for risk management in the Discount Group:
- Risk management is performed from a Group integrated viewpoint, cross organization, along the management echelon and across the business units, using methodologies and consistent terms with reference to all types of risks to which the group is exposed;
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law;

- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks;
- A senior officer in the position of member of Management is in charge of each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense;
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint;
- The Bank's activity is conducted in accordance with the Bank's vision and the principles of the code of ethics, which express the core values of the Bank's activity and its interface with stakeholders, customers, suppliers, employees, etc.;
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including in respect of violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defenses lines involved in the risk management;
- A dynamic and evolving over time risk management concept in accordance with changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment;
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks;
- Risk management processes are being integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including "new product" processes, where required;
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, with an emphasis on integration of fairness and decency values into operations and processes.

Risk Appetite

The Risk Management Division is responsible for the periodic updating of the risk appetite, in conjunction with the capital planning process, the strategic planning and liquidity planning, in a manner that these processes be integrated, complement one another and be managed congruently and interactively, with the objective being to marry the Group's return and maintain its stability in a long-term view.

The Discount Group's risk appetite declaration is in line with the requirements of Proper Conduct of Banking Business Directive No. 310 and reflects the risk preferences of the Board of Directors, through setting limits and defining clear and easily assimilated "boundaries" for activity and business directions and for ensuring compliance with regulatory requirements and limitations. The declaration includes quantitative and qualitative statements relating to each of the risk areas being managed, and these constitute the basis for drawing up risk appetite documents for the individual risk areas that include limits, goals and warning thresholds that form the outline for setting the Group's business policy.

The declaration's limits are set, inter alia, based on the use of various scenarios and stress tests, which constitute a central and important tool for assessing the risks and their potential impact on the Group's capital. The declaration includes statements and limits relating to a normal business situation and to a stress situation, and from a forward-looking perspective.

The risk appetite declaration and the individual risk appetite documents drawn up pursuant thereto constitute one of the main tools of the Board of Directors for supervising that the corporation's risk profile correlates with the set appetite, and these are monitored on an ongoing basis and reported periodically to the Board of Directors. In accordance with the declaration, any exception to these limits is reported to the Board of Directors, or to one of its committees, while prescribing an outline for reducing the level of risk and complying with the limits.

The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith. In December 2019, the Board of Directors approved the risk appetite declaration of the Discount Group for 2020.

During 2019 none of the limits set by the Board of Directors on this topic were exceeded.

Risk Management Policy and Tools

The risk management concept of the Group is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the definition of authority and responsibility of the functionaries taking part in the risk management processes, definition of the tools, methodologies and models used for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments. For additional details regarding the various tools used in risk management and the integration of the risk culture, see "Risk management tools" and "Risk culture and absorption of the usefulness of risk management processes" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Assessment of the Risk Profile

The Group maintains the current monitoring of changes in the risk profile of the Bank and of companies in the Group, based on the Group tools and methodologies developed for the support of the monitoring of changes in risk profile, including the implementation of identification, measurement, assessment, monitoring, control and reporting processes, which include also the follow-up of limitations, indicators and various alert limits, including in comparison with the banking industry.

The quarterly risk document summarizes material changes that had taken place in the Group risk profile, with reference to the different risk areas. This document serves as a supporting tool for the Board of Directors and the Management in the monitoring of developments in the risk profile, in line with the risk appetite and with the long-term goals of the Group, while verifying the maintenance of capital appropriateness over a period of time.

In this framework, the Bank also reviews material changes in the quality of risk management, including their impact on the quality and effectiveness of the risk management processes, and subjects and issues are brought up, allowing the focusing of discussions and the passing of risk based resolutions.

Once a year, the Groups conducts a process of capital adequacy evaluation, intended to verify that the capital of the Group is adequate and supports the entirety of risks inherent in its operations, both in the ordinary course of business and in stress situations. In this framework, the Bank tests also the quantitative effects on the capital of the Group while using different scenarios and stress tests as detailed below.

Stress Tests

One of the main tools for assessing the risks and their potential impact on the capital and the risk appetite is the use of stress tests with a forward looking view point as a complementary tool for the risk management processes.

The use of stress tests is intended to provide management with a warning of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.

The Group operates within the framework of an organized methodology, which has been developed over time, and which has been implemented at the Bank and at the Group companies for assessing the impact of the stress tests on credit risks, market risks and on certain components of the statement of profit and loss by means of internal models which enable to examine the effects of changes in macro-economic parameters on the statement of profit and loss items and on the equity and on identified vulnerability areas/specific risk centers. Noted is the increased usefulness of the results of the scenarios and the stress tests as a tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

In addition to macro-economic financial stress tests, the Group also conducted in 2019 stress tests regarding cyber (the uniform scenario of the Supervisor of Banks) as well as a strategic stress test designed to examine the business model risks.

Disclosures in accordance with the Third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank`s website together with the Bank's 2019 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2019 annual report.

Credit Risks

Credit Risks and the manner of Management thereof

The credit risk management concept of the Bank and of the Group is aimed at ensuring a proper balance between the business functions, which directly create exposure to credit risk and managing it, and the functions engaged in supervision, control and the independent evaluation of risks, as well as the functions engaged in audit.

Credit Policy Documents

The core documents relating to credit include the risk appetite and credit policy document of the Discount Group, the Bank's standalone credit policy, the credit risk management policy document and the credit policy documents of each subsidiary, which serve as the infrastructure for credit risk management at the Bank and the Group, as well as the procedures and methodologies in the credit field being an integral part of the management and credit granting framework, according to which operations have to be conducted.

Credit Risks Measurement and Reporting

The Discount Group bases the credit risk concept in accordance with worldwide accepted advanced methods, using models for the assessment of risk (statistical and other) based on banking conduct, financial data and qualitative questionnaires for the assessment of borrower risk (probability of default – PD) and the loss expected there from, inter alia, in view of the scope and quality of the collateral (loss given default – LGD). The Bank and the Group makes use of several measurement and reporting systems supporting credit risk management.

Structure and Organization of the Credit Risks Management Functions

The organizational structure that serves the management of credit risk at the Bank includes the definition of authority and responsibility of the functions involved in managing the risk at the Bank – the Board of Directors, Management and three separate lines of defense:

First line of defense. The business units perform on a current basis processes for mitigating credit risk by means of the economic and business analysis of applications for credit for assessing the credit risk involved in the operations of the borrower, credit rating and current monitoring and control of the credit granted and the quality of the borrower.

The control units are responsible for the credit risks management related to the operations of the business divisions, as well as for the performance of current monitoring and control processes and the writing and updating of methodologies and procedures in the credit field. Among these units may be mentioned the credit risk management department of the Corporate Division and the control, collection and compliance department of the Banking Division.

The credit committees discuss and take decisions regarding credit issues, both as regards new credit applications and as regards existing indebtedness.

Second line of defense. The risk management division is responsible for the formation and updating of core documents in the credit field, the current evaluation of the credit risk profile of the Bank and the Group, the development and implementation of internal models for credit rating and Group methodologies for the management of credit risk. In addition, the risk management division is responsible for the post factum examination of the manner of credit risk management at all its stages, providing assessments of specific credit quality and the quality of the credit portfolio as a whole, as well as the rendering of opinion regarding credit transactions, determination of credit rating, classification and allowances.

Third line of defense. The internal audit performs sample examinations of credit files, credit granting approval processes and its management, and checks whether work processes comply with the Bank's procedures. In addition, it performs cross-organization audits of credit issues.

The Otzar system (new credit and attachments management system). The system is used for the management of the process for underwriting and management of credit at the Bank and at MDB. The system has been integrated in most of the units of the Corporate Division at Discount and in selected units of MDB, and the distribution thereof to the business centers of the Commercial Banking Wing is planned for 2020.

The infrastructure that had been developed serves as a platform for reporting to the Supervisor of Banks with respect to the credit field and enables real-time computerized monitoring of internal and regulatory restrictions.

Adoption of updates to the generally accepted accounting principles at banks in the U. S. – allowances for credit losses – the Bank's preparations

On March 28, 2018, the Supervisor of Banks published a letter in this matter, according to which, as part of the transition of financial reporting to the full adoption of the accounting principles accepted by U.S. banks, banking corporations and credit card companies are required to make preparations for the application of the updates to accounting principles accepted by U.S. banks regarding allowances for current expected credit losses (CECL) – adoption of the update to accounting standard ASU 2016-13. The standard is to be applied as from January 1, 2022 and thereafter.

The Bank has appointed the Chief Risk Officer as responsible for the project. Also appointed was a manager for the project and a steering committee has been established headed by the CRO with the participation of the Chief Accounting Officer and representatives of the Bank's divisions and of the Group's companies. In addition, joint internal work teams for the Bank and for MDB have been appointed for the examination of the different aspects relating to the implementation of the Standard.

The work teams are making progress in the examination of the manner of implementation of the Standard, including implementation alternatives, in choosing a methodology for the measurement and assessment of the different credit portfolios, formation of work plans for elimination of gaps existing in comparison with the present situation. Moreover, alternatives are examined for a technological solution (information system) supporting the implementation of the Standard.

As required by the Directive, the progress of the project is being reported on a quarterly basis, to the Board of Directors and to the Supervisor of Banks.

Credit Quality and Problematic Credit Risk

Problematic Credit Risk and Non-Performing Assets

	December 31, 2019				December 31, 2018			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	In NIS millions							
Credit risk in Credit Granting Rating[1]								
Balance sheet credit risk	119,625	34,684	31,778	186,088	110,966	30,608	29,617	171,190
Off-balance sheet credit risk	44,021	3,344	35,466	82,830	41,886	2,488	32,566	76,941
Total credit risk in Credit Granting Rating	**163,646**	**38,028**	**67,244**	**268,918**	**152,852**	**33,096**	**62,183**	**248,131**
Credit risk not in Credit Granting Rating:								
1. Not problematic	2,178	2,097	1,450	5,724	2,760	1,977	488	5,225
2. Problematic								
Special Mention[3]	1,476	153	235	1,864	1,033	156	259	1,448
Substandard	653	225	136	1,014	319	184	147	650
Impaired	[4]1,635	-	189	1,824	[4]1,488	-	155	1,643
Total problematic[2]	3,764	378	560	4,702	2,840	340	561	3,741
Total balance sheet credit risk	**5,942**	**2,475**	**2,010**	**10,426**	**5,600**	**2,317**	**1,049**	**8,966**
Off-balance sheet credit risk	938	700	131	1,770	1,002	477	309	1,787
Total credit risk not in Credit Granting Rating	**6,880**	**3,175**	**2,141**	**12,196**	**6,602**	**2,793**	**1,358**	**10,753**
Of which: non-impaired debts in arrears of 90 days or more[3]	62	359	57	478	58	316	61	435
Total overall credit risk of the public	**170,526**	**41,203**	**69,385**	**281,114**	**159,454**	**35,889**	**63,541**	**258,884**
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	[4]1,068	-	108	1,176	[4]923	-	98	1,021

Footnotes:

(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(2) Impaired, Substandard or Special Mention credit risk.

(3) Including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears and are in arrears of 90 days or more.

(4) Including non-accruing corporate bonds in the amount of NIS 10 million (December 31, 2018 – non-accruing corporate bonds of NIS 10 million).

Changes in Balances of Impaired Debts

	2019			2018		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the year	1,478	155	1,633	2,042	88	2,130
An addition stemming from the merger of Municipal Bank	1	-	1	-	-	-
Debts classified as impaired during the period	749	301	1,050	533	275	(1)808
Debts no longer classified as impaired	(2)	-	(2)	(78)	(2)	(80)
Impaired debts written off	(206)	(209)	(415)	(246)	(169)	(415)
Impaired debts settled	(383)	(58)	(441)	(802)	(37)	(839)
Other	(12)	-	(12)	29	-	(1)29
Balance of impaired debts as of end of the period	**1,625**	**189**	**1,814**	**1,478**	**155**	**1,633**
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the year	1,094	131	1,225	1,546	71	1,617
An addition stemming from the merger of Municipal Bank	1	-	1	-	-	-
Debt restructurings performed during the period	222	104	326	274	119	(1)393
Debts that have again been classified to unimpaired due to a following restructuring	-	-	-	(54)	(1)	(55)
Restructured troubled debt written off	(23)	(40)	(63)	(184)	(25)	(209)
Restructured troubled debt settled	(352)	(32)	(384)	(478)	(28)	(506)
Other	(57)	(5)	(62)	(10)	(5)	(1)(15)
Balance of restructured troubled debts at the end of the period	**885**	**158**	**1,043**	**1,094**	**131**	**1,225**
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the year	169	54	223	163	25	188
Increase in allowances	284	154	438	301	83	384
Collections and write-offs	(212)	(142)	(354)	(295)	(54)	(349)
Balance of allowance for credit losses as of end of the period	**241**	**66**	**307**	**169**	**54**	**223**

Footnote:
(1) Reclassified - Improvement in the calculation of the data.

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

	December 31, 2019	December 31, 2018
Ratio of balance of impaired credit to the public to balance of credit to the public	0.99%	0.98%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.26%	0.26%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.38%	1.36%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	139.14%	139.25%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	1.81%	(1)1.59%
Ratio of credit loss expenses to the average balance of credit to the public	0.40%	0.34%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.23%	0.26%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public	15.69%	18.25%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over	110.12%	109.96%
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.25%	1.24%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.64%	0.61%

Footnote:
(1) The calculation has been improved following reclassification.

The decrease in the rate of net write-offs in respect of credit to the public from the balance of the allowance for credit losses in respect of credit to the public stems from the decrease in net write-offs and from an increase in the balance of the overall allowance.

Credit risk by economic sectors – consolidated

	December 31, 2019						
					Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Granting Rating[4]	Of Which: Problematic[5]	Of Which: Credit Risk Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions						
Industry	13,646	12,961	564	179	24	23	242
Construction and Real Estate - Construction'[6]	31,156	30,661	323	207	82	8	265
Construction and Real Estate - Real Estate Activity	12,254	11,907	248	192	(37)	(22)	85
Commerce	21,600	20,972	482	205	125	69	393
Communication and Computer Services	2,322	2,215	64	60	(33)	3	100
Financial Services[7]	14,020	13,645	359	300	(4)	1	92
Other Business Services	31,281	30,378	642	264	159	75	300
Total Commercial	**126,279**	**122,739**	**2,682**	**1,407**	**316**	**157**	**1,477**
Private Individuals - Housing Loans	40,964	37,809	372	-	28	7	205
Private Individuals - Other	67,335	65,196	565	189	312	252	709
Total Public	**234,578**	**225,744**	**3,619**	**1,596**	**656**	**416**	**2,391**
Banks in Israel and Government of Israel	27,806	27,806	-	-	-	-	-
Total Lending Activity in Israel	**262,384**	**253,550**	**3,619**	**1,596**	**656**	**416**	**2,391**
Total Public - Lending Activity Outside of Israel	**46,536**	**43,174**	**1,459**	**321**	**34**	**(20)**	**356**
Banks and Governments Outside of Israel	7,286	7,249	37	36	-	-	1
Total Lending Activity Outside of Israel	**53,822**	**50,423**	**1,496**	**357**	**34**	**(20)**	**357**
Total	**316,206**	**303,973**	**5,115**	**1,953**	**690**	**396**	**2,748**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 189,214 million, NIS 36,765 million, NIS 531 million, NIS 4,545 million, NIS 85,151 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Includes housing loans in the amount of NIS 91 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 5,656 million, issued by GNMA and in the amount of NIS 711 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,845 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit risk by economic sectors – consolidated (continued)

	December 31, 2018						
					Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Granting Rating[4]	Of Which: Problematic[5]	Of Which: Credit Risk Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions						
Industry	14,721	13,967	447	73	23	12	241
Construction and Real Estate - Construction'[6]	28,498	27,865	316	122	25	9	190
Construction and Real Estate - Real Estate Activity	10,986	10,542	314	283	(14)	(14)	98
Commerce	19,888	18,991	389	258	5	40	334
Communication and Computer Services	2,359	2,179	125	122	134	123	136
Financial Services[7]	14,144	13,780	301	298	-	(1)	98
Other Business Services	25,579	24,386	360	213	64	39	199
Total Commercial	**116,175**	**111,710**	**2,252**	**1,369**	**237**	**208**	**1,296**
Private Individuals - Housing Loans	35,676	32,906	334	-	23	14	184
Private Individuals - Other	61,588	60,265	566	155	340	249	648
Total Public	**213,439**	**204,881**	**3,152**	**1,524**	**600**	**471**	**2,128**
Banks in Israel and Government of Israel	28,439	28,428	-	-	-	-	-
Total Lending Activity in Israel	**241,878**	**233,309**	**3,152**	**1,524**	**600**	**471**	**2,128**
Total Public - Lending Activity Outside of Israel	**45,445**	**43,250**	**[10]978**	**186**	**(60)**	**(56)**	**322**
Banks and Governments Outside of Israel	7,050	6,981	69	69	-	-	1
Total Lending Activity Outside of Israel	**52,495**	**50,231**	**1,047**	**255**	**(60)**	**(56)**	**323**
Total	**294,373**	**283,540**	**4,199**	**1,779**	**540**	**415**	**2,451**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 172,917 million, NIS 36,859 million, NIS 774 million, NIS 3,726 million, NIS 80,097 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 59 million.

(7) Including mortgage backed securities in the amount of NIS 5,933 million, issued by GNMA and in the amount of NIS 1,086 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,673 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 235 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(10) Reclassified - following improvement of data of a subsidiary.

Exposure to Foreign Countries - Consolidated

The Country	2019 exposure balance sheet[(2)]	2019 Off-balance sheet[(2)(3)]	2019 Total	2018 exposure balance sheet[(2)]	2018 Off-balance sheet[(2)(3)]	2018 Total
United States	15,284	8,094	23,378	13,793	6,766	20,559
Other	5,966	[(5)]5,451	11,417	7,219	[(7)]5,329	12,548
Total exposure to foreign countries[(1)]	**21,250**	**13,545**	**34,795**	**21,012**	**12,095**	**33,107**
Of which - Total exposure to the PIGS countries[(4)]	19	340	359	8	381	389
Of which - Total exposure to LDC countries[(6)]	577	203	780	755	250	1,005

Notes:

(1) Exposure to countries where the total amount of exposure to each of them exceeds 1% of the total consolidated assets or more than 20% of the equity, whichever is the lower. Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Portugal, Italy, Greece and Spain.

(5) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 2,098 million and Germany – an amount of NIS 1,830 million.

(6) The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

(7) Reclassified - improvement of the classification, taking into account the guarantees granted.

Credit Exposure to Foreign Financial Institutions

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

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

The manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:

- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and which have recently been validated;
- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Britain, having a rating of "BBB+" at the least;
- Close management of the volume of foreign currency deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA agreement with every financial institution with which the Bank enters into transactions of this kind;
- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;
- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;
- A methodical and close management utilizing upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Group basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank, change in market data and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Financial Markets Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Financial Markets Division is responsible.

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

The states in respect of which the Bank has exposure as stated above as of December 31, 2019, include, inter-alia the United States and Great Britain.

In 2019, impairment of securities was not made with respect to the exposure to financial institutions.

Present credit exposure to foreign financial institutions, on a consolidated basis

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of December 31, 2019		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	667	102	769
A+ to A-	2,750	468	3,218
BBB+ to BBB-	401	6	407
BB+ to B-	3	8	11
Not rated	155	27	182
Total present credit exposure to foreign financial institutions	**3,976**	**611**	**4,587**
Balance of problematic bonds	37	-	37
	As of December 31, 2018		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	709	100	809
A+ to A-	3,301	365	3,666
BBB+ to BBB-	518	3	521
BB+ to B-	3	57	60
Not rated	37	35	72
Total present credit exposure to foreign financial institutions	**4,568**	**560**	**5,128**
Balance of problematic bonds	69	-	69

Notes:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under resale agreements and other assets in respect of derivative instruments.
(3) Mainly guarantees, including guarantees securing third party indebtedness.
(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 28 to the financial statements.
(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 12 to the financial statements).
(7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

In addition to the exposure presented in the above table, as of December 31, 2019 and 2018 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 94 million and NIS 167 million, respectively.

Credit Risk in Housing Loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 184 million as of December 31, 2019 and NIS 147 million as of December 31, 2018).

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

The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income, together with a scenario of a rise in unemployment and in interest rates, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. The granting of mortgage loans in 2019 registered a high record amounting to NIS 67 billion. Inter alia, the progress made by projects relating to the "Price to the purchaser" plan contributed in 2019 to approx. 12% of total loans granted.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, mix of the credit portfolio, bridging loans, and geographical distribution. Furthermore, cross limits have been determined in respect of a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate in loans bearing variable interest rates) on the repayment ability of the borrower.

  Reduction in the volume of credit granted in loan lanes where the interest rates changes in accordance with the restriction determined by the Supervisor of banks;
- Determination of exposure policy in respect of special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank's exposure to credit risk, as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI's), and additional parameters including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Updating credit application rating model for mortgages;
- Use of computerized tools in order to mitigate credit risks and mitigate operational risks.

The volume of the Group's housing loan portfolio as of December 31, 2019, amounted to NIS 37,392 million (December 31, 2018 - NIS 33,159 million).

Certain risk characteristics of the Group's housing loans portfolio

	December 31, 2019	2018
	%	
Rate of housing loans financing over 75% of the value of the property	2.0	2.5
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	8.8	9.6
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[1]	59.2	59.4

Footnote:

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

Amount of loans and average financing ratios

	December 31, 2019	2018
Average amount of loan (in NIS thousands)	800	752
Average financing ratio for housing loans (in %)	54.7	55.1
Average financing ratio for general purpose loans (in %)	28.2	34.5

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

	December 31,			
	2019		2018	
Credit limit net[(1)(2)] (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	29,342	78.9	26,345	79.9
Between 1,200 and 4,000	7,408	19.9	6,212	18.8
Over 4,000	434	1.2	414	1.3
Total	**37,184**	**100.0**	**32,971**	**100.0**
Of which:				
Housing loans that were granted abroad	184		147	

Footnotes:

(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 208 million (31.12.2018: NIS 188 million).

(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 233 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2018:NIS 235 million).

Volume of problematic debts in housing loans

As at	Balance of credit to the public[(1)(5)]	Balance of problematic credit[(1)]	Balance of allowances for credit losses[(2)(3)]	Ratio of problematic debt
December 31	In NIS millions			Change in %
2019	37,392	[(4)]378	78	1.0
2018	33,159	[(4)]340	72	1.0

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2019 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 74 million, and also an allowance over the extent of arrears in an amount of NIS 4 million (as of December 31, 2018: NIS 68 million and NIS 4 million, respectively).

(3) Not including group allowance in a percentage of 0.35% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 130 million as at December 31, 2019.(as at December 31, 2018: NIS 116 million).

(4) Including an amount of NIS 19 million, defined as problematic credit, which is not in arrears (December 31, 2018: NIS 24 million).

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 233 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2018:NIS 235 million).

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

	2019		2018	
Loan to value (LTV) ratio[(1)]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	2,265	27.8	1,979	27.1
Between 45% and 60%	2,906	35.6	2,780	38.2
Over 60%	2,980	36.6	2,531	34.7
Total	**8,151**	**100.0**	**7,290**	**100.0**

Footnote:

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

The average loan period of housing loans at the Bank in 2019, was 20.5 years, compared with 21.8 years in the industry. The amount of credit for a period of over twenty years amounted to 48% of the whole credit portfolio of housing loans.

The data regarding the distribution of extended credit as of December 31, 2019, by period of loan shows that the granting of loans in 2019 for periods of over twenty years reached a rate of 58% of the portfolio.

Developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit (1)(2)
2019	10,199	14,889	67.5	4,597	7,332	32.1	21	146	0.4	37,184
2018	8,605	13,357	66.6	4,411	6,402	32.8	2	194	0.6	32,971

Footnotes:

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 233 million, which are intergrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2018:NIS 235 million).

(2) The balance of credit is after deduction of allowance for credit losses of NIS 208 million (December 31,2018: NIS 188 million).

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

The outstanding balance as of December 31, 2019, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 12.3 billion, comprising 46% of the total housing loans portfolio.

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

	2019		2018	
Ratio of payment to income (PTI)(1)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	7,266	99.6	6,670	99.9
Over 40%	31	0.4	6	0.1
Total	**7,297**	**100.0**	**6,676**	**100.0**

Footnote:

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

In accordance with the directives, the repayment ratio is restricted to 50%. The capital allocation required for loans with a repayment ratio in excess of 40% stands at 100%, with this not being connected to the requested financing rate. Against the background of these requirements, the granting of housing loans at a rate in excess of 40% is negligible.

Credit Risk of Private Individuals (excluding Housing Credit Risk)

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

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

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

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

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

Development in balances

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

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	December 31, 2019				
Level of income to the account					
Excluding permanent income to the account	1,507	198	1,705	541	2,246
Less than NIS 10 thousand	5,072	948	6,020	3,379	9,399
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,394	1,567	5,961	3,251	9,212
Greater than NIS 20 thousand	3,692	2,442	6,134	3,909	10,043
Total	**14,665**	**5,155**	**19,820**	**11,080**	**30,900**
	December 31, 2018				
Level of income to the account					
Excluding permanent income to the account	1,253	175	1,428	746	2,174
Less than NIS 10 thousand	5,320	974	6,294	3,218	9,512
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,238	1,485	5,723	3,013	8,736
Greater than NIS 20 thousand	3,305	2,183	5,488	3,569	9,057
Total	**14,116**	**4,817**	**18,933**	**10,546**	**29,479**

Additional quantitative characteristics

Distribution by the average remaining period to maturity

	December 31,	
	2019	2018
Fixed maturity date	Balance of loans in NIS millions	
Up to 1 year	1,591	1,522
Over 1 year and up to 3 years	5,210	4,950
Over 3 years and up to 5 years	4,648	4,509
Over 5 years	2,482	2,435
Total	**13,931**	**13,416**

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

Distribution by size of credit to the borrower

	December 31,	
	2019	2018
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	3,942	3,870
Between 40 and 150	10,227	9,638
Over 150	5,651	5,425
Total	**19,820**	**18,933**

Distribution by exposure to changes in interest rates

	December 31,	
	2019	2018
	in NIS million	
Fixed interest credit	6,071	5,930
Variable interest credit	13,749	13,003
Total	**19,820**	**18,933**

Distribution of collateral securing the credit

	December 31,	
	2019	2018
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,514	1,492
Other collateral	821	819
Total	**2,335**	**2,311**

Development of problematic credit risk in respect of private individuals

				Rate from total balance-sheet to credit to the public	
	December 31,			December 31,	
	2019	2018	Change in	2019	2018
	in NIS million		%	%	
Problematic credit risk	262	255	2.7	1.3	1.3
Of which: impaired credit risk	133	109	21.5	0.7	0.6
Debts in arrears of 90 days or more	57	61	(6.6)	0.3	0.3
Net accounting write-offs	150	160	(6.5)	0.8	0.8
Balance of allowance for credit losses	401	376	6.4	2.0	2.0

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (in the Bank and MDB), pledged, amounted to NIS 956 million at December 31, 2019, compared with NIS 720 million as of December 31, 2018, an increase of 32.8%.

Background

Credit products. The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans. The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short periods (mostly up to five years). The market share of loan operations conducted outside the branch premises rises gradually year by year and constitutes a central layer of the total consumer credit activity.

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

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

Development of the Risk

The rate of credit to households has grown significantly since the beginning of the previous decade. This growth was accompanied also by the growth in borrowers' leverage (as transpires from the Bank of Israel reviews). Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.

Risk Mitigating Measures

Determining underwriting thresholds. Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.
Models and analytical tools. The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time in accordance with market changes, state of the borrowers and additional factors.
Effective measurement. All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.
Use of information obtained from the credit data base. Credit underwriting if performed using information obtained from the data base, subject to minimum levels of materiality, as defined by the Bank and to limitations set by law.

The Fairness Principle

In accordance with guidelines of the Supervisor of Banks, criteria for the initiation and marketing of credit to the private individual customer population were defined, in respect thereof the Bank is permitted to initiate offers for the granting of credit. The rules are based upon the risk level of the customer as well as on the advisability of accepting the loan on the part of the customer.
The approach to the customer is made according to conversation scenarios that include proper disclosure of the loan terms, needs of the customer and his characteristics as well as mention of the assets and liabilities stated in the customer's account.
It is noted that the fairness principle as regards the customer, has been defined both as part of the risk appetite of the Discount Group and as part of the credit underwriting policy regarding private customers.
The principle of fairness and decency as regards debtors is being applied both while they are being handled under the responsibility of the managing branch as well as after passing them on for legal proceedings by the law offices engaged by the Bank. The guideline is to try and reach an arrangement with each debtor in default, which meets his capabilities and his repayment ability.
The Bank implements the requirements of the Fair Credit Act. For details regarding this Act, see "Legislation and supervision" hereunder.

Monitoring and Control

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

For details regarding loans to private individuals portfolio (excluding housing loans), see the risks report.

Quantitative data regarding credit granted to private individuals in ICC

A growth at the rate of 15.1% was recorded in 2019 in the balance of credit granted to private individuals in ICC. This credit amounted on December 31, 2019 to NIS 9,113 million, compared to NIS 7,890 million on December 31, 2018. The interest bearing credit to private individuals as of December 31, 2019, amounted to NIS 5,460 million, compared with NIS 4,744 at the end of 2018 (an increase of

15.1%), and comprises 59.9% of total credit to private individuals at the responsibility of ICC, most of which is credit carrying variable interest rates regarding credit transactions, revolving credit card transactions, loans, designated credit for the purchase of vehicles and other transactions. The remaining credit to private individuals amounted to NIS 3,653 million, as compared to NIS 3,146 million as of December 31, 2018 (an increase of approx. 35.6%). This credit does not carry interest, reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.

A decline was recorded in 2019 in the volume of credit losses in respect of private individuals. Credit losses in respect of private individuals amounted in 2019 to NIS 137 million, compared to NIS 147 million in 2018, a decrease of 6.8%. As estimated by the Management of ICC, credit losses have increased in recent years due to the growth in the credit portfolio of ICC and from the average volume of credit granted to the individual customer in this portfolio, from a decline in the rate of debt collection, mainly through law offices, which, inter alia, resulted from heavier regulation in the field of debt collection procedures as well as from changes in market practices in relation to accepted past practices. ICC has made and continues to make arrangements to cope with these changes through various means.

Credit risk in relation to the Construction and Real Estate Sector

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate and Infrastructure department in the Corporate Division, which possesses a high level of expertise and considerable experience in this field. The Bank's activities in this field are subject to a regulatory limit that prescribes that the weight of local real estate activities shall not exceed 20% of the total credit; in addition, the Bank has set itself a more stringent internal limit that serves as a threshold alert. The Bank complies with the said limitations.

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

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

	December 31, 2019			December 31, 2018		
	Credit for the public[(1)(2)]	Of which: problematic credit[(1)(2)]	Rate of problematic credit	Credit for the public[(1)]	Of which: problematic credit[(1)(2)]	Rate of problematic credit
Sector	in NIS million		%	in NIS million		%
Income generating real estate	11,363	244	2.1	10,406	283	2.7
Construction – general building contracting	2,186	126	5.8	1,545	165	10.7
Residential projects financing	24,294	55	0.2	19,988	41	0.2
Acquisition of building land	5,605	26	0.5	4,851	19	0.4
Subcontracting	2,615	137	5.2	2,625	114	4.3
Civil engineering work	2,858	30	1.0	3,462	58	1.7
Other	4,602	83	1.8	4,921	92	1.9
Total[(2)]	**53,523**	**701**	**1.3**	**47,798**	**772**	**1.6**

Footnotes:

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

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

Credit risk in respect of Leveraged Finance

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

Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.
Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.
Following are data regarding credit risk pertaining to leveraged finance as of December 31, 2019. Disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

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

	December 31, 2019				December 31, 2018			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Industry	-	-	-	-	15	76	91	-
Construction and real estate	78	62	140	-	509	106	615	-
Transportation and storage	-	-	-	-	153	20	173	-
Other Business Services	147	-	147	-	-	-	-	-
Total	**225**	**62**	**287**	**-**	**677**	**202**	**879**	**-**

Exposure to leveraged finance as of December 31, 2019 amounted to NIS 225 million, compared to NIS 677 million at the end of 2018, a decrease of 66.8%. The aforesaid decrease stemmed, primarily, from a decrease in the volume of credit to existing customers and the removal from the definition of leverage financing.
The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts.
The off-balance sheet exposure in respect of leverage finance transactions as of December 31, 2019, amounted to NIS 62 million (December 31, 2018 – NIS 202 million).
For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

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

As at December 31, 2019, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.

Market Risks

Market risk is the risk of impairment in the value of the Group and its ability to attain its goals, as a result of changes in economic parameters in the financial markets and their fluctuations, which affect both its economic value and the regulatory capital ratio.

- **Interest risk.** The risk of impairment, as stated, as a result of parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment, as stated, as a result of the impact of changes in inflation rate or in exchange rates, including the effect of derivatives and future transactions on the difference between the assets and liabilities.
- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

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

Strategy and Policy

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and defines the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.

Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the uncontrolled acceptance of risk.

The policy and the principles in the policy document are on a Group basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an overall Group standpoint and within a framework of mandatory professional guidance.

As part of the updating in 2019 of the market risk management policy, the effectiveness of restrictions on market risk was examined at the Bank, at the Group and with respect to the trading portfolio, from the aspect of the completeness of the exposure population, completeness of the coverage of vulnerable areas and level of actual exposure in relation to the restriction. A number of restrictions have been updated in order to improve effectiveness, with no change in the risk appetite.

Risk Appetite

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.

The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.

The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses, normal business situation scenarios (intermediate testing) and stress tests, while taking into consideration different time spans – short-term and long-term.

The numerous indices could complicate the analysis and presentation for the decision-makers and for this reason two categories of risk indices have been defined – primary risk indices, which serve the first line of defense in taking ongoing or periodic decisions regarding exposure scopes, and additional risk indices, which are the remaining risk indices, in respect to some of which the Board of Directors has set limits while, in respect to others, limits are set at division head level, while others are only subject to monitoring without any limits being set.

The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and Processes

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:

First line of defense. The collective Group management of interest, is being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group including the asset and liability management activity, the investment activity and the trading activity at the Bank, at IDB New York and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.

Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.

Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted in accordance with a work plan that is approved by the boards of directors of the Bank Group companies.

Management supervision. Current management and supervision in the area of market risks management are performed, inter alia, by the following committees: the assets and liabilities management committee (ALM committee), the Group assets and liabilities management committee and the financial forum.

Mechanisms that enable an immediate response to exceptional market developments

The Board of Directors has approved the plan for strengthening capital adequacy in times of crisis and the plan for dealing with a liquidity crisis. In this context, the manner in which such crises are to be identified and dealt with has been defined, as has the forum authorized to deal with the crises and the powers and tools have been defined, available to it in doing so. Inter alia, it was defined that, where exceptional developments take place in the markets, a special financial forum, to be headed by the Head of the Financial Markets Division or by the Bank's President & CEO, depending upon the severity of the incident, will immediately be convened in order to discuss the market developments and the possible courses of action. The emergency plan also includes a contingency plan for fast reduction of the market risk and the scope of the risk assets.

Measurement and Reporting

Measurement of exposure to market and liquidity risks, including the calculation of the various risk assessments is and is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.
The second line of defense controls exposure to market risks by an independent calculation of stress tests on a monthly basis.
The risk management system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted by the system, regarding the overall operations at the Bank and Group levels, regarding operations/files. Likewise, additional risk indices and interest rate exposure are computed and measured (it should be noted that the system is also used for fair value measurement for the purpose of the accounting report).
This system is also used by MDB in computing its exposure to market and liquidity risks.
IDB New York. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a weekly monitoring of the central risk assessing factors.
The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Models and Risk Indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.
The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in intermediate scenarios.
The additional indices and models include the Value at Risk (VaR), the potential losses in Stress Tests, an analysis of anticipated interest income - the NII (Net Interest Income) and in the Earnings at Risk (EaR). In addition, there are models that express assumptions regarding customers' behavior in various scenarios, including a model for spreading credit balances having no maturity dates, and models for estimating early repayments of credits and deposits.
All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out in accordance with the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined in accordance with the level of risk attributed to each model on a specific basis.

Exposure to Interest Rate Risk

The Tables presented in this Chapter have been prepared in accordance with the principles for the preparation of financial statements, and they differ from the data used for the current management of interest rate exposure.

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments - consolidated

	December 31 2019			December 31 2018		
	Israeli currency	Foreign currency[2]	Total	Israeli currency	Foreign currency[2]	Total
	In NIS millions					
Net adjusted fair value[1]	10,885	5,375	16,260	10,189	4,739	14,928
Of which: the banking book	11,087	5,862	16,949	9,855	3,604	13,459

Footnotes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
(2) Including Israeli currency linked to foreign currency.

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

	December 31 2019			December 31 2018		
	Israeli currency	Foreign currency[4]	Total	Israeli currency	Foreign currency[4]	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	70	(89)	(19)	(43)	(182)	(225)
Of which: the banking book	61	(76)	(15)	(35)	(166)	(201)
A parallel decrease of 1%	99	(74)	25	98	88	186
Of which: the banking book	98	(93)	5	85	66	151
Non-parallel changes						
Curving[2]	(256)	(13)	(269)	(215)	(46)	(261)
Flattening[3]	217	(47)	170	188	(18)	170
Interest rise in the short-term	217	(144)	73	116	(70)	46
Interest decline in the short-term	(202)	25	(177)	(25)	75	50

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

The gap between the exposure to interest change as reported in the above table and the one reflected in the detailed disclosure by periods in the risks report is due to the fact that there are financial instruments whose fair value and economic value vary in a non-linear and non-symmetrical manner in the increase and decrease in interest scenarios, mostly current account balances that to not carry interest.
The fair value of on-call deposits with IDB New York, part of which carry interest, amounted at December 31, 2019, to approx. NIS 17 billion, the average maturity thereof being 4.27 years, so that the theoretical sensitivity of their fair value to a 1% change in interest amounts to NIS 739 million. In actual fact, as a result of assumptions of the model and the effective minimum levels of interest, the sensitivity of fair value to a rise of 1% in interest amounted to an increase of approx. NIS 266 million in their fair value, while sensitivity of fair value to a decline of 1% in interest amounted to a decrease of NIS 357 million in the fair value of such deposits.

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

	December 31 2019			[(1)]December 31 2018		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	638	36	674	576	16	591
Of which: the banking book	619	70	689	559	46	606
A parallel decrease of 1%	(825)	(39)	(864)	(636)	(11)	(647)
Of which: the banking book	(815)	(73)	(887)	(620)	(48)	(668)

Footnote:

(1) During the reported period, the assumptions used in the calculation of the effect of changes in interest rate were reviewed and improved accordingly. The data as of December 31, 2018 was recalculated on the basis of the updated assumptions.

As of December 31, 2019, the estimated effect of a corresponding 1% rise in interest income amounted to an increase of NIS 674 million, while the estimated effect of a corresponding 1% fall in interest income amounted to a decrease of NIS 864 million. This compares to the estimates as of December 31, 2018, which amounted to an increase in interest income of NIS 591 million under a corresponding 1% increase scenario and a decrease in interest income of NIS 647 million, under a corresponding 1% decrease scenario. The gap between the estimates under the corresponding increase scenario and the corresponding decrease scenario widened in 2019 due to the low interest environment and due to the assumption that the interest on some of the Bank's deposits would not fall below a certain minimum, whereby the Bank's financing expenses under the corresponding 1% decrease scenario would not be able to decrease by the same percentage as that by which the Bank's financing income would decrease under this scenario.

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

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

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

The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date. The assessment of the present value of future cash flows was done in accordance with the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

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

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

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

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

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements.

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 c.
No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

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

The data presented above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the calculation of the table "Exposure to interest rate changes", which is presented within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks".
The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.
The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:
(a) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices.
(b) Items relating to liabilities for employee rights are included in the economic measurement in the CPI-linked segment, while in the accounting measurement they are presented in the unlinked segment;
(c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;
(d) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;
(e) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.

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

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2019		
An increase of 100BP in interest rates	(263)	(107)	(136)	25	(481)
A decrease of 100BP in interest rates	441	93	(76)	(44)	415
			December 31, 2018		
An increase of 100BP in interest rates	(223)	(137)	(212)	-	(572)
A decrease of 100BP in interest rates	293	137	77	(5)	501

In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.
As of December 31, 2019, the estimated effect of a 100 basis points decrease in the unlinked shekel segment would be a profit of NIS 441 million, compared with a NIS 293 million profit as of December 31, 2018. The increase in the aforesaid estimate is due to the fact that the Group assumes that shekel interest will not fall to a negative level, an assumption whose impact has only grown greater in light of the continued fall in the shekel yields curve. As of December 31, 2019, the estimated effect of a 100 basis points fall in the dollar segment amounted to a loss of NIS 76 million, compared with a gain of NIS 77 million as of December 31, 2018. The change in the aforesaid estimate is due to the way in which the on-call deposits at IDB New York, some of which bear interest, are spread. The model assumes that the interest on these deposits will not be less than a certain minimum, which went into effect in the "fall in interest" scenarios as a result of the prolonged fall in the yield curve in the United States.

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

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

Discontinuation of the use of LIBOR. In accordance with the pronouncement made by the UK's Financial Conduct Authority (FCA) in July 2017, it was decided to discontinue the use of LIBOR in stages through the end of 2021. Further to this decision, various work teams have been set up around the world in order to determine interest indices, as an alternative to the LIBOR interest rates, for each of the five following currencies:

- US dollar – to be replaced by SOFR (Secured Overnight Financing Rate);
- Pound sterling – to be replaced by SONIA (Sterling Overnight Index Average);
- Euro – to be replaced by ESTR (Euro Short-Term Rate);
- Swiss franc – to be replaced by SARON (Swiss Average Rate Overnight);
- Japanese Yen – to be replaced by TONAR (Tokyo Overnight Average Rate).

Furthermore, the Internal Swaps and Derivatives Association (ISDA) holds discussions regarding the adjustments required for agreements concerning derivative in the case of discontinuation of the publication of the LIBOR rate.

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

The Bank has begun the process of examining the expected effect of discontinuing the publication of LIBOR interest rates, including examining the possible alternatives for each of the currencies mentioned above, the financial implications likely to result from the transition to using the above currencies and the preparations necessary from the business aspect, from the aspect of the risk management of the new exposures as well as from the legal aspect.

The Bank has begun making preparations to manage and mitigate the identified risks. As part of these preparations, the Bank has established a steering committee and a designated team whose purpose, inter alia, is to develop work processes for the purpose of identifying the risks, examining the effects of each risk, proposing alternatives for mitigating the risks, and monitoring the risks and their effects. The Bank intends to give training to the relevant employees. Regular updates are being provided to Management and the Board of Directors.

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

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

	December 31, 2019	
	Number of transactions	Book value in NIS million
Loans	2,204	10,108
Deposits	12	43
Securities	16	548
Total	**2,232**	**10,699**
Derivatives (volume transactions)	1,269	72,699

The Table includes data of Discount Bank, MDB and of IDB New York.

Inflation and exchange rate risk

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

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of December 31, 2019.

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

The Bank's capital sensitivity of changes in exchange rates

	As of December 31 2019			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	324	160	(151)	(299)
EUR	4	1	6	15
Other Foreign Currencies	17	8	(6)	(10)

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

Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of December 31, 2019.

Sensitivity of the capital to changes in the CPI

	December 31, 2019	
	in NIS millions	
Scenario	Increase 3%	Decrease 3%
	109	(120)

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

Share Price Risk

Shares Position in the Banking Book

Strategy and processes

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:
- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see below "Investments in non-financial companies " under "Activity of the group according to regulatory segments of operation – additional details".

Investments in shares

	December 31	
	2019	2018
	In NIS millions	
Investments in shares of affiliated companies[(1)]:		
Non marketable shares	171	135
Shares in the available-for-sale portfolio:		
Marketable shares	128	57
Non marketable shares	839	923
Total shares in the available for sale portfolio	**967**	**980**
Total investment in shares	**1,138**	**1,115**

Footnote:

(1) For additional information, see Note 15 to the Financial Statements.

Capital requirement regarding share position

	December 31	
	2019	2018
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds(2)	191	181
In respect of investments in other shares(3)	63	61
Total capital requirement regarding share position(1)	**254**	**242**

Footnotes:

(1) The capital requirement was computed according to 12.7% and does not include capital requirment in respect of investment in shares in the trading portfolio.

(2) These investments are weighted at risk weight of 150%.

(3) These investments are weighted at risk weight of 100% and 250%.

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

Management of Positions in the Trading Portfolio

The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank’s activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.

As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.

In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.

The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors’ limits are approached and thereby preventing such limits being exceeded.

In 2019, no material deviations from limitations set by the Board of Directors were recorded.

Liquidity and Financing Risks

Liquidity risk is a risk to the stability of the Group, stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk.

Liquidity risk is perceived as one of the material risks for any financial institution. The objective in managing this risk is to avoid a situation in which the Bank will have difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directives No. 342 (The Internal Liquidity Model) and No. 221 (Liquidity Coverage Ratio).

The “Liquidity Risk Management Policy” document is updated and approved once each year by the Management and the Board of Directors.

Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event.

As part of the routine management, the liquidity risk is estimated using an internal model for different periods, from one day to one year. The internal model computes the liquidity ratio and the liquidity gaps under various stress scenarios. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events. In addition, the liquidity risk is also measured by means of the uniform regulatory model (LCR).
The internal model, over its various scenarios, constitutes core of the liquidity management, although the Bank makes use of additional indices and tools to monitor the liquidity risk:

- The mix and concentration of the sources, the mix and concentration of the assets, supplementary scenarios for the internal model and a comparison with other banks;
- Within the framework of the current management of the liquidity risk, the Risk Management Division measures a large number of indicators for the purpose identification of and warning against changes in trends of liquidity risk (KRI's; "Red lights"). This being an additional tool for the identification and warning against possible changes in the liquidity position.

Plan for dealing with a Liquidity Crisis

In Principle 11 of the Basel Core Principles document from 2008, it is prescribed that a banking corporation should have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. According to the document, the plan should outline policies to manage a range of scenarios, establish clear lines of responsibility, include reporting procedures, including reporting in the event of escalation, and should be regularly tested and updated to ensure its operational validity.
From the aspect of the Directive, materialization of the liquidity risk occurs in a situation where a banking corporation is compelled to raise funds at high prices or to realize assets at a loss in order to meet its liabilities.
The establishment of an orderly process to deal with possible crisis situations raises the level of awareness and readiness of the various parties in the organization, and hence its importance and contribution in mitigating the risk of crises occurring and in their correct management should a crisis occur. The Bank’s Management conducts exercises from time to time to test the contingency plan, while drawing conclusions.
The Bank’s CFP clearly describes the range of practical measures required to be implemented in times of emergency. The plan describes the processes and the parties that will be responsible for identifying a crisis situation, for managing the crisis, including prescribing spheres of responsibility and authority, for reporting processes and frequency of reporting, for Group management and coordination, for declaring the restoration of a normal business situation, and for establishing processes for lesson learning. In addition, the plan presents at every level a variety of alternatives for action which require great consideration before their activation, through examining their implications.
The plan for managing a liquidity crisis constitutes a set of defaults and focal points that the organization will activate when a liquidity crisis develops. Nevertheless, it does not constitute an alternative to exercising judgment and taking real time decisions– at the various levels of the Bank’s management and which are obligatory given the reality of a volatile and unexpected crisis situation, such as a liquidity crisis.
The main focal points to which the plan provides a solution are:

- Identifying and announcing a liquidity crisis;
- Measures to improve the liquidity level;
- Measurement and monitoring of the liquidity level;
- Announcements;
- Group management.

The plan differentiates between different types of liquidity crises, including systemic crisis, a specific crisis and a crisis combining different levels of intensity of each type. In addition, the plan needs to address a situation defined as a pre-crisis situation, a situation of higher specific/systemic liquidity risk prior to an event being defined as a crisis event, as well as the transition between different levels of stress or transition between different types of crises. In addition, it provides a response to a liquidity crisis that materializes in a Group subsidiary and risk that impacts on the subsidiaries/the Group as a whole.
The plan is reviewed and approved each year within the framework of approving the liquidity risk management policy document.

Group management

The policy document also regulates the management of the Group liquidity risk. In general, the guiding principle is that the material subsidiaries of the Group will independently manage their liquidity risk with the aid of mandatory professional guidance and in accordance with models approved by the parent company. The internal model of the parent company requires maintaining liquidity in case the subsidiaries' models exceed the thresholds defined in the policy document. The model does not include reliance on the transfer of liquidity from the subsidiaries to the parent company. Most of the liquidity surpluses in the Group are currently concentrated in the parent company.

Reporting

Daily –measurement of liquidity risk is performed on a daily basis by an internal liquidity model and by a regulatory model (LCR), by means of the Bank's market and liquidity risks management system. Measurement results are reported to the risk managers and control parties. As from January 1, 2017, the Group has a daily Group LCR computing and reporting capabilities.
Weekly – a special purpose liquidity forum convenes once a week and discusses current liquidity topics. Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.
Monthly – the Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.
Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

Liquidity Coverage Ratio

As of December 31, 2019, the liquidity coverage ratio of the Discount Group, on the basis of 77 observations average, stood at 121.2%, compared with 124.8% as of December 31, 2018, higher than the minimum requirements according to the instructions. For additional details, see Note 25 to the financial statements, item 3.

Liquidity and the Raising of Resources in the Bank

During 2019, the Bank continued to maintain liquid assets at a high level in relation to its liquid liabilities and, accordingly the results of the Bank's internal liquidity model showed substantial reserves of liquidity. The following trends were observed during the year:

- An increase of approx. NIS 8.3 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of approx. 8.4%, of which an increase in retail deposits of approx. NIS 5.9 billion and an increase in corporate deposits of approx. NIS 1.3 billion, and the raising of debt amounting to approx. NIS 1.5 billion, which was issued by Discount Manpikim and deposited with the Bank. On the other hand, redemption of debt notes totaling approx. NIS 400 million;
- A transfer of approx. NIS 4.7 billion from fixed term deposits to on-call deposits, in the shekel segment, as a result of the low interest environment;
- The amount of foreign currency deposits increased by approx. US$ 370 million, comprising a rate of approx. 4.6%, of which retail deposits in the amount of approx. US$ 115 million. Including the exchange rate effect, foreign currency deposits rose by approx. NIS 3.5 billion.

Transferability of liquidity within the Group is conducted on the basis of transfer prices mechanism and in accordance with market prices. Group companies may not rely in their liquidity model on the transfer of funds from other group companies where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty.

Deposits from the public

	December 31, 2019	December 31, 2018	Change compared to December 31, 2018	
	In NIS millions		In NIS millions	in %
Non-linked shekels	107,645	101,146	6,499	6.4
CPI-linked shekels	5,446	4,631	815	17.6
Foreign currency and foreign currency linked shekels	33,068	30,623	2,445	8.0
Total	**146,159**	**136,400**	**9,759**	**7.2**
Foreign currency and foreign currency linked shekels - In US$ millions	**9,568**	**8,170**	**1,398**	**17.1**

Deposits from Banks

	December 31, 2019	December 31, 2018	Change compared to December 31, 2018	
	In NIS millions		In NIS millions	in %
Non-linked shekels	1,330	1,235	95	7.7
CPI-linked shekels	36	40	(4)	(10.0)
Foreign currency and foreign currency linked shekels	396	605	(209)	(34.5)
Total	**1,762**	**1,880**	**(118)**	**(6.3)**

For additional details regarding liquidity risks and the management thereof, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd., and also Note 33 regarding Assets and liabilities according to linkage terms and maturity periods.

For additional details regarding financial risk, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document.

Operational Risks

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

The framework for the management of operational risk includes the policy document for risk management, which is approved once in each year by the Management and by the Board of Directors, and adopted by the subsidiary companies, and the risk tolerance statement, which determines qualitative and quantitative limitations regarding material risks existing at the Bank Group. The Board of Directors recently approved updates to the operational risk tolerance and, within the framework thereof, reducing some of the risk limits. The Group operates an automated system for managing the risk, which measures and assesses the overall operational risks and reports operating failure events in all risk centers.

Operational risks are being managed on the basis of the current identification of processes, risks and controls, as well as on the basis of failure events data base, the monitoring thereof and the drawing of conclusions there from and identification of the factors causing the failure. Moreover, material risks are being reduced by means of the formation of recommended controls, monitoring or transfer to a third party (by purchase of different insurance policies).

Once every three years (or during the three years) a comprehensive operational risks survey is conducted that includes, inter alia, relating to fraud and embezzlement risks, outsourcing and supplier risks, cyber risks and business continuity risks. In 2017, a new survey, as stated, begun.

During 2019, no material changes were observed in the number of reports on the realization of risks and the resulting amounts of damage caused in their respect, which might affect the overall operational risk profile.

The year 2019 has been characterized by a growing trend of fraud and impersonation attempts, both in the traditional and online service channels, inter alia, as a result of expanding the digital services that the Bank provides to its customers. Moreover, the trend is

continuing of implementation of changes in work procedures stemming from the realization of the strategic plan. All these increase the risk, partly in the short term and partly comprising continuous trends. The quality of management is improving at the same time by the promotion of the operational risk survey, the growth in and integration of awareness to the reporting of events and the strengthening of interfaces and controls and automation of processes.
No deviations were recorded during the year from the limitations on operational risks.
Malfunction in the PayBox Application. Following a malfunction in the installation of a server for the PayBox payment application ("PayBox"), partial information regarding users of PayBox has leaked out. The malfunction was rectified within a few hours since discovery.
Based on the enquiry made, the said information included a part of the items of information existing in PayBox, though it did not include items of information the use thereof might cause users direct financial damage.
PayBox is being operated separately from the Bank's computer systems and from the Bank's regular banking services. The server, in which the malfunction had been discovered, is not connected to the operation of the Bank, and the malfunction as a whole has no relation to the accounts held with the Bank and to other information existing in the hands of the Bank with respect to customers holding accounts with the Bank. The Bank estimates that no material effect on the Bank is expected as a result of the malfunction.
The Bank conducts a process of drawing and implementing conclusions with respect to PayBox in order to ensure that such malfunction does not happen again.
A notice regarding this event has been delivered to users of PayBox.
All as detailed in an immediate report dated January 29, 2020 (reference no. 2020-01-009258), the information provided in it is included herewith by way of reference.
For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 B item 13.4 to the financial statements.
Business continuity. The issue of business continuity is managed by means of the policy for the management of business continuity, which defines the solution concept for facing a crisis, by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.
At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services. Mapping of the business continuity risks and the assessment and monitoring thereof is performed as part of the identification and evaluation of operational risks.

Outsourcing and Supplier Risk

This risk is managed as part of the operational risk. Against the background of activities being outsourced and due to collaborations that are occurring with non-banking entities in relation to core banking activities, outsourcing and supplier risks require that the monitoring and control processes be upgraded. The Bank’s preparations for managing the risk, in accordance with the new Proper Conduct of Banking Business directive regarding the policy for managing outsourcing and supplier risks, includes a revised definition of the policy document and risk tolerance, and the work processes relating to essential material outsourcing, including reference to essential service providers (in both routine and emergency situations), including upgrading the monitoring and control processes relating to such activities, taking a risk-based approach.

For additional details regarding operational risks and the manner of management thereof, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

Other Risks

Cross-border Risks

The Group's activity with customers in Israel and abroad involves risks stemming, among other things, from exposure to liability for evasion by the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of foreign laws applicable to the services and products provided by the Group to its customers.
Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.

Realization of this risk may have considerable implications on the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high".
Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, this risk appetite has been determined and identification, monitoring, control and reporting processes have been added. The action for reducing the Group's international presence, within the framework of the implementation of the strategic program of the Bank, also contributed to the reduction of cross-border risks exposure. In addition, in view of the intensification of regulation and enforcement trend, led by the Tax Authority, relating to funds of Israeli resident customers, the origin of which may be in tax evasion or in income not reported to the Tax Authority in Israel, as required, amendment of the Money Laundering Prohibition Act to include tax offences as a predicate offence, as well as for the purpose of reducing money laundering risks, also in circumstances of a voluntary disclosure process, the Group acts towards the integration of a risk-based approach, for identifying and monitoring accounts and activities of Israeli resident customers, in response to that stated above.

Legislation Amendments in Israel

FATCA. The income Tax Ordinance and the Prohibition of Money Laundering Act, 2000, were amended in 2016. The aim of the amendment to the Income Tax Ordinance is to establish the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, and the implementation of the AEOI/CRS information exchange agreements of the OECD. Following the amendment of the Ordinance, the Regulations required under it were also published.
The Act and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. The Act prohibits use of the said information by the Tax Authority for the purpose of enforcing the tax laws, otherwise than the delivery of which to foreign tax authorities for the purpose of implementing the agreement. In addition, the Ordinance determines monetary sanctions in respect of non-requirement of information, the non-examination thereof as required, or in respect of deficiencies in the complete delivery thereof.
The indirect amendment of the Prohibition of Money Laundering Act, amends the definition of "controlling interest" in accordance with the global standards in this respect.
The FATCA regulations require the closing up of bank accounts of those customers who refuse to cooperate with the financial institutions and which had been opened in the transitional period between date of signature of the State of Israel on the FATCA agreement and date of entry into effect of the regulations. A draft of the regulations regarding the closing down of accounts of American customers who refuse to cooperate, was distributed in June 2018.
The Bank implements the legislation requirements relating to the implementation of FATCA in Israel. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for the year 2018.
Automatic exchange of information (CRS). By power of the said amendment to the Income Tax Ordinance, the Income Tax Regulations (Application of a uniform standard for the testing and reporting the propriety of information regarding financial accounts), 2019, were published on February 6. In accordance with Regulations and the guidelines of the Supervisor of Banks in the matter, the Bank continues in identifying countries serving as tax residence for its customers and in the implementation of the CRS standard, including identification, classification and automatic exchange of information regarding financial accounts of foreign residents. The Bank has completed the first CRS annual report to the Israeli Tax Authority in respect of the years 2017 and 2018.

Information Technology Risks

The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.
Core processes for risk management. The core processes are based on the risk management principles, with adjustments required with respect to the IT world, with a view of enabling efficient focusing on areas and systems identified as having higher risk of disrupting the business activity, maintenance of the fitting of the technological development to the business strategy and to changes in the operational environment, as well as the adequacy of the ability of the technology to recover from crisis situations to the Bank's needs and to the regulation to which the Bank is committed.

Strategic Risk

The strategic risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense, and the Head of the Planning, Strategy and Finance Division acts a manager of this risk. Challenges of the competitive environment, development of digital banking and expected changes in the concept of operation of the banking industry, constitute a challenge in the management of this risk.

The Bank and the Group continue in promoting a multi-annual strategic plan which includes different projects that are expected to provide solutions for the principal challenges. The plan is examined once in each year, with attention being paid to changes in the local and global competitive environment, while studying the need for the updating of focal items and/or introduction of new projects at the Bank and at the subsidiaries. Within this framework, the Bank continues the emphasis on innovation, digital and customer experience, alongside the improvement and maximization of Group synergy and the value created by the activities of the subsidiaries.

Reputation Risk

The reputation risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense. Due to its importance and complexity, this risk is being managed by the highest echelons in the organization. The President & CEO is responsible for the risk management in times of crisis, and the Head of the Planning, Strategy and Finance Division is responsible for its management in normal times. This, in addition to the responsibility of each member of Management for the field under his control and the functions that support risk management (spokesperson, investor relations, the Regulation Unit, the Officer in charge of approaches made by the public, etc.).

As support for risk management, operates a reputation forum that includes representatives from the principal subsidiaries, which meets on a quarterly basis, discusses internal and external risk issues and monitors indices and indicators regarding various risk areas, which might have possible relation to the reputation risk.

Data and cyber protection risks

The principal risks involved in the impairment of data and cyber protection may lead to impairment of the privacy and confidentiality of the information of the Bank, its customers and employees, the realization of cyber threats, hostile use of information by users of the system, distortion of data in the systems, impaired availability and survivability of systems and data, impairment of the Bank's business and its reputation.

For additional details, see above under "Leading and developing risks" and under "Data protection and cyber defense risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Environmental Risks

The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer’s business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and in accordance with the level of materiality.

Legal Risks

A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract or by ignorance of the provisions of the law or by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.

The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.

According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.

The principal risk factors for legal risk exposure are: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.
The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks.
The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.
The Bank maintains a Group legal risk management policy, which had recently been updated and was approved by the Board of Directors in March 2018. The policy has been adopted by the principal subsidiaries in Israel and by the Bank's extensions abroad, mutatis mutandis.

Compliance Risks

Compliance risk is the risk of the imposition of legal or regulatory sanctions, of a material financial loss or of reputational harm, which the banking corporation might sustain as a result of failing to comply with the laws, the regulations, the regulatory directives, the internal procedures and the ethics code that apply to its banking operations.

Prohibition of Money Laundering and Terror Financing

Discount Group’s activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity.
On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.
On February 20, 2019, the Director-General of the Ministry of Finance contacted the Bank and informed it, inter alia, that the earliest that the government company would be able to provide services to banks operating in the Palestinian Authority territories would be the first half of 2021, with this being a cautious assessment. The Director-General at the Ministry of Finance emphasized the supreme importance of the Bank continuing to provide – during the interim period until the government company begins its operations –the correspondent services to the banks acting in the Palestinian Authority, with this, taking into consideration the possibility of extending the letters of indemnification and immunity, at the discretion of the Accountant-General and the Attorney-General.
On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021 (with the State being authorized to extend this date to May 31, 2021). Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State’s undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.

On May 30, 2019, the Bank received a notice from the Attorney-General regarding the extension of the immunity period, according to the current letter of immunity, through May 31, 2020. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority. On March 2, 2020, the Bank was informed that the Attorney General had extended the validity of the letter of immunity for a further month, through June 3, 2020, so as to allow for discussion on this topic to be held at the Security Cabinet.

Conduct Risk

Conduct risk is the risk created by violation of fairness, decency and transparency values vis-à-vis the Bank's customers, including forbidden discrimination of customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation’s position. The conduct risk, including fairness, decency, transparency and nondiscrimination values, is an integral part of the definition of compliance risk at the Bank, as integrated in the policy document on the matter. The Bank acts constantly to integrate these values within the array of relevant processes and increases the awareness of its employees to their importance.

Risk Factors Table

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor. The Group uses a five grade evaluation scale for the rating of the impact of each risk (High, Medium-High, Medium, Low-Medium and Low).

Within the framework of risk management processes at the Discount Group and in accordance with regulatory requirements in the matter, mapping, identification, analysis and evaluation processes are conducted in respect of the risks to which the Group is exposed, in accordance with an orderly Group methodology for the evaluation of the risk profile as part of the capital adequacy assessment process. At the base of the assessment, the Bank tests the implications of changes in the risk environment, in the inherent risk, in risk centers, in the quality and effectiveness of the risk management processes and in the control environment, the examination of implications from a forward looking view and more.

All these, as well as the methodology that had been formed for the internal capital adequacy assessment process, comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.

Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools, including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table. It is also noted that each risk factor is tested independently of other risk factors, which are detailed in the Table.

In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank's Management, of the material risk factors and their impact, in accordance with the unique characteristics of operations of the Discount Group, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

Risk Factors Table

Risk factor	Risk Factor Impact	Basing the assessment
1. Risk environment[3]	Medium-High	The competitive environment and in the regulatory environment continue to be dynamic and complex. Technological developments, the growing interest in digital services and developments in customer expectations result in an increase in competition and lead to expected changes in the activity model, through continuing expanding the cooperation with third parties. A subject that might be accelerated in the future, together with the expansion of the open banking field. The continuation of regulatory moves, increased enforcement (both domestic and international) and focusing on fairness, transparency and privacy protection requirements. Cyber and data protection risks continue to present a significant threat on the financial system, and require a continuous investment of resources and inputs. In the internal risk environment, the improved performance of the Group continues, beyond the strategic outline took place in the internal risk environment, while reducing the gaps existing in relation to the industry and increasing the Group's market share as regards credit. Notwithstanding, similar efficiency measures taken by the industry create a continuous challenge regarding the reduction of the gap.
2. Overall impact of credit risk	Medium	A continuing growth in credit in all Group companies in accordance with the strategic plan, alongside the activity improving the quality of the portfolio. Improvements are being made in the supporting tools and models, including promotion of integrating a Group project for the development of advanced models and risk adapted pricing. All this alongside improvements in underwriting processes and in monitoring and control tools.
2.1 Quality of borrowers and collaterals risk	Medium	In view of the business and regulatory environment, which might impact the growth in risk, and the accelerated growth in credit at the Group, the Bank is acting to reduce the credit risk by preparing for regulation, improving models, updating its credit policy, tightening of controls while maintaining the quality of the portfolio and proper processes for the management of the credit portfolio.
2.2 Industry concentration risk	Medium	The Group complies with the regulatory restrictions.
2.3 Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.
3. Overall impact of market risks	Low-Medium	The level of risk has not changed. Exposure is stable and is closely managed in a wide range of sensitivity tests and BIS adapted assumptions (Basel 4). Financial management is Group based (Global treasury) and undergoes a continuing process for improvement of tools and models, inter alia, assisted by the upgrading of the system.
3.1 Interest rate risk	Low-Medium	The scope of the interest exposure (both economic and accounting) compared to the capital of the Bank is not large. However, in view of the lengthening of the average maturity period of the portfolio, a higher economic risk has been created for a rise in the market interest rate. The risk management quality is in a continuous improvement trend.
3.2 Inflation and exchange rate risk	Low	Maintaining a low exposure level alongside the strict monitoring of its effect.
3.3. Share price and credit spreads risks relating to the holding of securities	Low-Medium	The risk level has not changed, principally on the background of the fluctuations on the equities markets and the reduction in credit margins of corporate bonds.
4. Liquidity risk	Low	The risk profile remains low, as is revealed by the level of the risk indices (the liquidity coverage ratio, the liquidity gap, the internal model, etc.), despite a controlled reduction in the liquidity surplus, concurrently with the growth in credit. The Group continues to enjoy robust liquidity, is implementing a clear funding strategy and is taking further measures to improve the tools that support risk management.

3 Relates to the evaluation of the risk environment impacts: domestic, global, the local and international competition environment and the regulatory risk environment.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
6. IT risk	Medium	The computerization plan commensurates with the strategic focal points and is being updated accordingly. Accelerated development is performed on the background of the competition environment, while combining new technologies and advanced management method, such as Agile[4], the integration of development tools and automated examinations DEVOPS, and more. This, alongside the adaptation and improvement of monitoring and control processes and the strengthening of the technological infrastructure and redundancy. The Bank acts towards the continuing advancement of open banking and cooperation with startup companies, while stressing performance of strict risk management processes, focused on privacy protection and information security aspects.
7. Data protection and cyber risks	Medium-High[5]	The growth in threats and the increase in power, ingenuity, complexity and level of probability of cyber risks continue. The Group continues to allocate significant resources for the reduction of exposure, which includes: the focusing on stronger protection of the network and its components, improvement of forestallment and monitoring tools, improving the ability to contain and manage events, management of cyber risk applying to the supply chain, reducing exposure applying to money outflow routes, central management of authorization concepts, and more. At the same time, the Bank continues to develop aspects of policy and risk appetite, including determination of indicators and thresholds in qualitative and quantitative terms, alongside the conduct of exercises and improvements in the security layout and data protection at the Bank and at the Group. The establishment continues of risk management operations in the second and third lines of defense.
8. Legal and regulatory risk	Medium	The profuse regulation alongside increased enforcement in Israel and around the world and the expansion of activity in the digital and innovation field, require close legal assistance and readiness at short time schedules. On the other hand, management quality is constantly improving, inter alia, by means of the establishment of a designated function for the management of the regulatory risk, adaptation of the supporting organizational infrastructure, integration of quantitative indicators and more.
9. Cross-border risks	Medium-High	The evaluation reflects the level of risk of the system in the light of the risk's dynamics and the increased enforcement. The continuation of regulation development requires investment in the continuation of mechanization and the adaptation thereof to the domestic and global regulation (FATCA, CRS, QI). Management and monitoring is conducted with respect to operations of the Group focused on controls, improvement and organization of customers, training and integration as well as the continuing mechanization of the requirements into systems and processes.
10. Compliance, Money Laundering and Financing of Terror risks	Medium	The continuation of regulatory changes and increased competition lead to changes in new processes and products, which are strictly accompanied by compliance and AML aspects, while emphasizing fairness and privacy protection aspects. Likewise, the Group is preparing for the updating and implementation of an internal enforcement plan with respect to competition legislation. The Group continues to put together resources in order to promote integration of the compliance culture, while emphasizing training and application of controls in a risk based approach and the integration of fairness and decency aspects in the processes of credit sales and debt collection, in all Group companies. Emphasis is put on regulation and policy regarding providers of financial services, as well as improvement of identification abilities, risk based monitoring and control with respect to the activities of increased risk populations, an increase exists in the structured risk, both due to the reasons mentioned above and in view of the expanded activity in areas such as hi-tech and complex credit transactions, facing the challenges existing in the opening and management of accounts for companies engaged in the fintech field, the cryptographic coins field and such like. The Group has acted to assemble operations involving risk (foreign residents, currency converting services, loan charity organizations, etc.) in branches specializing in these fields.

4 Iterative software development methodology in a flexible production process conducted by small teams, while focusing on efficiency, agility and maintaining product quality in a controlled manner.
5 Evaluation of the risk impact derives mostly from the identification of risk as developing and system risk and as a derivative of an increase in their risk environment, and not on the background of identification of risks that are singular to the Group.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
11. Reputation risk	Low-Medium	The continuing improvement in the performance of the Group achieves investors' and stakeholders' trust, which is reflected in the performance of the share and in successful raisings of capital, alongside leadership in customer satisfaction from the Bank's application. The Bank's Board of Directors has decided to change the dividend policy so as to enable a dividend distribution at a higher rate than the profit. Current processes for management of the risk exist, including a quarterly Group forum and the monitoring of supporting indicators.
12. Strategic risk (including risk of the business model)	Medium	The increased competition and the entry of new players (off-banking entities and technology and fintech entities) into the traditional banking market, alongside changes in public preferences and in customer needs, lead to expected structural changes in the banking industry and raise the business model risk in the industry. The Group acts for the formation and implementation of the future banking concept for the Group, as part of the realization of the strategic plan and periodic initiation of new projects in the fields of innovation, the open banking, digital and technology. The Group presents a continuing improvement in the strategic focus points and improvement is noticed in efficiency ratios and in the return on equity, yet the challenges continue to be significant. Challenging strategic plans exist in ICC and in IDB New York, which are being managed under Group methodology and supervision.

• CHAPTER ”D” – ACCOUNTING POLICY AND CRITICAL ACCOUNTING ESTIMATES, CONTROL AND PROCEDURES

Critical Accounting Policies and Critical Accounting Estimates

General

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) and according to instructions and guidelines of the Supervisor of Banks.

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

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

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

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

Following is a summary review of evaluations and assessments made as regards "critical" matters.

Allowances for Credit Losses

The process of assessing the loss inherent in the credit portfolio, as described in Note 1D 4 regarding the accounting policy, is based on significant assessments involving uncertainty, and on subjective assessments, both at the stage of identifying and classifying the debts and at the stage of measuring the allowance for credit losses. A change in assessments or in estimates may have a material effect on the allowance for credit losses as presented in the Bank's financial statements.

The Bank examines the overall adequacy of the allowance for credit losses. The adequacy evaluation, as stated, is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and in the evaluation methods applied in the determination of the allowance.

For details regarding the accounting policy, see Note 1 D 4 to the financial statements. For details regarding the credit and its quality, see Note 31 to the financial statements. For details regarding the overall credit risk for which the Group is responsible in respect of problematic borrowers, see above under "Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy". For details regarding the credit risk management at the Bank, including the Bank's preparations for the adoption of updates to the generally accepted accounting principles at banks in the U.S. – allowances for credit losses (CECL), see "Credit risks" above in Chapter C – "Risks review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Contingent Liabilities

The accounting treatment of contingencies is implemented in accordance with the U.S. Standard ASC 450 and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating an allowance in respect of the claim and the mode and scope of the disclosure in the financial statements.

For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits.

Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.

The Bank is exposed to unasserted claims. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made the actual outcome may differ from assessment conducted prior to filing of the claim.

It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.

See Note 26 C to the financial statements for details of material legal actions pending against the Bank and against other companies in the Group. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" in Chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof". For details regarding the criteria relating to the disclosure of legal actions and the accounting treatment adopted in their respect, see Note 1 D 16 to the financial statements.

Impairment of Available for Sale Securities

According to directives and guidelines issued by the Supervisor of Banks and to accepted accounting principles applying to banking corporations, unrealized gains or losses on adjustment to fair value of available for sale securities, net of the tax effect, are directly recorded as a separate item in equity within the framework of other comprehensive income, and are taken to the statement of profit and loss in certain cases, including upon realization of the securities. Unrealized losses recorded as a separate item in equity within the framework of other comprehensive income, are losses of a temporary nature only. Other than temporary losses (OTTI) are taken directly to the statement of profit and loss.

The Bank's management is therefore required to examine and evaluate the nature of losses accumulated in respect of the said securities.

For the purpose of determining the nature of losses accumulated in respect of securities as above, managements of the Bank and/or of the relevant subsidiaries, base themselves on the security's various characteristics on which losses have been accumulated and on the company that had issued this security, such as: The loss rate in relation to cost/amortized cost, the period in which the fair value of the security was lower than its cost, the credit rating of the security and changes that had taken place in its rating and attributing impairment to the deterioration in the financial condition of the issuer or to market conditions as a whole, etc.

The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments, assumptions and features upon which they are based may have a significant effect upon the financial statements.
For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

Measurement of Financial Instruments according to their Fair Value

Directives of the Supervisor of Banks. The Bank implements the directive regarding Measurement of fair value based on the U.S. financial accounting standard ASC 820. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, 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.
ASC 820 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.
These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.
Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.
For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.
The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:
- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

This class includes also significant derivative financial instruments, the adjustment for credit risk in respect thereof is not based on observable inputs.
For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.
As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 12% at December 31, 2019, compared with 14.1% at December 31, 2018.
The income on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 535 million in 2019, compared to an income of NIS 140 million for 2018.
Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.
The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.
The fair value of bonds issued by foreign financial institutions, corporations and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and as the case may be, also to broker quotations that are not the issuers of the securities (in the case of a material change in the monthly level), which comprise an

indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, in respect of their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank's dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank's dealing room in accordance with the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc. Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Division in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Division, in which a representative of the Accounting Division also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within this framework the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments in respect of which there is insufficient liquidity in the market, except for back-to-back transactions.

Notes 28 and 34 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.
Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.
The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.
The assets and liabilities credit risk adjustment in respect to derivative instruments was negligible in 2018-2019. It should be noted that, from the fourth quarter of 2019, the Bank also takes into consideration the potential exposure component in calculating the credit risk adjustment. The change did not have a material effect on the operating results.

Details regarding the adjustment of the assets and liabilities in respect of derivative instruments

	December 31, 2019	December 31, 2018
	in NIS millions	
Assets in respect of derivative instruments	4,558	3,738
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(10)	(12)
Liabilities in respect of derivative instruments	4,866	3,282
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	6	(3)

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

Employee Rights

The Bank applies U.S. accounting principles as regards employee rights. For additional details, see Note 1 D 15.1. The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions.
Certain aspects regarding the implementation of the accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and is based on past experience and on the limitations determined in this respect by the Bank's Management. The limitations determined by the Management are detailed in Note 1 D 15.7 to the financial statements.
The actuarial computation is based on several parameters, including: life expectancy, retirement age of employees prior to the retirement date, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated and the discount rate. These parameters were determined, inter-alia, based on forecasts prepared by the actuary and the experience accumulated in the Bank. The actuarial computation was based on a computed discount rate, in accordance with instructions of the Supervisor of Banks.
Furthermore, implementation of the accounting policy involves assessments and judgment with respect to the following matters:

- The definition of return to maturity of Israeli government bonds, relevant to the determination of the discount rate, taking into consideration, among other things, the average period to maturity of the liabilities in respect of which the actuarial computation is made;
- Definition of the spread added to the basic return, as stated, being an assessment of the risk rate, based on relevant U.S. securities data, as defined in the instruction;
- In each year, it is required to assess the forecasted return on assets of the plan for the coming year. The difference between the computations based on the most recent assumption of return and those based on the actual return in the reported period, shall be included in other comprehensive income and taken to the statement of profit and loss in accordance with the assessed average period of service. (It is noted in this respect, that the format of this treatment may result in certain fluctuations in the reported annual profit, including in respect of changes in the assessment of the average service period).

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of December 31, 2019. The actuarial opinion also includes a computation of the actuarial provision amount that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority’s “deep market” guideline.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[6] is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website, together with the Bank's 2019 Annual Report (this Report).
Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in remuneration, on the liability for the forecasted benefit, before the tax effect, see Note 23 C to the financial statements, item 3.2.

Examination of impairment in value of non-financial assets

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.
Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States. For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.
The written down balance of in-house software development costs amounted at December 31, 2019 to NIS 835 million (December 31, 2018: NIS 735 million).

Controls and Procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.
In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.
Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.
During 2019, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.
Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

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

Changes in Internal Control

During the fourth quarter ended on December 31, 2019, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting, except for the merger of Municipal Bank with and into MDB. The legal merger was indeed consummated on December 1, 2019, however, the operational merger is being conducted gradually, with a gradual absorption of operations and controls.

The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank’s employees and employees of the Group’s companies and their management for their work towards the advancement of the Bank and the Group.

March 15, 2020	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer

Internal Control over Financial Reporting

Certification

I, Uri Levin, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2019 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

March 15, 2020

Uri Levin,
President & Chief Executive Officer

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2019 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

March 15, 2020

Joseph Beressi
Senior Executive Vice President
Chief Accountant

Report of the Directors and Management on Internal Control over Financial Reporting

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"). The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made in accordance with authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2019, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of December 31, 2019, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2019 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 107, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2019.

Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 15, 2020

Financial Statements

Somekh Chaikin

Report of the independent auditors to the shareholders of Israel Discount Bank Ltd. - In accordance with the public reporting directive of the Supervisor of Banks regarding internal control over financial reporting

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB), regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a bank over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a bank over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2019 and 2018, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2019, and our report dated March 15, 2020, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C item 13 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 15, 2020

Somekh Chaikin

Auditor's report to the Shareholders' of Israel Discount Bank Ltd. - Annual Financial Statements

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and consolidated: Balance sheets as at December 31, 2019 and December 31, 2018, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for 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 Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of 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 Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2019 and 2018, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2019, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C item 13 regarding different proceedings filed against the Bank and against investee companies.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 15, 2020, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 15, 2020

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2019	2018	2017
		in NIS millions		
Interest income		7,567	7,053	6,213
Interest expenses		1,674	1,527	1,238
Interest income, net	2	5,893	5,526	4,975
Credit loss expenses	13,31	690	540	574
Net interest income after credit loss expenses		**5,203**	**4,986**	**4,401**
Non-interest Income				
Non-interest financing income	3	742	586	595
Commissions	4	2,972	2,851	2,676
Other income	5	57	57	87
Total non-interest income		**3,771**	**3,494**	**3,358**
Operating and other Expenses				
Salaries and related expenses	6	3,343	3,385	3,204
Maintenance and depreciation of buildings and equipment	16	1,098	1,039	1,044
Other expenses	7	1,858	1,724	1,446
Total operating and other expenses		**6,299**	**6,148**	**5,694**
Profit before taxes		2,675	2,332	2,065
Provision for taxes on profit	8	932	789	747
Profit after taxes		1,743	1,543	1,318
Bank’s share in profit of affiliated companies, net of tax effect	15	16	6	1
Net profit:				
Before attribution to non-controlling rights holders		1,759	1,549	1,319
Attributed to the non-controlling rights holders		(57)	(44)	(60)
Net Profit Attributed to the Bank's Shareholders		**1,702**	**1,505**	**1,259**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9,24**	**1.46**	**1.29**	**1.09**

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

Date of approval of the financial statements:	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President, Chief Accountant
March 15, 2020			

Statement of Profit and Loss for the year ended December 31 (continued)

	Notes	The Bank 2019	2018	2017
		in NIS millions		
Interest income		4,257	3,996	3,521
Interest expenses		985	907	764
Interest income, net	2	3,272	3,089	2,757
Credit loss expenses	13,31	323	300	258
Net interest income after credit loss expenses		**2,949**	**2,789**	**2,499**
Non-interest Income				
Non-interest financing income	3	566	403	371
Commissions	4	1,224	1,246	1,193
Other income	5	108	115	131
Total non-interest income		**1,898**	**1,764**	**1,695**
Operating and other Expenses				
Salaries and related expenses	6	1,995	2,015	1,998
Maintenance and depreciation of buildings and equipment	16	729	698	726
Other expenses	7	725	662	586
Total operating and other expenses		**3,449**	**3,375**	**3,310**
Profit before taxes		1,398	1,178	884
Provision for taxes on profit	8	492	415	310
Profit after taxes		906	763	574
Bank's share in profit of affiliated companies, net of tax effect	15	796	742	685
Net profit attributed to bank's shareholders		**1,702**	**1,505**	**1,259**

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

Consolidated Statement of Comprehensive Income for the year ended December 31

	2019	2018	2017
	in NIS millions		
Net profit before attribution to non-controlling rights holders	1,759	1,549	1,319
Net profit attributed to non-controlling rights holders	(57)	(44)	(60)
Net profit attributed to the Bank's shareholders	**1,702**	**1,505**	**1,259**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for- sale bonds at fair value[3]	790	(377)	33
Financial statements translation adjustments, net	(283)	252	(335)
Adjustments of liabilities in respect of employee benefits[2]	(259)	259	(17)
Net income (loss) in respect of cash flows hedge	4	(1)	(1)
Other comprehensive income (loss), before taxes	**252**	**133**	**(320)**
Effect of attributed taxes	(176)	23	(2)
Other comprehensive income (loss), before attribution to non-controlling rights holders, after taxes	76	156	(322)
Other comprehensive loss, attributed to non-controlling rights holders	(4)	-	(2)
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	**80**	**156**	**(320)**
Comprehensive income, before attribution to non-controlling interests holders	1,835	1,705	997
Comprehensive income, attributed to non-controlling interests holders	(53)	(44)	(58)
Comprehensive income, attributed to the Bank's shareholders[1]	**1,782**	**1,661**	**939**

Footnotes:

(1) See Note 10.

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

(3) In 2017 and 2018 - available-for- sale securities.

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

Balance sheet as at December 31

		Consolidated		The Bank	
	Notes	2019	2018	2019	2018
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	26,044	21,858	19,996	18,499
Securities (of which: 2,897, 4,767, 2,354, 4,105 respectively, pledged to lenders)	12,27	37,745	37,898	23,640	21,442
Securities borrowed or purchased under resale agreements		531	774	531	774
Credit to the public	13,31	182,991	167,078	118,016	109,825
Provision for credit loss	13,31	(2,524)	(2,274)	(1,477)	(1,377)
Credit to the public, net		180,467	164,804	116,539	108,448
Credit to Governments	14	3,515	3,336	3,515	3,336
Investment in investee companies (consolidated – affiliated companies)	15	171	135	10,317	9,617
Buildings and equipment	16	2,577	2,437	1,698	1,671
Intangible assets and goodwill	17	164	160	-	-
Assets in respect of derivative instruments	28	4,545	3,726	4,256	3,501
Other assets	18	4,064	4,048	2,242	2,531
Total Assets		**259,823**	**239,176**	**182,734**	**169,819**
Liabilities and Equity					
Deposits from the public	19	201,450	188,916	146,159	136,400
Deposits from banks	20	6,419	6,886	1,762	1,880
Deposits from the Government		181	257	16	28
Securities loaned or sold under repurchase agreements		346	1,126	-	-
Bonds and Subordinated debt notes	21	13,129	8,476	3,891	4,131
Liabilities in respect of derivative instruments	28	4,839	3,249	4,513	3,027
Other liabilities[(1)]	22	14,266	12,597	7,715	7,202
Total liabilities		240,630	221,507	164,056	152,668
Equity capital attributed to the Bank's shareholders		18,678	17,151	18,678	17,151
Non-controlling rights in consolidated companies		515	518	-	-
Total equity		19,193	17,669	18,678	17,151
Total Liabilities and Equity		**259,823**	**239,176**	**182,734**	**169,819**

Footnote:

(1) Of which NIS 223 million and NIS 176 million in the consolidated, and NIS 171 million and NIS 126 million in the bank, as of December 31, 2019, and December 31, 2018, provision for credit loss in respect of off-balance sheet credit instruments. See Note 31 (E).

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

Statement of Changes in Shareholders' Equity

	Capital reserves								
	Paid up share capital	Share premium	Other reserves	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling rights holders	Total equity
	in NIS millions								
Balance at December 31, 2016	673	3,958	291	4,922	(397)	9,987	14,512	424	14,936
Net Profit for the year	-	-	-	-	-	1,259	1,259	60	1,319
Dividend to non-controlling interests holders	-	-	-	-	-	-	-	(8)	(8)
Exercise of options to Shares[(1)]	3	216	(76)	143	-	-	143	-	143
Other comprehensive loss after tax effect	-	-	-	-	(320)	-	(320)	(2)	(322)
Balance at December 31, 2017	**676**	**4,174**	**215**	**5,065**	**(717)**	**11,246**	**15,594**	**474**	**16,068**
Net Profit for the year	-	-	-	-	-	1,505	1,505	44	1,549
Dividend paid	-	-	-	-	-	(118)	(118)	-	(118)
Other comprehensive income, net after tax effect[(2)]	-	-	-	-	156	14	170	-	170
Balance at December 31, 2018	**676**	**4,174**	**215**	**5,065**	**(561)**	**12,647**	**17,151**	**518**	**17,669**
Changes in 2019:									
Net Profit for the year	-	-	-	-	-	1,702	1,702	57	1,759
Dividend paid	-	-	-	-	-	(255)	(255)	-	(255)
Dividend to non-controlling interests holders	-	-	-	-	-	-	-	(56)	(56)
Other comprehensive income, net after tax effect	-	-	-	-	80	-	80	(4)	76
Balance at December 31, 2019	**676**	**4,174**	**215**	**5,065**	**(481)**	**14,094**	**18,678**	**515**	**19,193**

Footnotes:

(1) As discussed in Note 24 D to the financial statement as of December 31, 2017.

(2) Including the effect of adopting ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" and the adoption of ASU 2014-09, "Recognition of Revenue from Contracts with Customers" - IDB New York, in negligible amounts.

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

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling rights holders in consolidated companies	1,759	1,549	1,319	1,702	1,505	1,259
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed profits of affiliated companies.	(14)	(7)	(5)	(884)	(802)	(740)
Depreciation of buildings and equipment (including impairment in value)	466	424	433	304	273	298
Provision for impairment in value of securities not for trading	31	14	11	-	8	2
Credit loss expenses	690	540	574	323	300	258
Gain on sale of credit portfolio, net	(7)	(6)	(20)	(7)	(6)	(19)
Profit on sale of available-for-sale bonds and shares not for trading[(1)]	(250)	(154)	(369)	(98)	(64)	(162)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	2	(63)	18	10	(64)	17
Non realized profit on adjustment to fair value of shares no for trading	(39)	-	-	(38)	-	-
Gain from realization at an investment in investee companies	(13)	-	(5)	(13)	-	-
Gain on realization of buildings and equipment	(42)	(46)	(64)	(34)	(46)	(68)
Net deferred taxes	(115)	34	(84)	(91)	77	(85)
Severance pay – increase (decrease) in excess of provision over the deposits	336	(151)	81	144	(32)	43
Net change in current assets:						
Assets in respect of derivative instruments	(816)	(771)	330	(755)	(651)	290
Trading securities	(252)	(659)	1,406	(550)	(251)	1,362
Other assets	(40)	(374)	9	268	(554)	152
Effect of changes in exchange rate on cash and cash equivalent balances	(145)	188	(181)	(204)	186	(169)
Accrual differences included in investment and financing activities	1,440	(1,161)	1,957	544	9	501
Net change in current liabilities:						
Liabilities in respect of derivative instruments	1,590	16	(338)	1,485	(48)	(326)
Other liabilities	1,049	873	911	235	26	658
Adjustments in respect of exchange rate differences on current assets and liabilities	(185)	239	(185)	-	-	-
Dividends received from affiliated companies	13	37	3	175	191	148
Net Cash Flows from Operating Activities	**5,458**	**522**	**5,801**	**2,516**	**57**	**3,419**

Footnote:
(1) 2017 and 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 (continued)

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
			in NIS millions			
Cash Flows to Investing Activities						
Net change in Deposits with banks	42	(45)	228	(130)	(57)	70
Net change in Credit to the public, net	(8,930)	(13,798)	(8,925)	(5,903)	(8,250)	(7,301)
Net change in Credit to the Governments	571	(393)	(756)	571	(393)	(761)
Net change in Securities borrowed or purchased under resale agreements	243	180	(514)	243	180	(514)
Acquisition of held-to-maturity bonds	(766)	(2,676)	(91)	(615)	(2,485)	-
Proceeds from redemption of held-to-maturity bonds	1,715	1,333	648	1,473	973	191
Purchase of available-for-sale bonds and shares not for trading[1]	(13,133)	(14,240)	(10,271)	(8,212)	(8,821)	(6,367)
Proceeds of sale of available-for-sale bonds and shares not for trading[1]	10,739	5,794	9,195	5,929	3,725	6,565
Purchased credit portfolios	(4,162)	(3,838)	(1,104)	(4,162)	(3,838)	(1,104)
Gain on sale of credit portfolio	940	254	1,149	787	137	866
Proceeds of redemption of available-for-sale bonds	3,197	5,576	4,029	871	2,866	1,235
Purchase of shares in affiliated companies	(62)	(12)	-	(5)	-	-
Business combinations - see Annex A	449	-	-	-	-	-
Net Proceeds of the sale of investments in affiliated companies	27	-	9	27	-	-
Dividend from a subsidiary in liquidation	-	-	-	-	-	154
Investment in deferred debt notes of a subsidiary company	-	-	-	(160)	-	(100)
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	-	-	-	13	63	6
Acquisition of buildings and equipment	(592)	(473)	(521)	(347)	(266)	(347)
Proceeds from sale of buildings and equipment	65	59	125	52	59	114
Net Cash Flows to Investing Activities	**(9,657)**	**(22,279)**	**(6,799)**	**(9,568)**	**(16,107)**	**(7,293)**
Cash Flows from Financing Activities						
Net change in Deposits from banks	(488)	2,082	(538)	(118)	390	(216)
Net change in Deposits from the public	7,453	13,867	2,883	8,862	11,869	1,330
Net change in Deposits from the Government	(76)	(10)	(36)	(12)	(22)	(18)
Net change in Securities borrowed or purchased under resale agreements	(780)	(817)	(1,600)	-	-	-
Issuance of subordinated debt notes	3,899	1,493	811	-	-	811
Redemption of subordinated debt notes	(1,327)	(773)	(1,753)	(261)	(164)	(147)
Receipts from conversion of options to shares	-	-	143	-	-	143
Dividend paid to the shareholders	(255)	(118)	-	(255)	(118)	-
Dividend to non-controlling rights holders	(56)	-	(8)	-	-	-
Net cash flows from Financing Activities	**8,370**	**15,724**	**(98)**	**8,216**	**11,955**	**1,903**
Increase (decrease) in cash	4,171	(6,033)	(1,096)	1,164	(4,095)	(1,971)
Cash balance at beginning of period	21,549	27,762	28,819	18,218	22,499	24,301
Effect of changes in exchange rate on cash and cash equivalent balances	57	(180)	39	203	(186)	169
Cash balance at end of period	**25,777**	**21,549**	**27,762**	**19,585**	**18,218**	**22,499**
Interest and taxes paid and/or received						
Interest received	7,576	[2]7,074	6,275	4,301	4,016	3,690
Interest paid	(1,712)	[2](1,563)	(1,212)	(1,006)	(1,049)	(863)
Dividends received	26	48	27	177	193	149
Taxes on income paid	(1,265)	(927)	(926)	(837)	(563)	(526)
Taxes on income received	37	280	90	18	213	38

Footnotes:

(1) 2017 and 2018 - available-for-sale securities .

(2) Improvement in computing of the data.

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

Appendix A – merger with Municipal Bank

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

Appendix B - Non-cash Asset and Liability Activity during the Reported year

	2019	2018	2017
The Bank:			
Purchase of fixed assets	-	16	14
Lending of securities	(121)	486	(241)
Consolidated:			
Purchase of fixed assets	9	30	26
Lending of securities	173	648	(328)

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

Notes to the Financial Statements

1. Significant Accounting Policies

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 15, 2020.

B. Definitions

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including

interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt according to a hierarchy determined by the U.S. Financial Accounting Standard ASC 105-10 (FAS 168). In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, any position announced publicly by the bank supervisory authorities in the U.S., or by a team of the bank supervisory authorities in the U.S., regarding the manner of implementation of generally accepted accounting principles in the U.S. (U.S. GAAP), shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" and "Related party" - within their meaning in section 80 of the Reporting to the Public Directives.

"Consolidated subsidiaries" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Affiliated companies" - companies, other than consolidated subsidiaries and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated subsidiaries and affiliated companies.

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

C. Basis for the preparation of the financial statements

1. **Principles of financial reporting**

   The Bank's financial statements are prepared according to Generally Accepted Accounting Principles in Israel (Israeli GAAP) and according to the instructions of the Reporting to the Public Directive of the Supervisor of Banks. In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).

2. **Functional Currency and Presentation Currency**

   The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details regarding the functional currencies of banking overseas extensions, see item D 1, below.

3. **Basis of measurement**

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

   - Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
   - Bonds 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 in respect of employee benefits;
   - Investments in affiliated companies.

1. Significant Accounting Policies (continued)

4. Use of estimates

In preparing the financial statements, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such estimates. Upon the formation of accounting estimates applied in the preparation of financial statements, the Management of the Bank and of the investee companies are required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Managements of the Bank and of the investee companies base their selves upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

5. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks

Starting with the period beginning January 1, 2019, the Bank implements accounting standards and instructions as detailed hereunder:

(1) Recognition and measurement of financial instruments (see item 1 below);

(2) Derivatives and hedging (see item 2 below);

(3) Receivables (see item 3 below);

Starting with the period beginning April 1, 2019, the Bank implements accounting standards and instructions as detailed hereunder:

(1) Impairment of available-for-sale bonds (see item 4 below).

Following is a description of the nature of changes in the accounting policy and a description of the manner of initial implementation and its effect, if at all:

1. **Recognition and measurement of financial instruments.** Adoption of updated standard ASU 2016-01. The principal objects of the new rules are to improve the model of reporting financial instruments and to provide users of these reports more practical information for the purpose of decision making.

   At date of initial implementation, the net unrealized gains on shares classified in the past as available-for-sale shares, which were recorded in other comprehensive income, were reclassified to retained earnings (in negligible amounts). Changes in the required disclosures have been applied by way of "from now onwards".

   The initial implementation and its effect. The Standard will be implemented as from January 1, 2019, and thereafter. The implementation of the Standard did not have material effect.

2. **Derivatives and hedging.** Adoption of the updated standard ASU 2017-12. The object of the new rules is to improve the financial reporting of hedge relations, in a way that would reflect in a better form the economic results of the risk management activity of a banking corporation in the financial statements.

   Where made possible by the update of the U.S. Standards, the subsidiary, IDB New York has adopted the updated rule by earlier application, starting with the interim financial statements as of June 30, 2018 (see also Note 5 D).

   The initial implementation and its effect. The standard was implemented as from January 1, 2019 and thereafter. The principal impact of the implementation of the standard was the reclassification of securities, classified in the past as held-to-maturity, to available-for-sale and the modification of the disclosure format to that of U.S. banks.

3. **Receivables.** In March 2017, U.S. Financial Accounting Standards Board (FASB) published an update (2017-08) regarding the amortization of the premium paid on the purchase of debt instruments having a premature redemption option, which comprises an amendment of Item 310-20 of the Codification regarding receivables – non-refundable fees and other costs (hereinafter: "the Amendment"). According to the Amendment, the period of amortization of the premium paid on debt instruments having a premature redemption option by the issuer, shall be shortened and computed in accordance with the earliest premature redemption date.

   The initial implementation and its effect. The Standard will be implemented as from January 1, 2019, and thereafter. The implementation of the Standard did not have material effect.

4. **Impairment of available-for-sale bonds.** In accordance with the Public Reporting Directives, starting with the financial statements as of June 30, 2019, the Bank has elected, in concurrence with the Supervisor of Banks, to adopt Standard FSP FAS 115-2, regarding the recognition and presentation of other-than-temporary impairments of securities. This, alongside the continuing implementation of the relevant guidelines included in Appendix P to the Public Reporting Directives.

1. Significant Accounting Policies (continued)

In the implementation of the Standard, with regard to bonds having an inherent credit risk, with regard to which the Bank will determine that there is an other-than-temporary impairment, no differentiation will be made between an impairment that relates to credit risk and an impairment that relates to other risks, and the gap between the fair value and the amortized cost as of the reporting date will be carried in full to profit and loss.

The tests deciding whether the impairment is of a nature other than temporary and the cases in which an impairment of a nature other than temporary would be recognized, have been updated accordingly.

The initial implementation and its effect. The implementation of the Standard did not have material effect.

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

1. Foreign currency and linkage

Foreign currency transactions. At date of recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss deriving from such transaction are translated, at date of initial recognition, to the Bank's functional currency in accordance with the exchange rate in effect on date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency in accordance with the exchange rate ruling on that date.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Profits or losses on translation of transactions in foreign currency, which stem from fluctuations of the currencies in the period between the date of the transactions and the date of settlement/balance sheet date, are recognized in the statement of profit and loss as translation differences profits or losses (non-interest financing income), excluding:

- Changes in fair value of components included in the evaluation of the effectiveness of hedge in respect of a hedge instrument hedging a net investment in foreign operations or hedging cash flows;
- Exchange rate differences in respect of items comprising a part of a net investment.

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses as well as the profits and losses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions. Exchange rate differences on translation are recognized in other comprehensive income and presented under "financial statements translation adjustments".

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

Foreign banking extensions. The banking extension Bancorp is classified as foreign operations the functional currency of which is different from the shekel.

Representative rates of exchange and the CPI and their annual rates of change

				Annual rate of change		
	2019	2018	2017	2019	2018	2017
CPI (in points):						
Known at balance sheet month	100.7	100.4	99.3	0.3	0.4	(0.3)
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.456	3.748	3.467	(7.8)	(9.8)	(1.5)
Euro	3.878	4.292	4.153	(9.6)	2.7	(4.8)

2. Principles of consolidation and the implementation of the equity method

2.1 **Goodwill.** The Bank recognizes goodwill at acquisition date on the basis of the fair value of the consideration given, including amounts recognized in respect of any rights that do not confer control in the acquired entity, as well as the fair value at acquisition date of capital rights in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition date to identifiable acquired assets and accepted liabilities.

2.2 **Subsidiary companies.** These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

1. Significant Accounting Policies (continued)

Non-controlling rights. These are rights representing the equity capital of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling rights are measured at fair value at date of the business combination.

Allocation of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling rights will be negative.

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are being treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling rights in consolidated subsidiaries is charged to the owners' share of the Bank, directly to capital.

2.3 **Investments in affiliated companies.** Affiliated companies are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in affiliated companies are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of affiliated companies treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives implemented by a non-financial affiliate, which applies the IFRS rules.

2.4 **Transactions eliminated upon consolidation.** Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with affiliated companies were eliminated against the investment according to the rights of the Group in the affiliated companies. Unrealized losses were eliminated in the same manner in which profits have been eliminated, as long as no evidence of impairment exists.

2.5 **The treatment in the Bank's standalone financial statements.** In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks. The Bank’s standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

3. The basis of recognition of income and expenses

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

3.2 Commission income in respect of the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain commissions, such as commission in respect of guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 **Commissions regarding the setting-up of credit facilities.** Commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

3.5 **Credit allocation commissions.** Credit allocation commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitments being realized is not remote.

1. Significant Accounting Policies (continued)

3.6 **Changes in terms of loans.** In cases of refinancing or of restructuring of non-problematic loans, the Bank examines the materiality of the changes in terms of the loan. Accordingly, the Bank examines whether the present value of future cash flows under the revised terms of the loan differs by at least 10% from the present value of the remaining cash flows under the original terms. In such cases, the outstanding commissions not yet amortized as well as early repayment commissions collected from the customer in respect of the change in the terms of credit are recognized in the statement of profit and loss. Otherwise, the said commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

3.7 **Early repayment commission.** Commissions charged in respect of early repayments are recognized immediately as part of interest income.

3.8 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.9 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments are recognized based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.10 Other income and expenses are recognized on an accrual basis.

4. **Impaired debts, credit risk and allowance for credit loss**

General. In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, the Bank is implementing the guidelines of the Supervisor of Banks regarding "Dealing with problematic debts".

Credit to the public and other debt balances. The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under resale agreements, credit to the public, credit to the government, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date.

Identification and classification of impaired debts. The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears 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 of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

1. Significant Accounting Policies (continued)

Definition of the primary source of repayment upon the classification of a problematic debt. Determination of the proper classification of a debt, until a default event occurs or until expectation for such an event becomes highly probable, is based on the repayment ability of the borrower, namely: the expected strength of the primary repayment source (a sustainable source of cash over a period of time that must be under the control of the borrower and which must be explicitly or in substance separated for the repayment of the debt), and this, despite the support of second and third place repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Reinstatement of an impaired debt as an unimpaired debt. An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).
- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, do not apply to debts classified as impaired as a result of a restructure of a troubled debt.

Reinstatement of an impaired debt as an impaired debt accruing interest. A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as an impaired debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

Allowance for credit losses. The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses. The allowance covering credit losses anticipated is assessed in one of two ways: "specific allowance" or "group allowance".

The said examination of debts for the purpose of determining the allowance and the treatment of the debt, is consistently applied in respect of all debts in accordance with the quantitative level and the Bank's credit management policy, and no changes are being made between the specific examination track and the group basis examination track during the life of the debt, unless a restructure of a troubled debt had been made as stated below.

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 500 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

A collateral-dependent debt is defined as a debt, the recovery of which is expected to be exclusively effected by the collateral pledged in favor of the Bank, or when it is expected that an asset held by the borrower would serve to repay the debt, even if no specific pledge exists on the asset, and everything when the borrower has no other material available and reliable repayment sources.

1. Significant Accounting Policies (continued)

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are 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 unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", and in accordance with instructions of the Supervisor of Banks, based on historical loss ratios in various economic sectors, differentiating between problematic and non-problematic credit, within the range of years in the period beginning on January 1, 2011 and ending on the reporting date. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, for the purpose of determining the proper amount of the allowance, the Bank takes into account relevant environmental factors, including trends in the scope of credit in each sector and conditions in the sector, macro-economic data, assessment of the general quality of the credit to an economic sector, changes in volume and trends of balances in arrears and impaired balances and the effect of changes in the credit concentration.

In accordance with the directives of the Supervisor of Banks, the Bank has formed a measurement method for the allowance on a group basis, which takes into account both the rate of past losses and the adjustments in respect of the relevant environmental factors. With respect to credit granted to private individuals, the rate of adjustment in respect of environmental factors shall not be less than 0.75% of the outstanding balance of the non-problematic credit at each reporting date, with reference to the average rates of loss in the range of the years. Excluded from the above is credit created by bank credit card transactions bearing no interest charge.

Starting with January 1, 2011, the Bank is not required to maintain general, supplemental and special allowances for doubtful debts, though it continues to calculate the supplemental allowance and verifies that in any event the amount of the allowance on a group basis at the end of each reporting period is not lower than the amount of the general and supplemental allowances that would have been required at that date, gross before tax.

The Supervisor of Banks published a circular on July 10, 2017 amending Proper Conduct of Banking Business Directives No. 314 and 315, intended, inter alia, to abolish the mechanism of the supplementary provision in respect of credit concentration limitations, absence of up-to-date financial information and other characteristics expressed in other directives. Upon cancellation of the supplementary provision, it is required to take into account risk characteristics concerning the absence of up-to-date financial statements in forming the method of determining the allowance for credit losses.

The required allowance in respect of off-balance sheet credit instruments - is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business Directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach".

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. Calculation of the allowance based on the extent of arrears applies to all housing loans, excluding loans that are not repayable in periodic installments and loans that finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank verifies that the balance of the group allowance for credit loss, in respect of housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Recognition of interest income. On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of profit and loss but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt that has formally undergone troubled debt restructuring and following the restructure it is reasonably certain that the debt would be repaid and would perform in accordance with its new terms, shall be treated as an impaired debt that accrues interest income. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see item 3.1 above.

1. Significant Accounting Policies (continued)

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over. These debts are subject to assessment methods of an allowance for credit losses, which ensure that the Bank's profit is not inclined upwards. Commission charged on arrears in these debts are recognized as income on date on which the Bank is entitled to receive it, on condition that collection thereof is reasonably certain.

Accounting write-off. The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral.

With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (in most cases over 150 consecutive days in arrears) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Notwithstanding that stated above, the need for an immediate write-off is examined in respect of loans examined on a group basis and classified as impaired due to the restructuring of a troubled debt. In any event, the accounting write-off of such debts is made no later than the date on which the debt was sixty days or over in arrear, with reference to the restructuring terms.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

The Bank does not classify a debt as a restructured troubled debt if within the framework of the arrangement the borrower has been granted an immaterial deferment in repayments, considering the frequency of the installments during the contractual maturity period and the expected average maturity of the original debt. In this respect, where several arrangements have been made involving changes in the terms of the debt, the Bank takes into consideration the cumulative effect of prior arrangements for the purpose of determining whether the deferment in repayments is not material.

The treatment of structured debts and of following debt restructuring. Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, are classified as troubled debts and assessed on a specific basis for the purpose of performing the allowance for credit losses.

As a general rule, a restructured troubled debt continues to be measured and classified as an impaired debt until repaid in full. Notwithstanding, under certain circumstances, when a debt had undergone troubled debt restructuring, and at a later date the banking corporation and the debtor enter into an additional restructuring agreement, the banking corporation is not required to treat the debt as a restructured troubled debt if the following two conditions apply:

- The debtor is no longer in financial difficulties at date of the following restructure;
- According to the terms of the following restructure, no waiver had been granted to the debtor (including no waiver of principal amounts on a cumulative basis since the original date of the loan).

A debt as above, that has undergone a following restructure and the classification thereof as an impaired debt has been removed, is to be assessed on a group basis for the purpose of determining the allowance for credit losses, and the recorded amount of the debt has not changed upon the following restructure (except where cash had been received or paid).

If in following periods, a debt as above has been examined on a specific basis and is found to require the recognition of impairment in value or where the restructure of a troubled debt is applied, the bank reclassifies the debt as impaired and treats it as a restructured troubled debt.

1. Significant Accounting Policies (continued)

5. Securities

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified as follows:

(a) Held to maturity bonds - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) Available-for-sale bonds – bonds not classified as held-to-maturity bonds or as trading bonds. Available-for-sale bonds are stated in the balance sheet at fair value on the reporting date. Unrealized profits or losses on adjustment to fair value are not included in the statement of profit and loss and are reported net, after deduction of provision for taxes, in a separate item of capital in accumulated other comprehensive income, except for losses on impairment in value, which are of a nature other than temporary.

(c) Trading securities - purchased securities held for sale in the near period or securities, which the Bank has chosen to measure at fair value through the statement of profit and loss under the fair value alternative, except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. unrealized profits or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(d) Shares not for trading

- Shares, for which available fair value exists, are stated in the balance sheet at their fair value at the reporting date. Unrealized and realized profits or losses on adjustment to fair value are stated in the statement of profit and loss;
- Shares, for which available fair value does not exist, are stated in the balance sheet at cost, net of impairment in value with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of the same issuer. Unrealized and realized profits and losses on adjustment to changes in observable prices, as stated, are recorded in the statement of profit and loss.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the statement of profit and loss.

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, as to whether the decline in the fair value of bonds classified to the available-for-sale portfolio or to the held-to-maturity portfolio is of a nature other than temporary. And for which no fair value is available, which are not measured according to fair value, a qualitative test is performed regarding the need for a provision for impairment. In case the qualitative estimate indicates impairment in value of the investment in shares, then impairment is recognized in the statement of profit and loss in an amount equal to the difference between the fair value of the investment and its book value.

The review is based on the following considerations:

- In the case of bonds –
  - The ratio of loss to depreciated cost, as of balance sheet date and examination date;
  - Duration of the period in which the fair value of the bond is lower than its cost;
  - The rate of yield to redemption in the case of bonds;
  - The credit rating of the bond, including changes in its rating;

1. Significant Accounting Policies (continued)

  - Comparison with a similar bond or with the average margin of bonds having similar terms in the market and in the sector and with historical fluctuations embedded in the fair value of the bonds, and following changes in value subsequently to balance sheet date.
  - Events of default in the payment of interest and/or of principal in accordance with the terms of the bond, actions taken by the Trustee/bondholders
  - Forecast of changes in the expected cash flow from the bond;
  - Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;
  - The intent and ability of the Bank and its relevant subsidiary to continue holding the securities until such time that the expected recovery of the fair value of the securities occurs or until redemption thereof;
  - Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates.
  - Analysis of changes in the financial condition of the debtors backing asset-backed bonds, as well as reference to changes in quality of credit reinforcements.
- In the case of shares:
  - Events of reduction due to the distribution of dividends or its cancellation;
  - Significant deterioration in profitability, in credit rating, or in the business forecasts of the corporation;
  - Significant negative change in the economic, technological or regulatory environment of the corporation;
  - Significant negative change in the geographical market terms and/or the industry of the corporation;
  - The price for an identical or similar share is an amount lower than the book value of the investment;
  - Factors that raise significant doubt as to the ability of the corporation to continue operations as a going concern.

The Bank recognizes impairment of a nature other than temporary.

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.
  "Significantly lower" –
  In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;
  In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;
  Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization;
- Securities which the Bank intends to sell until date of publication of the financial statements; and/or which the Bank intends to sell within a short time following the date of publication of the financial statements; and/or it is more likely than not that the Bank would be required to sell the securities prior to the recovery of their cost.
- An intention or demand for the partial sale of a security would not in itself require recognition of a loss on impairment with respect to that part of the security not sold and examination of impairment would be required in accordance with the abovementioned considerations.
  Notwithstanding the above, the impairment respecting that part of the security that is not intended for sale is subject to an examination of the other events detailed above;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least 3 notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase.

1. Significant Accounting Policies (continued)

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of profit and loss when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the statement of profit and loss (the new cost base).

6. **Derivative financial instruments and hedge transactions.** The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.

   Hedge of fair value - The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

   Hedge of cash flows - The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the change in the fair value of a derivative designated to hedge a cash flow risk, in respect of components included in the hedge effectiveness assessment, is reported as a component of "other comprehensive income", and thereafter, in the period in which cash flows have an effect on the statement of profit and loss, it is reclassified to the statement of profit and loss.

   For further details, see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the price that would have been received on a sale of an asset or the price that would have been paid upon the transfer of a liability, in an ordinary transaction between participants in the market at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, 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 Bank.

   Sub-Topic 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 or liabilities, to which the Bank has access at date of measurement;
   - Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
   - Level 3 inputs: unobservable inputs for assets or liabilities.

   Securities. The fair value of trading securities, available-for-sale bonds and equity securities the fair value of which is readily available is stated on the basis of market prices quoted on a principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price at the most beneficial market. In such cases, the Bank’s fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted in respect of the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is unavailable, 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 and such like).

   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 at the most beneficial market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

   Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable 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 risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

1. Significant Accounting Policies (continued)

Evaluation of credit risk and nonperformance risk. The Standard (ASC 820) requires to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by the Bank and measured according to fair value. Nonperformance risk includes the credit risk of the Bank but is not limited to that risk only.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. Offsetting assets and liabilities. The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the Bank and the counterparty owe to one another determinable amounts.

When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank's right of set-off with respect to said liabilities.

The Bank does not offset the exposures in respect of derivative instruments in the balance sheet.

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. Transfers and services relating to financial assets and settlement of liabilities. The Bank applies the measurement and disclosure rules determined in accordance with Topic 860 of the Codification, for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of certain financial assets shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset 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) each acceptor has the right pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor does not maintain effective control of the transferred financial assets.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights, in addition to the conditions noted above.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. The differences between the amount of consideration received and the amount of the disposed assets are recognized in the statement of profit and loss. Accordingly, where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a secured burrowing with pledge of collateral. The Bank continues to record the transferred financial assets in the balance sheet, with no change in their measurement.

Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under resale agreements terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the item "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the item "Securities loaned or sold under repurchase agreements". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the item "Securities borrowed or purchased under resale agreements".

1. Significant Accounting Policies (continued)

10. Fixed assets (buildings and equipment)

    Recognition and measurement. Fixed asset items are measured at cost less depreciation and accumulated losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset, necessary costs involved in bringing the asset to the condition and location required for the asset to operate in accordance with its designated use.

    The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see item 1 D sub item 12 below.

    Depreciation. An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by Management.

    Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items, since this system reflects in the best manner, the forecasted consumption format of the future economic benefits embedded in the asset. Assets leased by way of a financial lease are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not amortized.

    Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined when events or changes in circumstances indicate that the present assessments are no longer appropriate, and are adjusted where required

    For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. Leases. Leases, including the lease of land from the Israel Land Administration or from other third parties in respect of which the Group essentially bears all risk and yield pertaining to the asset, are classified as financial leases. Upon initial recognition, the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value or the present value of the future minimum lease fees. Future payments to the Israel Land Administration in respect of the exercise of an option for extension of the lease period are not recognized as part of the asset and the related liability, since they constitute conditional lease fees derived from the fair value of the land at date of the future renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accepted accounting policy in respect of such an asset.

    All other leases are classified as operational leases, and the leased assets are not recognized in the balance sheet of the Group. The Bank recognizes lease payments in respect of operating leases as an expense in the statement of profit and loss, on the straight-line basis over the period of the lease, including the option period, where on date of signing the lease it is reasonably certain that the option would be exercised.

    Where the lease includes components of land and buildings, the Bank assesses the classification of each component separately as an operating lease or a financial lease, in accordance with the classification instructions of IAS 17. In determining whether the land component comprises an operating lease or a financial lease, the Bank takes into consideration that normally land has an indeterminate economic lifespan.

12. Intangible assets

    Goodwill. Goodwill is measured at cost less accumulated impairment losses.

    Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

    Capitalization of software costs for internal use. The Bank capitalizes costs related to the development of software for internal use only when: (1) the first stage of the project has been completed; and (2) Management has approved and has committed to, directly or indirectly, finance the software development project, and that it is expected that the project would be completed. The Bank capitalizes the following costs: direct cost of materials and services consumed, payroll cost of workers directly engaged in the development work or in obtaining the software. Other costs in respect of the development operations and costs incurred in the first stage of the project are recognized in profit and loss as incurred.

    Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

    Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

    Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs, as follows:

1. Significant Accounting Policies (continued)

- A minimum materiality level of between NIS 450 thousand and NIS 600 thousand, shall be determined for each software development project, in respect of which software development costs are capitalized. Any software development project, the total cost of which is lower than the determined materiality level, shall be recognized as an expense in the statement of income (the materiality thresholds determined by the Bank: minimum costs per project – NIS 600 thousand, minimum improvements and upgrading costs – NIS 450 thousand);
- The period of amortization of software development costs shall not exceed five years;
- Capitalization coefficients of lower that 1, shall be determined for hours worked, taking into consideration the potential for deviation in computing the hours worked and the lack of economic efficiency;
- The grade of employees whose employment costs are capitalized to assets shall be restricted, so that the uppermost grade would be that of a manager, demonstrably occupied for most of his time in actual development, is responsible for a small number of employees, and it is possible to accurately measure the number of hours actually invested by him in each development project;
- Costs, which are not attributed to a project according to specific reported hours, where the employee declares, on the basis of a daily report, that the costs were specifically invested in the project, shall be recognized as an expense.

13. Impairment of non-financial assets

Recognition of loss on impairment. Nonfinancial assets held for use are subject to review for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount is not recoverable if it exceeds the amount of the undiscounted cash flows expected to be derived from use of the asset and its sale. Loss on impairment is measured as the amount by which the carrying amount of the asset (group of assets) exceeds its fair value.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;
(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;
(3) A material change in the software was made or will be made in the future;
(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;
(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, the Bank examines impairment in accordance with the rules of ASC 360.

14. Non-current assets and disposal groups held for sale. The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount is settled primarily through a sale and not by way of continued use, in a period in which all the following terms are fulfilled: (1) Management is committed to the planning of a sale of the asset (or the disposal group); (2) the asset (or the disposal group) is available for immediate sale in its present condition; (3) an active plan has been initiated to locate a buyer and other actions have been taken to complete the planning to sell the asset; (4) the sale of the asset (or the disposal group) is probable and the transfer of the asset (or the disposal group) is expected to be classified as a sale completed within one year; (5) the asset (or the disposal group) is being actively marketed for sale at a price reasonable in relation to its present fair value; (6) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Bank measures the held for sale assets (or the disposal group) at the lower of the carrying amount or the fair value less costs to sell. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

An impairment loss recognized at the time of the initial classification of an asset (or a disposal group) as held for sale, as well as subsequent remeasurement profits or losses are carried to profit or loss. Profits from an increase in value are recognized up to the cumulative amounts of the impairment losses that were recognized from the time of the asset (or the disposal group) being classified as held for sale.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, remuneration increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. As a general rule, the actuarial estimates are made once a year, unless material changes occur in the actuarial assumptions in the interim period, which materially impact the actuarial liabilities. The Bank has decided to perform a quarterly actuarial assessment of the severance pay liability;

1. Significant Accounting Policies (continued)

- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined in accordance with the rules detailed in item 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks with respect to internal control over the financial reporting process in the matter of employee rights, including with respect to examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

15.2 Post retirement benefits – defined deposits plans

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, defines how deposits to the account of the employee should be determined instead of determining the amount of the benefits that the employee would receive. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

15.3 Other long-term benefits to active employees: long-service (jubilee) awards

- The liability accrues over the period entitling to the benefit;
- For the purpose of computing the liability, the rates of discount and actuarial assumptions are taken into consideration;
- The whole cost component of the benefit for the period, including actuarial profits and losses, are recognized immediately in the statement of profit and loss.

15.4 Absence from work entitling compensation – vacation and sick leave

- The liability in respect of vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.5 In accordance with instructions of the Supervisor of Banks, the discount rates are determined in accordance with the rates of return to maturity, according to the maturity periods of Israeli government bonds at date of reporting, with the addition of an average margin of corporate bonds rated "AA" (international) and above at date of reporting. For practical reasons, the spread has been determined in accordance with the difference between the rates of return to maturity, according to maturity periods, on U.S. corporate bonds rated "AA" and higher, and the rates of return to maturity, for the same maturity periods, on U.S. government Bonds, and everything at date of reporting.

15.6 The accounting treatment of actuarial profits/losses recognized in other comprehensive income due to changes in the discount rates:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined in accordance with the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the rules, as stated above (hereinafter: "the loss"), was included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, are recognized in accumulated other comprehensive income, and reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, are amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan;
- Other actuarial profits and losses (which are not the result of changes in the rate of discount) as at January 1, 2013, and for periods thereafter, are included in accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases.

15.7 The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management (see hereunder).

The limitations determined by the Management, which were implemented in the financial statements, are as follows:

- The minimum age for retirement under preferred terms is 50;
- The creation of a special fund for exceptional retirement cases;

1. Significant Accounting Policies (continued)

- In the years 2017-2021, the retirements vector will stand at 0.25%, in the years 2022-2027, it will stand at 2% and from 2028 and thereafter in accordance with research conducted by the actuary.

16. **Contingent liabilities.** The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard ASC 450 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".
In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.
Claims have been classified according to the probability range for a risk exposure materializing, as follows:
1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.
The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".
According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.
The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.
It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.
The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made may differ from assessment conducted prior to filing of the claim.

17. **Guarantees.** Guarantees are contingent contracts that require the guarantor to make payments to the guaranteed party on the occurrence of the conditions that require the realization of the guarantee. A liability with respect to a guarantee is recognized in the books in the amount of its fair value, as assessed based on commission fees received, even if it is not expected that the payments will be made in the future. In instances where, at the time of the initial recognition, the Bank was required to recognize a provision for a loss contingency with respect to the guarantee, in accordance with the provisions of Topic 450 of the Codification, the liability with respect to the guarantee is measured at the time of the initial recognition at the higher of the fair value and the amount of the provision in accordance with the provisions of Topic 450 of the Codification.
The liability is subtracted from the books at the time when the Bank is released from the risk, in accordance with the nature of the guarantee, usually at the time of settling the liability. When the guarantee is measured at the time of its initial recognition in accordance with the provisions of Topic 450 of the Codification, its subsequent measurement is also performed in accordance with these provisions.

18. **Income tax expense.** The Bank's financial statements include current taxes and deferred taxes. The provision for taxes on income of the Bank and of its consolidated subsidiaries comprising financial institutions for VAT purposes, include profit tax levied on income under the Value Added Tax Act. VAT levied on payroll of financial institutions is included in the statement of profit and loss in the item "Salaries and related expenses".

1. Significant Accounting Policies (continued)

The Bank allocates the tax expense or the tax benefits on income to continuing operations to other comprehensive income and to items directly recognized in equity.

The Bank recognizes differed tax liabilities in respect of all temporary differences chargeable to tax, except for the following temporary differences: undistributed profits of a domestic subsidiary which in substance are for an indefinite period of time; an excess of the amount for purposes of financial reporting above the tax base of an investment in a foreign subsidiary, which in substance are for an indefinite period of time; differences related to goodwill (or part thereof) for which goodwill amortization is not deductible for tax purposes; differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all temporary differences available for deduction as well as in respect of carry forward losses, and concurrently recognizes a valuation allowance in respect of that amount included in the asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assessed by the amount of tax benefits that are not expected to be realized based on available evidence – both the positive evidence supporting the recognition of a deferred tax assets and the negative evidence supporting the creation of a valuation allowance in respect of the 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 by 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 or expenses in respect of taxes on income to the item "Taxes on income". Penalties payable to the tax authorities are also classified by the Bank to the item "Taxes on income".

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Netting of deferred tax assets and liabilities. The Bank nets all deferred tax liabilities and tax assets, as well as all related valuation allowances in respect of a certain taxable component and within the boundaries of a certain tax jurisdiction area.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

19. **Earnings per share.** The Bank presents basic earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment in respect of the effect of all potentially diluting shares, including share option warrants.

20. **Operating segments reporting**

Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements in accordance with Management's approach, when these are materially different from the regulatory operating segments.

Operating Segments according to Management's approach. In addition to the uniform reporting according to regulatory operating segments, the Reporting to the Public Directives require disclosure of operating segments in accordance with Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

1. Significant Accounting Policies (continued)

An operating segment defined in accordance with Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for the purpose of making decisions regarding the allocation of resources and evaluation of its performance; and that separate financial information exists in respect thereof.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the item "Non-allocated amounts and adjustments".

21. **Amortization of deferred expenses.** Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

22. **Debtors and creditors regarding credit card activity.** At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

    Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.

23. **Issuance agreements with customer clubs.** The issuance agreements of ICC with different customer clubs regularize, inter alia, the manner of distribution of income between the parties, as well as aspects relating to expenses, including marketing and advertising budgets provided by the parties and the distribution of costs.

    With respect to engagements of ICC with customer clubs, the income of ICC in respect of the cross-commission on transactions made by use of the club charge cards and interest income on transactions made with these cards, are included in the income in the consolidated financial statements (in the item "income from credit card commission" and in the item "net interest income" respectively). Amounts to which the customer clubs are entitled as well as the share of ICC in expenses are included in the item "other expenses". Furthermore, certain of the agreements of ICC with customer clubs include an award component depending on reaching certain milestones, in respect of which, ICC assesses in each period the entitlement to such award, and accordingly recognizes an expense in the financial statements (which is spread over the relevant period).

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

(a) **Allowances for current expected credit losses (CECL).** On July 4, 2019, the Supervisor of Banks published a draft regarding "application of U.S. GAAP with respect to expected credit losses", which includes the integration of the new rules in the public reporting instructions, deferring the initial date of application of the new rules to January 1, 2022, and the parallel operation as from January 1, 2021. Furthermore, the Supervisor of Banks published a draft "FAQ file in the matter of application of the new rules regarding expected credit losses", which is intended to assist banking corporations in the process of preparation for the implementation of the new rules.

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

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

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

The provisions of the circular apply as from January 1, 2020, and thereafter. The Bank decided to adopt the alternative transitional method for the adoption of the leasing Standard, determined in Amendment No. 2018-11 to the Codification, according to which, the initial implementation would be on the date of adoption and not as from the beginning of the earliest period presented, with the adjustment of the cumulative effect on the opening balance of retained earnings during the adoption period.

The Bank estimates that implementation of the standard is not expected to have a material effect on the business results and on the risk assets (the growth in risk assets is estimated at approx. NIS 800 million).

It is noted that the effective date for the United States has been deferred to January 1, 2021 (for non-public companies, the initial date of application has been deferred to the annual report for 2021 and to the interim reports during 2022). Accordingly, the implementation of the Standard by IDB New York is also deferred. The effect of the implementation of the Standard is not expected to be material (the growth in risk assets is estimated at approx. US$128 million).

1. Significant Accounting Policies (continued)

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

2. Interest Income and Expenses

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
A. Interest Income[2]						
Credit to the public	6,752	6,324	5,565	3,729	3,578	3,175
Credit to the Governments	92	63	28	92	63	28
Deposits with the Bank of Israel and cash	42	24	28	25	13	16
Deposits with Banks	49	28	30	64	39	31
Bonds[1]	615	594	542	347	303	271
Other assets	17	20	20	-	-	-
Total interest income	**7,567**	**7,053**	**6,213**	**4,257**	**3,996**	**3,521**
B. Interest Expenses[2]						
Deposits from the public	(1,186)	(941)	(643)	(769)	(666)	(538)
Deposits from the Government	(3)	(3)	(3)	-	-	-
Deposits from banks	(71)	(52)	(33)	(9)	(5)	(5)
Securities loaned or sold under repurchase agreements	(21)	(96)	(127)	-	-	-
Bonds and subordinated debt notes	(389)	(433)	(428)	(205)	(234)	(217)
Other liabilities	(4)	(2)	(4)	(2)	(2)	(4)
Total interest expenses	**(1,674)**	**(1,527)**	**(1,238)**	**(985)**	**(907)**	**(764)**
Interest Income, Net	**5,893**	**5,526**	**4,975**	**3,272**	**3,089**	**2,757**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:						
Interest Income[3]	(2)	(6)	(11)	(3)	(6)	(11)
Interest expenses[3]	1	-	-	-	-	-
D. Accrual basis, interest income from bonds:						
Held-to-maturity	128	173	178	82	107	103
Available-for-sale	463	386	340	243	163	146
Trading	24	35	24	22	33	22
Total included in interest income	615	594	542	347	303	271

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	44	47	44	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	157	170	157	-	-	-

(2) Including the impact of hedge relations.

(3) Details of the effect of hedge derivative instruments on subsection A+B.

3. Non-Interest Financing Income

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
A. Non-interest financing income (expenses) from operations not for trading purposes						
From operations in derivative instruments						
Net income (expenses) in respect of derivative instruments[4]	(1,103)	[10]981	[10](1,016)	(1,017)	[10]928	[10](965)
Total from operations in derivative instruments	(1,103)	981	(1,016)	(1,017)	928	(965)
From investments in bonds:						
Gains on sale of available-for-sale bonds[3]	165	59	180	98	48	165
Losses on sale of available-for-sale bonds[3]	-	(13)	(20)	-	(2)	(4)
Provision for impairment of available-for-sale bonds	-	(8)	-	-	(7)	-
Total from investments in bonds	165	38	160	98	39	161
Net exchange rate differences	1,300	(900)	1,107	1,238	(907)	1,079
Net profit (losses) from investments in shares:						
Gains on sale from non trading shares[9]	85	109	211	-	18	1
Losses on sale from non trading shares[9]	-	(1)	(2)	-	-	-
Provision for impairment of non trading shares[9]	(31)	(6)	(11)	-	(1)	(2)
Dividends from non trading shares [9]	12	11	24	1	1	1
Unrealized profits and losses[8]	39	-	-	38	-	-
Profit on sale of shares and activities of affiliated companies	13	1	8	13	1	3
Total from investment in shares	118	114	230	52	19	3
Net profit in respect of loans sold[7]	7	6	20	7	6	19
Total non-interest financing income from operations not for trading purposes	**487**	**239**	**501**	**378**	**85**	**297**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:						
Net income (expenses) in respect of non trading derivative instruments	257	[10]284	[10]112	198	[10]254	[10]91
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	(7)	70	(21)	(11)	70	(21)
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	5	(7)	3	1	(6)	4
Total from trading operations[6]	**255**	**347**	**94**	**188**	**318**	**74**
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:						
Interest rate exposure	(5)	60	15	(58)	44	6
Foreign currency exposure	255	[10]294	[10]60	245	[10]281	[10]50
Share exposure	5	(7)	19	1	(7)	18
Total according to risk exposure	255	347	94	188	318	74
Total non-interest financing income	**742**	**586**	**595**	**566**	**403**	**371**

Footnotes:

(1) Of which, a part of the profit (loss) relating to trading bonds that are still on hand at balance sheet date	8	(7)	1	7	(2)	2
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	1	(6)	(2)	1	(5)	(2)
(3) Reclassified from accumulated other comprehensive income, see Note 10:						
Of which, profit , from investments in bonds, net	161	38	160	95	39	161
Of which, from investment in shares	[9]-	(1)	1	[9]-	(1)	1

(4) Excluding the impact of hedge relations.

(5) Including exchange rate differences from trading operations.

(6) For interest income on investments in trading bonds, see Note 2, above.

(7) For details , see Note 31.

(8) Including profits and losses on measurement at fair value of shares with readily determinable fair value, as well as upward or downward adjustments of shares without readily determinable fair value.

(9) In 2017 and 2018 - available-for-sale shares .

(10) Reclassified – classification of exchange differences in respect of derivatives.

4. Commissions

A. Composition

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
Account Management fees	470	480	483	285	295	301
Credit cards	1,406	1,267	1,119	157	157	149
Operations in securities and in certain derivative instruments	326	336	336	206	226	203
Commissions from the distribution of financial products	153	149	142	136	136	130
Handling credit	182	177	154	138	135	113
Conversion differences	133	136	137	102	105	107
Foreign trade services	56	58	52	45	48	41
Net income from credit portfolio services	5	6	7	5	6	7
Commissions on financing activities	163	157	157	118	105	101
Other commissions	78	85	89	32	33	41
Total fees	**2,972**	**2,851**	**2,676**	**1,224**	**1,246**	**1,193**

4. Commissions

B. Income from contracts with customers

Following is the distribution of income from commissions according to regulatory segments of operation

	consolidated											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
	2019											
Account Management fees	207	2	188	18	22	-	-	437	11	22	33	470
Credit cards	1,108	-	150	34	114	-	-	1,406	-	-	-	1,406
Operations in securities and in certain derivative instruments	103	38	55	8	46	6	36	292	34	-	34	326
Commissions from the distribution of financial products	111	21	20	1	-	-	-	153	-	-	-	153
Handling credit	9	1	32	16	84	-	15	157	2	23	25	182
Conversion differences	38	6	76	10	3	-	-	133	-	-	-	133
Foreign trade services	1	-	24	12	9	-	10	56	-	-	-	56
Net income from credit portfolio services	5	-	1	(1)	-	-	-	5	-	-	-	5
Commissions on financing activities	5	-	35	27	80	-	2	149	-	14	14	163
Other commissions	15	-	9	2	12	-	-	38	-	40	40	78
Total fees	**1,602**	**68**	**590**	**127**	**370**	**6**	**63**	**2,826**	**47**	**99**	**146**	**2,972**
	2018											
Account Management fees	209	4	195	18	21	1	-	448	11	21	32	480
Credit cards	1,027	-	130	28	82	-	-	1,267	-	-	-	1,267
Operations in securities and in certain derivative instruments	106	36	55	9	58	11	29	304	32	-	32	336
Commissions from the distribution of financial products	102	18	21	1	7	-	-	149	-	-	-	149
Handling credit	10	5	29	16	84	-	11	155	1	21	22	177
Conversion differences	39	7	76	10	4	-	-	136	-	-	-	136
Foreign trade services	-	-	23	11	11	-	13	58	-	-	-	58
Net income from credit portfolio services	5	-	-	1	-	-	-	6	-	-	-	6
Commissions on financing activities	6	-	31	25	76	-	5	143	-	14	14	157
Other commissions	25	-	7	-	12	-	-	44	-	41	41	85
Total fees	**1,529**	**70**	**567**	**119**	**355**	**12**	**58**	**2,710**	**44**	**97**	**141**	**2,851**

5. Other Income

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	4	4	5
Capital gain on sale of buildings and equipment	42	46	72	34	46	68
Other income	15	11	15	70	65	58
Total other income	**57**	**57**	**87**	**108**	**115**	**131**

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
Salaries	2,361	2,382	2,259	1,370	1,377	1,372
Other related expenses including further education fund, vacation and sick leave	122	128	123	48	54	52
Long-term benefits	16	16	17	16	16	17
National Insurance and payroll taxes	514	525	500	378	377	371
Pension expenses (including severance pay and provident fund contributions)[(1)]:						
Defined Benefits - Cost of service	78	92	81	42	52	51
Defined deposits	201	189	181	134	130	126
Other post-retirement benefits and non-pension post retirement benefits - Cost of service [(1)]	4	6	6	3	5	5
Special benefits in respect of dismissal	6	6	-	-	-	-
Expenses regarding other employee benefits	41	41	37	4	4	4
Total salaries and related expenses	**3,343**	**3,385**	**3,204**	**1,995**	**2,015**	**1,998**
Of which: overseas salaries and related expenses	405	386	340	-	-	-

Footnote:
(1) See Note 23.

7. Other Expenses

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	In NIS millions					
Expenses in respect of pension (including contributions for severance pay and provident funds), defined benefit (excluding cost of service)	88	81	77	65	61	58
Other post employment benefits and post retirement benefits that do not comprise pension (excluding cost of service)	17	28	30	15	25	28
Long-term benefits (excluding cost of service)	46	(14)	23	46	(14)	23
Reductions, settlements - defined benefit	58	88	32	46	88	32
Reductions, settlements - other post employment benefits and post retirement benefits that do not comprise pension	-	(1)	-	-	-	-
Marketing and advertising	256	260	191	70	55	56
Communications	116	119	117	48	53	58
Computer services	184	180	131	91	89	50
Office expenses	28	28	28	15	14	17
Insurance	21	28	31	7	6	6
Professional services	186	186	160	91	89	82
Directors' fees	15	14	14	7	5	6
Instruction and training	11	14	12	7	9	9
Fees	417	349	283	30	30	28
Other	415	364	317	187	152	133
Total other expenses	**1,858**	**1,724**	**1,446**	**725**	**662**	**586**

8. Provisions for Taxes on Profit

A. Composition

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
Taxes for current year	1,073	844	852	602	467	468
Taxes for previous years	(65)	(42)	(14)	(56)	(47)	(19)
Total current taxes	**1,008**	**802**	**838**	**546**	**420**	**449**
Addition (deduction):						
Deferred taxes for current year	(139)	(75)	(114)	(118)	(67)	(159)
Deferred taxes for previous years	63	62	23	64	62	20
Total deferred taxes[(1)]	**(76)**	**(13)**	**(91)**	**(54)**	**(5)**	**(139)**
Total provision for taxes on profit	**932**	**789**	**747**	**492**	**415**	**310**
Of which: tax provision abroad	153	138	141	-	-	-

Footnote:

(1) Composition of deferred tax expense (income):

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
Deferred tax income, before the effect of the following items:	(76)	(13)	(149)	(54)	(5)	(142)
Effect of changes in tax laws	-	-	58	-	-	3
Total deferred taxes	**(76)**	**(13)**	**(91)**	**(54)**	**(5)**	**(139)**
The above table does not include the tax effect of certain items that are recognized directly in capital in each period:						
The total tax expense (income) in respect of items recognized in other comprehensive income	196	(58)	29	116	(54)	45

B. Reconciliation between the theoretical tax which would apply had the profit been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on profit as charged in the statement of profit and loss:

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
Profit before taxes	2,675	2,332	2,065	1,398	1,178	884
Statutory tax rate on banks in Israel	34.19%	34.19%	35.04%	34.19%	34.19%	35.04%
Income tax at the statutory tax rate	914	797	724	478	403	310
Income tax (tax savings) on:						
Income of foreign subsidiaries	11	(22)	(22)	-	-	-
Income exempt from tax or taxed at preferred rates	(5)	(6)	(8)	(1)	(2)	(3)
Adjustment differences on depreciation and capital gains	(2)	(9)	(9)	(1)	(8)	(7)
Other non-deductible expenses	13	11	9	10	8	6
Additional amounts payable with respect to problematic debts	15	27	14	10	23	10
Taxes for prior years	(10)	3	(10)	4	-	(16)
Income of Israeli subsidiaries	3	(3)	(1)	(2)	(1)	(1)
Change in the balance of deferred taxes resulting from the change in tax rates	-	-	58	-	-	3
Change in the balance of the provision for deferred tax asset	-	1	(13)	-	-	1
Net interest expense (income) for income tax	(7)	(10)	5	(6)	(8)	7
Total provision for taxes on profit	**932**	**789**	**747**	**492**	**415**	**310**

8. Provisions for Taxes on Profit (continued)

C. (1) Agreed final income tax assessments have been received by the Bank for the tax years up to and including 2015.

(2) During the first quarter of 2018, the Bank was issued with agreed withholding tax assessments for years up to and including 2015. Accordingly, excess provisions in the amount of NIS 31 million, before the tax effect, had been reversed, which reduced the payroll expenses for 2018.

(3) The major consolidated subsidiaries in Israel have received final tax assessments, or assessments deemed final until 2014. Final income tax assessments have been received by IDB New York for the years up to and including 2015.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A preliminary hearing was held on March 5, 2020.

E. On February 9, 2000, the Bank's shares in IDB New York were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

ICC estimates the amount of exposure, in respect of which no provision has been recorded in its financial statements, at approx. NIS 140 million.

F. **Deferred tax liabilities not recognized.** As of December 31, 2019, deferred tax liabilities in the amount of approx. NIS 415 million, in respect of temporary differences in the amount of approx. NIS 2,044 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes

1. Consolidated

	Opening balance	Changes recognized in the statement of income	Changes recognized in other comprehensive income	An addition stemming from the merger of Municipal Bank	Closing balance	The average tax
			in NIS millions			in %
			For the year of 2019			
Deferred tax asset						
On provision for credit losses	872	57	(5)	8	932	33.5
On provision for vacation pay, jubilee awards and provision of retirees	478	9	38	1	526	33.8
From excess liabilities in respect of employee benefits over the assets of the plan	443	42	49	6	540	34.0
On securities	47	-	(46)	-	1	34.2
On income tax carry- forward deductions	6	-	-	-	6	23.0
Other	41	4	(3)	23	65	30.7
Balance of deferred tax assets, gross	**1,887**	**112**	**33**	**38**	**2,070**	**33.6**
Provision for deferred tax asset	(5)	-	-	-	(5)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,882**	**112**	**33**	**38**	**2,065**	**33.6**
Deferred tax liability						
On securities	-	17	11	-	28	31.4
Fixed assets and leasing	95	2	-	6	103	27.7
In respect of investment in investee companies	119	9	-	-	128	14.6
Other	5	6	-	17	28	30.0
Balance of deferred tax liabilities, gross	**219**	**34**	**11**	**23**	**287**	**20.0**
Balance of deferred tax assets, net	**1,663**	**78**	**22**	**15**	**1,778**	**31.0**
Of which: in respect of foreign operations	139				80	28.2
			For the year of 2018			
Deferred tax asset						
On provision for credit losses	802	65	5	-	872	33.6
On provision for vacation pay, jubilee awards and provision of retirees	538	(5)	(55)	-	478	33.9
From excess liabilities in respect of employee benefits over the assets of the plan	469	14	(40)	-	443	34.1
On securities	25	(17)	39	-	47	28.6
On income tax carry- forward deductions	4	2	-	-	6	23.0
Other	59	(20)	2	-	41	28.4
Balance of deferred tax assets, gross	**1,897**	**39**	**(49)**	**-**	**1,887**	**33.4**
Provision for deferred tax asset	(4)	(1)	-	-	(5)	23
Balance of deferred tax assets deduction deferred tax liabilities	**1,893**	**38**	**(49)**	**-**	**1,882**	**33.5**
Deferred tax liability						
On securities	2	-	(2)	-	-	-
Fixed assets and leasing	88	6	1	-	95	26.5
In respect of investment in investee companies	100	17	2	-	119	14.6
Other	6	(2)	1	-	5	28.5
Balance of deferred tax liabilities, gross	**196**	**21**	**2**	**-**	**219**	**18.3**
Balance of deferred tax assets, net	**1,697**	**17**	**(51)**	**-**	**1,663**	**30.8**
Of which: in respect of foreign operations	114				139	28.5

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes (continued)

2. The Bank

	Opening balance	Changes recognized in the statement of income	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions				in %
	For the year of 2019				
Deferred tax asset					
On provision for credit losses	541	23	-	564	34.2
On provision for vacation pay, jubilee awards and provision of retirees	438	3	32	473	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	313	35	14	362	34.2
On income tax carry- forward deductions	3	-	-	3	23.0
Other	9	6	-	15	34.2
Balance of deferred tax assets, gross	**1,304**	**67**	**46**	**1,417**	**34.2**
Provision for deferred tax asset	(3)	-	-	(3)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,301**	**67**	**46**	**1,414**	**34.2**
Deferred tax liability					
On securities	-	17	-	17	34.2
Fixed assets and leasing	71	(4)	-	67	27.0
In respect of investment in investee companies	118	9	-	127	14.5
Balance of deferred tax liabilities, gross	**189**	**22**	**-**	**211**	**18.0**
Balance of deferred tax assets, net	**1,112**	**45**	**46**	**1,203**	**30.6**
	For the year of 2018				
On provision for credit losses	510	31	-	541	34.2
On provision for vacation pay, jubilee awards and provision of retirees	496	(10)	(48)	438	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	325	3	(15)	313	34.2
On income tax carry- forward deductions	2	1	-	3	23.0
Other	24	(15)	-	9	34.2
Balance of deferred tax assets, gross	**1,357**	**10**	**(63)**	**1,304**	**34.2**
Provision for deferred tax asset	(3)	-	-	(3)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,354**	**10**	**(63)**	**1,301**	**34.2**
Deferred tax liability					
On securities	1	-	(1)	-	34.2
Fixed assets and leasing	66	5	-	71	25.9
In respect of investment in investee companies	98	18	2	118	14.5
Balance of deferred tax liabilities, gross	**165**	**23**	**1**	**189**	**17.4**
Balance of deferred tax assets, net	**1,189**	**(13)**	**(64)**	**1,112**	**30.4**

8. Provisions for Taxes on Profit (continued)

H. Brought forward losses and credits for tax purposes

	Deferred tax assets	Provision for deferred tax asset	Deferred tax assets, net	Balance of loss[1]
	in NIS millions			
	For the year ended December 31 2019			
Losses for tax purposes:				
The bank	3	3	-	13
Subsidiaries in Israel	2	2	-	10
	For the year ended December 31 2018			
Losses for tax purposes:				
The bank	3	3	-	12
Subsidiaries in Israel	2	2	-	9

Footnote:
(1) The first year of expiry cannot be estimated

I. Tax legislation changes
2017 - The U.S. tax reform. On December 22, 2017, the President of the United States signed a comprehensive tax reform (Tax Cuts and Jobs Act). Among other things within the framework of this Reform, the corporation tax rate will be reduced to 21% in respect of tax years which began from 2018 and thereafter. The lowering of the tax rate has reduced the deferred taxes balance of IDB New York by an amount of US$15.5 million (reduction in profit).

J. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiaries are added to the Bank's chargeable income, so that the Bank complements the tax recorded abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of tax that would have been paid in Israel on such profit based on the tax rate applicable to the Bank in Israel.

9. Earnings Per Share

	For the year ended December 31		
	2019	2018	2017
	in NIS millions		
Basic and diluted earnings Per share			
Total net income, attributed to bank's shareholders	1,702	1,505	1,259
	In Thousand		
Basic earnings Per share:			
Weighted average of shares of NIS 0.1 par value:			
Balance to January 1	1,164,017	1,164,017	1,132,125
In addition - option warrants exercised into shares	-	-	25,102
Weighted average of shares of NIS 0.1 par value, used for the Basic earnings	**1,164,017**	**1,164,017**	**1,157,227**
Basic earnings Per share of NIS 0.1 (in NIS)	**1.46**	**1.29**	**1.09**
Diluted earnings Per share:			
Weighted average of shares of NIS 0.1 par value:			
Weighted average of shares of NIS 0.1 par value, used for the Diluted earnings	1,164,017	1,164,017	1,157,227
In addition - The effect of option warrants	-	-	1,041
Weighted average of shares of NIS 0.1 par value, used for the Diluted earnings	**1,164,017**	**1,164,017**	**1,158,268**
Diluted earnings Per share of NIS 0.1 (in NIS)	**1.46**	**1.29**	**1.09**

10. Accumulated Other Comprehensive Income (Loss)

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

	Other comprehensive income (loss), before attribution to non-controlling rights holders					Other comprehensive (loss) attributed to non-controlling rights holders	Other comprehensive income (loss) attributed to the Bank's shareholders
	Adjustments, net, for presentation of available-for- sale bonds at fair value[3]	Financial statements translation adjustments[1]	Net income (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
	in NIS millions						
Balance at December 31, 2016	**86**	**22**	**1**	**(511)**	**(402)**	**(5)**	**(397)**
Net change during the year	25	(335)	(1)	(11)	(322)	(2)	(320)
Balance at December 31, 2017	**111**	**(313)**	**-**	**(522)**	**(724)**	**(7)**	**(717)**
Net change during the year	[2](268)	252	(1)	[2]173	156	-	156
Balance at December 31, 2018	**(157)**	**(61)**	**(1)**	**(349)**	**(568)**	**(7)**	**(561)**
Net change during the year	531	(283)	3	(175)	76	(4)	80
Balance at December 31, 2019	**374**	**(344)**	**2**	**(524)**	**(492)**	**(11)**	**(481)**

Footnotes:

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

(2) Including the effect of adoption of new standards – see the Statement of Changes in Shareholders' Equity.

(3) In 2017 and 2018 - available-for- sale securities.

10. Accumulated Other Comprehensive Income (Loss) (continued)

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

	2019			2018			2017		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling rights holders:									
Adjustments for presentation of available-for- sale bonds at fair value[5]									
Net unrealized income (loss) from adjustments to fair value	951	(312)	639	(340)	[4]96	(244)	194	(64)	130
Income on available-for-sale bonds reclassified to the statement of income[2]	(161)	53	(108)	(37)	13	(24)	(161)	56	(105)
Net change during the year	**790**	**(259)**	**531**	**(377)**	**109**	**(268)**	**33**	**(8)**	**25**
Translation adjustments									
Financial statements translation adjustments[1]	(283)	-	(283)	252	-	252	(335)	-	(335)
Net change during the year	**(283)**	**-**	**(283)**	**252**	**-**	**252**	**(335)**	**-**	**(335)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	4	(1)	3	(2)	-	(2)	-	-	-
Net loss (income) in respect of cash flow hedging reclassified to the statement of income	-	-	-	1	-	1	(1)	-	(1)
Net change during the year	**4**	**(1)**	**3**	**(1)**	**-**	**(1)**	**(1)**	**-**	**(1)**
Employee benefits									
Net actuarial profit (loss)	(362)	117	(245)	117	[4](38)	79	(102)	35	(67)
loss reclassified to the statement of income[3]	103	(33)	70	142	(48)	94	85	(29)	56
Net change during the year	**(259)**	**84**	**(175)**	**259**	**(86)**	**173**	**(17)**	**6**	**(11)**
Total net change during the year	**252**	**(176)**	**76**	**133**	**23**	**156**	**(320)**	**(2)**	**(322)**
Changes in components of accumulated other comprehensive loss attributed to non-controlling rights holders:									
Total net change during the year	**(6)**	**2**	**(4)**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Changes in components of accumulated other comprehensive income (loss) profit attributed to the Bank's shareholders:									
Total net change during the year	**258**	**(178)**	**80**	**133**	**23**	**156**	**(318)**	**(2)**	**(320)**

Footnotes:

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

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

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

(4) Including the effect of adoption of new standards – see the Statement of Changes in Shareholders' Equity.

(5) In 2017 and 2018 - available-for- sale securities.

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	in NIS millions			
Cash and deposits with central banks	23,336	19,355	17,463	15,795
Deposits with commercial banks	2,708	2,503	2,533	2,704
Total cash and deposits with banks[1]	**26,044**	**21,858**	**19,996**	**18,499**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	25,777	21,549	19,585	18,218

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. Composition of this item - consolidated[1]

	December 31 ,2019				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	4,253	4,253	242	-	4,495
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	322	322	3	4	321
Of others abroad[7]	178	178	6	2	182
Total held-to-maturity bonds	**4,753**	**4,753**	**251**	**6**	**4,998**

	December 31 ,2019				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds					
Of the Israeli Government	17,232	16,856	377	1	17,232
Of foreign governments	1,667	1,655	19	7	1,667
Of Israeli financial institutions	145	144	1	-	145
Of foreign financial institutions	927	911	17	1	927
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,062	7,060	30	28	7,062
Of others in Israel	322	308	14	-	322
Of others abroad[7]	2,207	2,157	52	2	2,207
Total Available- for- sale bonds	**29,562**	**[3]29,091**	**[4]510**	**[4]39**	**[3]29,562**

	December 31 ,2019				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][5]
	In NIS millions				
(3) Investment in not for trading shares	967	935	[6]33	[6]1	967
Of which: shares, the fair value of which is not readily available	839	839	-	-	839
Total not for trading securities	**35,282**	**34,779**			**35,527**

For footnotes see next page.

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31 ,2019				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,299	2,292	8	1	2,299
Of foreign governments	16	16	-	-	16
Of Israeli financial institutions	17	16	1	-	17
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	60	59	1	-	60
Of others in Israel	58	59	2	3	58
Total bonds	2,450	2,442	12	4	2,450
Shares	13	12	2	1	13
Total trading securities	**2,463**	**2,454**	**(6)14**	**(6)5**	**2,463**
Total securities	**37,745**	**37,233**			**37,990**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Including securities sold by overseas consolidated subsidiary under repurchase terms from the available for sale portfolio with a market value of NIS 380 million (approx. US$ 110 million).

(4) Included in "Accumulated other comprehensive income".

(5) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.

(6) Recorded in the statement of profit and loss.

(7) Municipal bonds and bonds of states in the U.S.A.

	December 31, 2018				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	5,118	5,118	89	20	5,187
Of foreign governments	19	19	-	-	19
Of Israeli financial institutions	27	27	-	-	27
Of foreign financial institutions	34	34	-	-	34
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	451	451	1	13	439
Of others abroad[7]	1,073	1,073	15	3	1,085
Total held-to-maturity bonds	**6,722**	**(3)6,722**	**105**	**36**	**6,791**

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31, 2018				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale securities					
Bonds and loans:					
Of the Israeli Government	16,858	16,861	52	55	16,858
Of foreign governments	749	758	-	9	749
Of Israeli financial institutions	61	61	-	-	61
Of foreign financial institutions	1,314	1,336	3	25	1,314
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	6,855	7,010	4	159	6,855
Of others in Israel	148	150	1	3	148
Of others abroad[7]	1,965	1,991	3	29	1,965
Total bonds	27,950	28,167	63	280	(3)27,950
Shares	980	980	3	3	(5)980
Total available-for-sale securities	**28,930**	**29,147**	**(4)66**	**(4)283**	**28,930**

For footnotes see next page.

	December 31, 2018				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,013	2,013	3	3	2,013
Of Israeli financial institutions	19	20	-	1	19
Of foreign financial institutions	8	8	-	-	8
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	77	79	-	2	77
Of others in Israel	62	66	-	4	62
Of others abroad	8	8	-	-	8
Total bonds	2,187	2,194	3	10	2,187
Shares	59	65	-	6	59
Total trading securities	**2,246**	**2,259**	**(6)3**	**(6)16**	**2,246**
Total securities	**37,898**	**38,128**	**174**	**335**	**37,967**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Including securities sold by overseas consolidated subsidiary under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 124 million (approx. US$ 33 million) and from the available-for-sale portfolio with a market value of NIS 1,168 million (approx. US$ 312 million).
(4) Included in "Accumulated other comprehensive income".
(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 923 million.
(6) Recorded in the statement of profit and loss.
(7) Municipal bonds and bonds of states in the U.S.A.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

B. Composition of this item - the Bank[1]

	December 31,2019				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	3,731	3,731	190	-	3,921
Total held-to-maturity bonds	**3,731**	**3,731**	**190**	**-**	**3,921**

	December 31,2019				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds					
Bonds and loans:					
Of the Israeli Government	12,842	12,546	297	1	12,842
Of foreign governments	1,513	1,503	17	7	1,513
Of Israeli financial institutions	106	105	1	-	106
Of foreign financial institutions	858	841	17	-	858
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	587	588	1	2	587
Of others in Israel	313	299	14	-	313
Of others abroad	1,321	1,306	18	3	1,321
Total Available- for- sale bonds	**17,540**	**17,188**	**(3)365**	**(3)13**	**17,540**

	December 31,2019				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	91	63	(5)29	(5)1	91
Of which: shares, the fair value of which is not readily available	2	2	-	-	2
Total not for trading securities	**21,362**	**20,982**	**-**	**-**	**21,552**

	December 31,2019				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	2,223	2,216	8	1	2,223
Of Israeli financial institutions	17	16	1	-	17
Of others in Israel	28	29	2	3	28
Total bonds	2,268	2,261	11	4	2,268
Shares	10	9	1	-	10
Total trading securities	**2,278**	**2,270**	**(5)12**	**(5)4**	**2,278**
Total securities	**23,640**	**23,252**			**23,830**

*Loss amount lower then NIS 1 million.

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Included in "accumulated other comprehensive income".
(4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.
(5) Recorded in the statement of profit and loss.

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2018				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	4,705	4,705	74	11	4,768
Total held-to-maturity bonds	**4,705**	**4,705**	**74**	**11**	**4,768**

	December 31,2018				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	11,513	11,480	45	12	11,513
Of foreign governments	237	239	-	2	237
Of Israeli financial institutions	61	61	-	-	61
Of foreign financial institutions	1,289	1,310	3	24	1,289
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	186	190	-	4	186
Of others in Israel	119	121	1	3	119
Of others abroad	1,522	1,541	3	22	1,522
Total bonds	14,927	14,942	52	67	14,927
Shares	39	40	1	2	[4]39
Total available-for-sale securities	**14,966**	**14,982**	**[3]53**	**[3]69**	**14,966**

	December 31,2018				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	1,630	1,628	3	1	1,630
Of Israeli financial institutions	19	20	-	1	19
Of foreign financial institutions	7	7	-	-	7
Of others in Israel	51	54	-	3	51
Of others abroad	8	8	-	-	8
Total bonds and bills	1,715	1,717	3	5	1,715
Shares	56	61	-	5	56
Total trading securities	**1,771**	**1,778**	**[5]3**	**[5]10**	**1,771**
Total securities	**21,442**	**21,465**	**130**	**90**	**21,505**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Included in "accumulated other comprehensive income".
(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 2 million.
(5) Recorded in the statement of profit and loss.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

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

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

	December 31, 2018							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	1,570	20	-	20	-	-	-	-
Of foreign governments	-	-	-	-	19	(1)-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	25	(1)-	-	-	377	13	-	13
Of others abroad	246	2	-	2	38	1	-	1
Total held-to-maturity bonds	**1,841**	**22**	**-**	**22**	**434**	**14**	**-**	**14**

Footnote:
(1) An amount lower than NIS 1 million.

D. As part of the earlier adoption of the updated U.S. Standard in the matter derivatives and hedge transactions (see Note 1 E 2 above), the subsidiary IDB Bank has reclassified securities from the "held to maturity" portfolio to the "available-for-sale" portfolio, in an amount of US$252 million. Up to and including the financial statements as of December 31, 2018, the Bank continued to present the said securities in the consolidated financial statements as Held-to-maturity securities. As from January 1, 2019, these securities are classified to the available-for-sale portfolio.

12. Securities (continued)

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

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

	December 31, 2018							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available-for-sale securities								
Bonds and loans:								
Of the Israeli Government	6,844	49	-	49	667	6	-	6
Of foreign governments	230	4	-	4	319	5	-	5
Of Israeli financial institutions	47	(1)-	-	-	-	-	-	-
Of foreign financial institutions	1,119	25	-	25	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	1,853	20	-	20	4,436	139	-	139
Of others in Israel	84	3	-	3	-	-	-	-
Of others abroad	1,378	27	-	27	71	2	-	2
Total bonds	11,555	128	-	128	5,493	152	-	152
Shares	31	2	-	2	16	1	-	1
Total available-for-sale securities	**11,586**	**130**	**-**	**130**	**5,509**	**153**	**-**	**153**

Footnote:
(1) An amount lower than NIS 1 million.

12. Securities (continued)

F. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2019, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB New York.

Mortgage-backed Securities - MBS. A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

The Board of Directors of IDB New York has determined restrictions on the volume of investment in mortgage backed bonds (MBS) except for Ginni Mae.

The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

A real estate mortgage investment conduit (REMIC) is a complex pool of mortgage securities created to acquire investment income for its creators and investors. REMICs consist of a fixed pool of mortgages broken apart into tranches, repackaged, and marketed to investors as individual securities.

A stripped MBS, or stripped mortgage-backed security (MBS), is a type of mortgage-backed security that is split into principal-only strips and interest-only strips. Stripped MBS derive their cash flows either from principal payments or interest payments on the underlying mortgages, unlike conventional MBS where cash flows are based on both principal and interest payments.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae Government Sponsored Enterprises (hereinafter: "GNMA"), a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investors have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. Securities (continued)

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

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

Footnote:
(1) For available for sale securities-accumulated other comprehensive income.

12. Securities (continued)

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

	December 31, 2018			
	Amortized cost	Unrealized gains from adjustment to fair value[1]	Unrealized losses from adjustment to fair value[1]	Fair value
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
Mortgage pass-through securities:	1,288	-	22	1,266
of which:				
Securities guaranteed by GNMA	901	-	14	887
Securities issued by FHLMC and FNMA	387	-	8	379
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	5,353	4	132	5,225
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,353	4	132	5,225
Total available-for-sale MBS	**6,641**	**4**	**154**	**6,491**
Held-to-maturity securities				
Mortgage pass-through securities:	32	1	-	33
of which:				
Securities guaranteed by GNMA	21	1	-	22
Securities issued by FHLMC and FNMA	11	-	-	11
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	419	-	13	406
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	419	-	13	406
Total held-to-maturity MBS	**451**	**1**	**13**	**439**
Trading securities				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	79	-	2	77
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	79	-	2	77
Total mortgage-backed trading securities (MBS)	**79**	**-**	**2**	**77**
Total mortgage-backed securities (MBS)	**7,171**	**5**	**169**	**7,007**
2.Total Asset-backed available-for-sale securities (ABS)	369	-	5	364
Of which collaterized bonds CLO	351	-	4	347
Of which Asset-backed bond (ABS)	18	-	1	17
Total mortgage and asset-backed securities	**7,540**	**5**	**174**	**7,371**

Footnote:

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

12. Securities (continued)

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

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

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

Footnote:
(1) Amount lower than NIS 1 million

12. Securities (continued)

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

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

	December 31 ,2018			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-Backed Securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	363	3	437	11
Securities issued by FHLMC and FNMA	145	1	234	7
Total mortgage-backed pass through securities	**508**	**4**	**671**	**18**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,009	11	3,765	121
Total other mortgage-backed securities	**1,009**	**11**	**3,765**	**121**
Total available-for-sale MBS	**1,517**	**15**	**4,436**	**139**
Held-to-maturity securities				
A.Mortgage pass-through securities:				
Securities guaranteed by GNMA	2	(1)-	-	-
Total mortgage-backed pass-through securities	**2**	**-**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	23	(1)-	364	13
Total other mortgage-backed securities	**23**	**-**	**364**	**13**
Total held-to-maturity MBS	**25**	**-**	**364**	**13**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	21	(1)-	38	2
Total mortgage-backed trading securities (MBS)	**21**	**-**	**38**	**2**
Total mortgage-backed securities (MBS)	**1,563**	**15**	**4,838**	**154**
2.Asset-backed available-for-sale Securities (ABS)				
Collaterized bonds CLO	318	4	-	-
Of which Asset-backed bond (ABS)	18	1	-	-
Total asset-backed available-for-sale securities (ABS)	**336**	**5**	**-**	**-**
Total mortgage and asset backed securities	**1,899**	**20**	**4,838**	**154**

Footnote:

(1) Amount lower than NIS 1 million

H. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of approx. NIS 3,601 million (December 31, 2018: NIS 3,488 million). The balance of the said bonds included as of December 31, 2019, unrealized profits in the amount of approx. NIS 81 million (December 31, 2018: approx. NIS 57 million).

I. Most of the unrealized losses as at December 31, 2019 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them pursuant to the investment contracts.

Whereas the Bank and the relevant subsidiaries do not intend to sell securities having an unrealized loss, the Bank and the relevant subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at December 31, 2019.

In 2019, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 31 million (2018: NIS 28 million; 2017: NIS 33 million).

J. **Fair value presentation.** The balances of securities as of December 31, 2019, and December 31, 2018, include securities amounting to NIS 32,153 million and NIS 30,253 million, respectively, that are presented at fair value.

12. Securities (continued)

K. Data regarding impaired bonds - consolidated

	December 31, 2019	December 31, 2018
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	47	79

13. Credit Risk, Credit to the Public and Allowance for Credit Losses

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

It is noted, that Note 31 presents the details included in this Note, as well as an extended discussion thereof.

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

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

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 89,986 million and the allowance in its respect in an amount of NIS 1,060 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million, computed on a group basis, in amount of NIS 130 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	December 31, 2018					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis(1)	75,208	-	539	75,747	5,389	81,136
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)231	32,779	-	33,010	-	33,010
Group - other	(2)28,054	145	30,122	58,321	450	58,771
Total debts*	**103,493**	**32,924**	**30,661**	**167,078**	**5,839**	**172,917**
* Of which:						
Restructured troubled debts	1,094	-	131	1,225	-	1,225
Other Impaired debts	384	-	24	408	-	408
Total balance of impaired debts	**1,478**	**-**	**155**	**1,633**	**-**	**1,633**
Debts in arrears of 90 days or more	58	316	61	435	-	435
Other problematic debts	1,294	24	345	1,663	-	1,663
Total Problematic debts	**2,830**	**340**	**561**	**3,731**	**-**	**3,731**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	1,096	-	64	1,160	-	1,160
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)1	(3)185	-	186	-	186
Group - other	384	2	542	928	1	929
Total allowance for Credit Losses	**1,481**	**187**	**606**	**2,274**	**1**	**2,275**
Of which: in respect of impaired debts	169	-	54	223	-	223

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 79,503 million and the allowance in its respect in an amount of NIS 937 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 235 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million, computed on a group basis, in amount of NIS 116 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2019					
Recorded amount of debts:						
Examined on a specific basis[1]	64,004	-	441	64,445	6,049	70,494
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	214	31,451	-	31,665	-	31,665
Group - other	7,312	-	14,594	21,906	-	21,906
Total debts*	**71,530**	**31,451**	**15,035**	**118,016**	**6,049**	**124,065**
* Of which:						
Restructured troubled debts	639	-	88	727	-	727
Other Impaired debts	488	-	2	490	-	490
Total balance of impaired debts	**1,127**	**-**	**90**	**1,217**	**-**	**1,217**
Debts in arrears of 90 days or more	31	281	34	346	-	346
Other problematic debts	819	-	41	860	-	860
Total Problematic debts	**1,977**	**281**	**165**	**2,423**	**-**	**2,423**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	892	-	62	954	-	954
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]1	[2]180	-	181	-	181
Group - other	102	-	240	342	1	343
Total allowance for Credit Losses	**995**	**180**	**302**	**1,477**	**1**	**1,478**
Of which: in respect of impaired debts	158	-	50	208	-	208

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 69,277 million and the allowance in its respect in an amount of NIS 746 million computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million, computed on a group basis, in amount of NIS 110 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2018					
Recorded amount of debts:						
Examined on a specific basis[1]	60,027	-	275	60,302	6,039	66,341
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	209	27,989	-	28,198	-	28,198
Group - other	7,203	-	14,122	21,325	-	21,325
Total debts*	**67,439**	**27,989**	**14,397**	**109,825**	**6,039**	**115,864**
* Of which:						
Restructured troubled debts	845	-	80	925	-	925
Other Impaired debts	269	-	1	270	-	270
Total balance of impaired debts	**1,114**	**-**	**81**	**1,195**	**-**	**1,195**
Debts in arrears of 90 days or more	34	267	42	343	-	343
Other problematic debts	523	-	56	579	-	579
Total Problematic debts	**1,671**	**267**	**179**	**2,117**	**-**	**2,117**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	821	-	51	872	-	872
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]1	[2]164	-	165	-	165
Group - other	100	-	240	340	1	341
Total allowance for Credit Losses	**922**	**164**	**291**	**1,377**	**1**	**1,378**
Of which: in respect of impaired debts	126	-	43	169	-	169

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 65,146 million and the allowance in its respect in an amount of NIS 703 million computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million, computed on a group basis, in amount of NIS 98 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2016	1,702	168	469	2,339	-	2,339
Credit loss expenses	243	15	315	573	1	574
Accounting write-offs	(761)	(5)	(410)	(1,176)	-	(1,176)
Collection of debts written-off in previous years	401	-	193	594	-	594
Net accounting write-offs	(360)	(5)	(217)	(582)	-	(582)
Financial statements translation adjustments	(25)	-	(1)	(26)	-	(26)
Balance of allowance for credit losses, as at December 31, 2017	**1,560**	**178**	**566**	**2,304**	**1**	**2,305**
Credit loss expenses	178	23	339	540	-	540
Accounting write-offs	(476)	(14)	(446)	(936)	-	(936)
Collection of debts written-off in previous years	324	-	197	521	-	521
Net accounting write-offs	(152)	(14)	(249)	(415)	-	(415)
Financial statements translation adjustments	20	-	1	21	-	21
Balance of allowance for credit losses, as at December 31, 2018	**1,606**	**187**	**657**	**2,450**	**1**	**2,451**
An addition stemming from the merger of Municipal Bank	25	-	-	25	-	25
Credit loss expenses	351	27	312	690	-	690
Accounting write-offs	(386)	(7)	(484)	(877)	-	(877)
Collection of debts written-off in previous years	248	-	233	481	-	481
Net accounting write-offs	(138)	(7)	(251)	(396)	-	(396)
Financial statements translation adjustments	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at December 31, 2019	**1,823**	**207**	**717**	**2,747**	**1**	**2,748**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2017	155	-	38	193	-	193
as at December 31, 2018	125	-	51	176	-	176
as at December 31, 2019	170	-	53	223	-	223

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. Movement in the balance of allowance for credit losses - the Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2016	1,143	151	231	1,525	-	1,525
Credit loss expenses	65	11	181	257	1	258
Accounting write-offs	(537)	(5)	(231)	(773)	-	(773)
Collection of debts written-off in previous years	339	-	101	440	-	440
Net accounting write-offs	(198)	(5)	(130)	(333)	-	(333)
Balance of allowance for credit losses, as at December 31, 2017	**1,010**	**157**	**282**	**1,449**	**1**	**1,450**
Credit loss expenses	115	20	165	300	-	300
Accounting write-offs	(348)	(13)	(243)	(604)	-	(604)
Collection of debts written-off in previous years	253	-	105	358	-	358
Net accounting write-offs	(95)	(13)	(138)	(246)	-	(246)
Balance of allowance for credit losses, as at December 31, 2018	**1,030**	**164**	**309**	**1,503**	**1**	**1,504**
Credit loss expenses	176	23	124	323	-	323
Accounting write-offs	(240)	(7)	(242)	(489)	-	(489)
Collection of debts written-off in previous years	182	-	129	311	-	311
Net accounting write-offs	(58)	(7)	(113)	(178)	-	(178)
Balance of allowance for credit losses, as at December 31, 2019	**1,148**	**180**	**320**	**1,648**	**1**	**1,649**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2017	132	-	15	147	-	147
as at December 31, 2018	108	-	18	126	-	126
as at December 31, 2019	153	-	18	171	-	171

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	in NIS millions			
Credit to Israel government	2,063	2,167	2,063	2,167
Credit to foreign governments	1,452	1,169	1,452	1,169
Total credit granted to Governments	**3,515**	**3,336**	**3,515**	**3,336**

15. Investment in Investee Companies and Details Regarding These Companies

A. Consolidated

	December 31, 2019			December 31, 2018		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis[(1)]	**170**	**-**	**170**	**135**	**-**	**135**
Other investments:						
Shareholders' loans	1	-	1	-	-	-
Total other investments	**1**	**-**	**1**	**-**	**-**	**-**
Total investments	**171**	**-**	**171**	**135**	**-**	**135**
Includes:						
Earnings accumulated since January 1, 1992	42	-	42	69	-	69
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for Employee benefits	-	-	-	(1)	-	(1)
Details Regarding Goodwill:						
Original amount	-	305	305	-	301	301
Book value[(2)]	-	164	164	-	160	160

Footnotes:
(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency (formerly defined as "autonomous units") accumulated from the acquisition date up to December 31, 1991.
(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

15. Investment in Investee Companies and Details Regarding These Companies (continued)

B. The Bank

	December 31, 2019			December 31, 2018		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[1]	33	9,180	9,213	54	8,607	8,661
Other investments:						
Subordinated debt notes and Capital notes	-	1,103	1,103	-	956	956
Shareholders' loans	1	-	1	-	-	-
Total investments	**34**	**10,283**	**10,317**	**54**	**9,563**	**9,617**
Includes:						
Earnings accumulated since January 1, 1992	31	6,823	6,854	53	6,120	6,173
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of bonds available for sale at fair value, net	-	91	91	-	[2](140)	(140)
Financial statements translation adjustments	-	(345)	(345)	-	(62)	(62)
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	2	2	-	(1)	(1)
Adjustment for Employee benefits	1	(131)	(130)	-	(46)	(46)
Transactions with controlling shareholders	-	3	3	-	3	3
Details Regarding Goodwill:						
Original amount	-	282	282	-	282	282
Book value	-	142	142	-	142	142

Footnotes:
(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency (formerly defined as "autonomous units") accumulated from the acquisition date up to December 31, 1991.
(2) 2018 - Available for sale shares.

15. Investment in Investee Companies and Details Regarding These Companies (continued)

The Bank's share of profit or loss of investee companies

	Consolidated			The Bank		
	2019	2018	2017	2019	2018	2017
	In NIS millions					
Bank’s share in profit of investee companies (consolidated - affiliated companies)	14	7	5	884	802	740
Provision for taxes:						
Current taxes	-	5	-	79	42	3
Deferred taxes	(2)	(4)	4	9	18	52
Total provision for taxes	(2)	1	4	88	60	55
Bank’s share in profit net of tax effect of investee companies (consolidated - affiliated companies)	**16**	**6**	**1**	**796**	**742**	**685**

15. Investment in Investee Companies and Details Regarding These Companies (continued)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares: Investment in shares Equity basis[1]	
		2019	2018	2019	2018	2019	2018
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	31	24
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,693	3,521
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	3,057	2,723
Israel Credit Cards Ltd.[4]	Credit card service	[10]71.83	[10]71.83	79.00	79.00	1,099	1,110
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	811	738
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	63	63
Companies held by Israel Discount Bank of New York:							
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	1,362	1,413
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	4,613	4,917
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[7]	Credit card service	100.00	100.00	100.00	100.00	274	249
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	76	103

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 10 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc

(7) For details regarding the holding of a controlling interest in Diners, see Note 36 G below.

(8) For details, see Note 10 A.

(9) Goodwill.

(10) In respect of the period until the date loss of material influence in FIBI.

(11) An addition stemming from the merger of Municipal Bank.

	Of which: excess of cost balance[9]		Other investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	In NIS millions											
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	288	324	16	154	(304)	(146)	-	-
	[11]4	-	346	185	305	239	-	-	(49)	(77)	-	-
	142	142	(55)	(42)	73	50	144	-	(24)	(13)	10	11
	18	18	721	721	63	70	-	-	2	3	96	80
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	33	41	-	1,544	6	97	-	-
	-	-	-	-	53	60	-	1,169	(539)	(173)	-	-
	-	-	-	-	24	30	-	-	-	-	-	-
	-	-	84	84	25	16	53	-	-	-	-	-

F. **Agreement of shareholders of Discount Capital Underwriting Ltd.** At date of consummation of the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting, an agreement between the shareholders of Discount Capital Underwriting, which will regulate the relations between the shareholders of the Company, entered into effect. Within the framework of which were determined, among other things, limitation on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, which may be exercised starting with November 15, 2019. An agreement was signed on February 13, 2020, with one of the minority shareholders ("the shareholder") in Discount Capital Underwriting Ltd. ("the Company"), according to which, inter alia:

- The shareholder shall exercise his PUT option for 10% of the shares of the Company (subsequent to approval of the financial statements of Discount Capital Underwriting as of March 31, 2020);
- The blackout period for the balance of the shares held by him (approx. 21%) shall be extended to December 31, 2021, at the consideration determined by the parties, subject to the right of the shareholder to shorten the blackout period, until December 31, 2020.

16. Buildings and Equipment

A. Composition

	Consolidated				
	Buildings and land [(1)] [(2)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2017	[(2)(3)]2,260	[(2)(3)]839	[(2)(3)]942	[(2)(3)]4,031	8,072
Additions	60	54	59	330	503
Translation adjustments	[(2)(3)]5	[(2)(3)]2	[(2)(3)]2	[(2)(3)]10	19
Disposals	(41)	(29)	(59)	(34)	(163)
Balance as at December 31, 2018	**[(2)(3)]2,284**	**[(2)(3)]866**	**[(2)(3)]944**	**[(2)(3)]4,337**	**8,431**
Additions	109	39	60	393	601
An addition stemming from the merger of Municipal Bank	29	2	-	5	36
Translation adjustments	(6)	(1)	(3)	(12)	(22)
Disposals	(42)	(27)	(78)	(165)	(312)
Balance as at December 31, 2019	**2,374**	**879**	**923**	**4,558**	**8,734**
Depreciation and impairment loss:					
Balance as at December 31, 2017	[(2)(3)]1,148	[(2)(3)]582	[(2)(3)]703	[(2)(3)]3,273	5,706
Depreciation for the year	64	40	87	223	414
Impairment loss	1	-	-	-	1
Translation adjustments	[(2)(3)]3	[(2)(3)]1	[(2)(3)]2	[(2)(3)]8	14
Disposals	(39)	(28)	(47)	(27)	(141)
Balance as at December 31, 2018	**[(2)(3)]1,177**	**[(2)(3)]595**	**[(2)(3)]745**	**[(2)(3)]3,477**	**5,994**
Depreciation for the year	63	41	77	285	466
Reversal of impairment loss	(3)	-	-	-	(3)
Translation adjustments	(4)	(1)	(2)	(9)	(16)
Disposals	(15)	(27)	(78)	(164)	(284)
Balance as at December 31, 2019	**1,218**	**608**	**742**	**3,589**	**6,157**
Carrying amount:					
Balance as at December 31, 2017	**[(2)(3)]1,112**	**[(2)(3)]257**	**[(2)(3)]239**	**[(2)(3)]758**	**2,366**
Balance as at December 31, 2018	**[(2)(3)]1,107**	**[(2)(3)]271**	**[(2)(3)]199**	**[(2)(3)]860**	**2,437**
Balance as at December 31, 2019	**1,156**	**271**	**181**	**969**	**2,577**
Average weighted depreciation rate for year 2018	4.2%	9.6%	21.1%	20.8%	12.1%
Average weighted depreciation rate for year 2019	4.3%	9.4%	21.3%	21.0%	12.5%

Footnotes:

(1)Includes installations and leasehold improvements.

(2) Reclassified – classification from software to the other items.

(3) Reclassified – elimination of the balance of assets fully depreciated in the past.

16. Buildings and Equipment (continued)

A. Composition (continued)

	The Bank				
	Buildings and land[1]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2017	1,659	430	692	2,983	5,764
Additions	39	32	30	181	282
Disposals	(36)	(26)	(45)	(5)	(112)
Balance as at December 31, 2018	**1,662**	**436**	**677**	**3,159**	**5,934**
Additions	59	24	36	228	347
Disposals	(32)	(27)	(48)	(64)	(171)
Balance as at December 31, 2019	**1,689**	**433**	**665**	**3,323**	**6,110**
Depreciation and impairment loss:					
Balance as at December 31, 2017	852	267	501	2,468	4,088
Depreciation for the year	38	26	62	144	270
Impairment loss	1	-	-	-	1
Disposals	(34)	(24)	(33)	(5)	(96)
Balance as at December 31, 2018	**857**	**269**	**530**	**2,607**	**4,263**
Depreciation for the year	37	25	52	189	303
Reversal of impairment loss	(2)	-	-	-	(2)
Disposals	(13)	(27)	(48)	(64)	(152)
Balance as at December 31, 2019	**879**	**267**	**534**	**2,732**	**4,412**
Carrying amount:					
Balance as at December 31, 2017	**807**	**163**	**191**	**515**	**1,676**
Balance as at December 31, 2018	**805**	**167**	**147**	**552**	**1,671**
Balance as at December 31, 2019	**810**	**166**	**131**	**591**	**1,698**
Average weighted depreciation rate for year 2018	3.2%	9.7%	20.0%	20.0%	10.9%
Average weighted depreciation rate for year 2019	3.2%	9.4%	20.0%	20.0%	11.0%

Footnote:
(1) Includes installations and leasehold improvements.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2019-2066.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31			
	2019	2018	2019	2018
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	158	132	47	38
Balance of provision for impairment loss	6	9	6	8
D. Financial leasing rights:				
Balance of non-capitalized leasehold	4	5	3	3
Balance of capitalized leasehold	222	215	62	69
E. Depreciated balance of not yet registered buildings	276	245	166	133
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	3	4	3	4
G. Depreciated balance of buildings and equipment designated for sale [(3)]	8	20	4	15
Impairment loss recognized in the current year	-	1	-	1
Reversal of impairment loss during the year	3	-	2	-
H. The cost of in-house development of computer software:				
The cost of software put into operation	3,629	3,369	3,070	2,897
Accumulated depreciation	(2,956)	(2,765)	(2,545)	(2,415)
Depreciable amount	673	604	525	482
Accumulated costs in respect of software under development	162	131	39	31
Total cost of in-house development of computer software	835	735	564	513
I. Gross value of fully depreciated fixed assets still in use	3,681	3,578	2,742	2,575
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	210	145	159	106
Cost of equipment	19	11	7	10

	for the year ended December 31		
	2019	2018	2017
	in NIS millions		
K. Detail of operating lease contracts[(1)]:			
Recognized operating lease expenses [(2)]			
Consolidated	127	123	129
The Bank	84	81	86

Footnotes:

(1) Details of future non-cancellable lese expenses, see note 26.c.1.

(2) Includes minimum lease payment and contingent rent.

(3) No loss on the sale of buildings and equipment held for sale in expected, in excess of the provisions created therefore.

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[(1)]
	in NIS millions
Cost	
Balance as at December 31, 2018 and 2017	**301**
An addition stemming from the merger of Municipal Bank	4
Balance as at December 31,2019	**305**
Amortization and losses on impairment	
Balance as at December 31,2019 , 2018 and 2017	**141**
Book value	
Balance as at December 31, 2018 and 2017	**160**
Balance as at December 31,2019	**164**

Footnote:

(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an affiliated company, included in the item "investment in affiliated companies").

18. Other Assets

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	In NIS millions			
Net deferred tax assets (see Note 8 G)	1,794	1,679	1,219	1,128
Excess advance tax payments over current provisions	272	181	179	135
Excess assets of the plan over liabilities in respect of employee benefits (see Note 23 B)	-	19	-	-
Issue costs and discount expenses of subordinated capital notes	33	17	38	19
Income receivable	154	159	79	87
Surrender value of life assurance policies owned by a consolidated subsidiary	669	715	-	-
Assets in respect of the "Maof" market operations	14	309	14	309
Gold deposit	464	431	464	431
Other debtors and debit balances	664	538	249	422
Total other assets	**4,064**	**4,048**	**2,242**	**2,531**

19. Deposits from the Public

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

	Consolidated		The Bank	
	December 31			
	2019	2018	2019	2018
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	38,364	34,166	29,334	26,691
Interest bearing	43,493	38,588	39,155	36,476
Total demand deposits	**81,857**	**72,754**	**68,489**	**63,167**
Time deposits	92,816	89,893	77,670	73,233
Total deposits in Israel*	**174,673**	**162,647**	**146,159**	**136,400**
* Of which:				
Private individuals deposits	91,680	90,716	78,041	77,455
Institutional bodies deposits	18,076	13,044	12,278	8,010
Corporations and others deposits	64,917	58,887	55,840	50,935
Outside Israel				
Demand deposits:				
Non-interest bearing	4,391	4,804	-	-
Interest bearing	13,569	11,845	-	-
Total demand deposits	**17,960**	**16,649**	**-**	**-**
Time deposits	8,817	9,620	-	-
Total deposits outside Israel	**26,777**	**26,269**	**-**	**-**
Total deposits from the public	**201,450**	**188,916**	**146,159**	**136,400**

19. Deposits from the Public (continued)

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

	December 31	
	2019	2018
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	74,205	71,912
Over 1 up to 10	53,834	53,005
Over 10 up to 100	31,404	29,719
Over 100 up to 500	19,208	18,976
Over 500	22,799	15,304
Total	**201,450**	**188,916**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	3,575	2,954	347	289
Time deposits	2	4	350	61
Outside Israel				
Commercial banks:				
Deposits on demand	651	1,327	625	1,297
Schedule deposits	1,542	(1)1,407	360	140
Acceptances	128	144	80	93
Central banks:				
Time deposits	521	(1)1,050	-	-
Total deposits from banks	**6,419**	**6,886**	**1,762**	**1,880**

Footnote:

(1) Improvement of the data.

21. Bonds and Subordinated Capital Notes

	Consolidated				The Bank	
	Average maturity[(1)]	Internal rate of return[(1)]	December 31		December 31	
	years	%	2019	2018	2019	2018
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	6.79	2.11	5,596	3,047	1,057	1,138
In Israeli currency, linked to CPI	3.05	3.37	5,569	(5)3,422	870	(5)986
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI[(2)]	2.07	5.75	1,820	(5)1,814	1,820	(5)1,814
Credit-linked notes (CLN):						
In non-linked Israeli currency	0.55	2.70	103	121	103	121
In foreign currency, Euro	1.61	3.88	41	72	41	72
Total bonds and capital notes[(3)(4)]			**13,129**	**8,476**	**3,891**	**4,131**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2019.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 11,550 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2018: NIS 6,851 million)

(4) Of which: NIS 8,590 million in the consolidated, are subordinated capital notes (2018: NIS 6,725 million)

(5) Reclassified - reclassified between the linkage segments.

Issue of Bonds (Series M and Series N). On December 24, 2018, the Bank, through its subsidiary Manpikim Ltd. (hereunder: "Manpikim"), has completed the issue of two new series of bonds carrying a fixed non-linked shekel interest in a total amount of NIS 1,493 million.

Issue of Bonds (Extension of Series M and Series N). On December 10, 2019, the Bank,through Manpikim, has completed the issue of two series of bonds carrying a fixed non-linked shekel interest in a total amount of NIS 2,668 million.

Issuance of deferred debt notes (Series F). On October 29, 2019, the Bank, through Manpikim, completed the process of issuing deferred debt notes (Series F), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of NIS 1,231 million. On January 7, 2020, the Bank (through Manpikim) issued to a classified investor in a private placement, additional subordinate debt notes (Series "F") in the nominal value of NIS 100 million.

Bonds and debt notes issued by Municipal Issuance. Following the merger with Municipal Bank (see Note 26 C 18), bonds and debt notes issued by Municipal Issuance were added, the outstanding balance thereof at December 31, 2019, amounted to NIS 1,558 million (bonds Series "B", "G", "J" and "K", and debt notes Series "N").

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	16	16	16	16
Excess of current tax provisions over advance payments	57	90	-	-
Excess liabilities in respect of employee benefits over assets of the plan (see Note 23 B)	2,737	2,333	2,059	1,821
Deferred income	212	197	133	136
Payables for credit card activity	8,509	7,075	4,029	3,490
Provision for doubtful debts in respect of guarantees	223	176	171	126
Expenses payable	905	793	418	374
Liabilities in respect of "Maof" market operations	14	309	14	309
Liabilities stemming from "Market making" activity	456	475	456	475
Other payables and receivables	1,137	1,133	419	455
Total other liabilities	**14,266**	**12,597**	**7,715**	**7,202**

23. Employee Benefits

A. Following is a description of the main benefits granted to employees of the group

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month's salary for each year of employment, is mainly covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the amounts accumulated in insurance policies and pension funds are not included in the balance sheet since they are not controlled by the Bank or its subsidiaries.

(2) Members of the Bank's Management are entitled to the customary severance payments, while several of whom are entitled also to an "adjustment" bonus of between 4 to 8 months' salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see item D below, in the matter of the approved remuneration policy). The pension liability of foreign subsidiaries, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months' salaries, and in respect of which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

(5) A number of the Bank's employees are entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 1.8% per year in real terms.

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation", according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of tenured employees as from January 1, 2012, shall not be entitled to a "jubilee award".

(6) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Act - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(7) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period.

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees who were engaged as or converted to the status of tenured employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

The wage agreement dated February 21, 2019, reduces the benefits granted to pensioners and to all tenured employees – cancellation of reimbursement of medical expenses and of a daily newspaper.

(8) Several of the companies have adopted employee remuneration plans, according to which the General Managers and/or other employees of these companies are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

(9) "Annuity" type retirement plan. A number of retirees in the period from 2007 to 2011 (31 employees as of December 31, 2019) have chosen the full or combined annuity option, within the framework of which, the capital payment is converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(10) 2011 retirement plan. A part of the retirees within the framework of the 2011 retirement plan (121 employees as of December 31, 2019), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;

23. Employee Benefits (continued)

- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(11) **2014 retirement plan.** A part of the retirees under the 2014 retirement plan (3 employees as of December 31, 2019), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment.

With respect to pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) an insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank.

The terms of the monthly pension are as follows:

- A monthly pension for the life of the retiree since date of retirement, linked to the CPI until the employee reaches sixty years of age, and linked to the terms of the policy after the age of sixty;
- The employee may elect a pension option with or without next of kin;
- The employee may elect a pension option with or without ensuring a minimum pension payment for 240 months, with the addition of the number of months up to the age of sixty (for employees who have not yet reached the age of sixty at retirement date).

The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

(12) **2016 retirement plan.** A part of the retirees under the 2016 retirement plan (23 employees as of December 31, 2019), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment in identical terms to the terms of the 2014 retirement plan.

(13) **2018 retirement plan.** A part of the retirees under the 2018 retirement plan (16 employees as of December 31, 2019), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment in identical terms to the terms of the 2014 and 2016 retirement plans.

(14) In accordance with the plans stated in items 11-13 above, upon the retiree reaching the age of 60, the Bank purchases in insurance coverage for the liability.

(15) IDB New York has a liability for the payment of pensions to its employees, in respect of which it has established a pension fund, in which contributions by the employer were deposited. The annual deposits with the fund were based on calculations made by an independent actuary. During the third quarter of 2016, the Board of Directors of IDB New York amended the pension plan in a way that freezes the accumulated benefits of the employees under the plan as from December 31, 2016.

On September 5, 2018, the Board of Directors of IDB New York decided to terminate the plan with effect as from December 31, 2018. All participants in the plan on that date or prior to it will receive the full amount of benefits accumulated in their favor under the plan as of termination date, except for certain participants. During the reported period, the liability has been finally settled – reduction in the liability for defined benefits against a reduction in the assets of the plan.

In the first quarter of 2019, IDBNY completed the termination of the noncontributory defined benefit pension plan. The plan distributed US$38.1 million to participants who elected a lump sum payment and purchased annuities with a third party insurer for US$19.1 million for those participants who elected the annuity option or deferred their election. This insurer is now responsible for all remaining obligations. In connection with the termination of the plan IDBNY recorded US$3.3 million of expense. With the termination of the plan, there are no longer any plan assets or related obligation at December 31, 2019.

23. Employee Benefits (continued)

B. Details regarding the benefits

	Consolidated		The Bank	
	December 31			
	2019	2018	2019	2018
	in NIS millions			
Severance pay, retirement and pension :				
The liability amount	3,213	3,093	2,330	2,181
Fair value of the plan's assets	1,625	1,815	1,273	1,268
Excess liabilities over the plan's assets	**1,588**	**1,278**	**1,057**	**913**
Excess liabilities of the program included in the item "other liabilities"	**1,588**	**1,297**	**1,057**	**913**
Excess assets of the program included in the item "other assets"	**-**	**19**	**-**	**-**
Amounts included in the other liabilities item:				
Long-service ("jubilee") awards	338	317	336	315
Post retirement benefits to retirees	673	577	579	500
Vacation	130	135	87	93
Illness	8	7	-	-
Total Excess liabilities included in the item "other liabilities" (Note 22)	**2,737**	**2,333**	**2,059**	**1,821**
Of which – in respect of benefits to employees abroad	28	31	-	-
Total Excess assets of the program included in the item "other assets" (Note 18)	**-**	**19**	**-**	**-**
Of which – in respect of benefits to employees abroad	-	18	-	-

C. Defined benefit plan - consolidated

1. Commitment and financing status

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	For the year ended December 31			
	2019	2018	2019	2018
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Commitment in respect of anticipated benefits at the beginning of the year	3,093	3,430	577	734
Cost of service	78	92	4	6
Cost of interest	92	101	22	25
Actuarial loss (profit)	384	(110)	109	(144)
Changes in foreign currency exchange rates	(14)	15	(2)	2
Benefits paid	(244)	(435)	(36)	(46)
Settlements	[2](200)	-	[2](2)	-
An addition stemming from the merger of Municipal Bank	24	-	1	-
Commitment at the end of the year in respect of anticipated benefits	**3,213**	**3,093**	**673**	**577**
Commitment at the end of the year in respect of accumulated benefits[1]	**2,806**	**2,886**	**673**	**577**

Footnotes:
(1) The commitment in respect of a cumulative benefit differs from the commitment in respect of a contractual benefit in that it does not include any assumptions with regard to the future remuneration levels.
(2) During the reported period, the liability has been finally settled – reduction in the liability for defined benefits against a reduction in the assets of the plan. See item A (15) above.

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

1. Commitment and financing status (continued)

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

	For the year ended December 31	
	2019	2018
	Severance pay, retirement and pension payments	
	in NIS millions	
Fair value of the plan's assets at the beginning of the year	1,815	2,034
Actual return on the plan's assets	178	(51)
Changes in foreign currency exchange rates	(16)	12
Deposits by the Bank to the plan	35	63
Benefits paid	(194)	(243)
Settlements	(200)	-
An addition stemming from the merger of Municipal Bank	7	-
Fair value of the plan's assets at the end of the year	**1,625**	**1,815**
Financing status - liability, net, recognized at the end of the year	**(1,588)**	**(1,278)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	December 31			
	2019	2018	2019	2018
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Amounts recognized in the item "other assets"	-	19	-	-
Amounts recognized in the item "other liabilities"	(1,588)	(1,297)	(673)	(577)
Net liability at the end of the year	**(1,588)**	**(1,278)**	**(673)**	**(577)**

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

	December 31			
	2019	2018	2019	2018
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Actuarial profit (loss), net	(734)	(580)	(54)	59
Net cost in respect of prior service	-	-	3	4
Closing balances of accumulated other comprehensive income	**(734)**	**(580)**	**(51)**	**63**

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

	December 31	
	2019	2018
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of anticipated benefits	3,014	2,749
Commitment in respect of cumulative benefits	2,671	2,569
Fair value of the plan's assets	1,457	1,455

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

1. Commitment and financing status (continued)

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

	December 31	
	2019	2018
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of anticipated benefits	3,213	2,910
Fair value of the plan's assets	1,625	1,612

2. Expense for the year

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

	For the year ended December,		
	2019	2018	2017
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	78	92	81
Cost of interest	92	101	100
Anticipated return on assets of the plan	(53)	(71)	(73)
Amortization of unrecognized amounts:			
Net actuarial loss	49	51	50
Total amortization of unrecognized amounts	**49**	**51**	**50**
Other, including loss from reduction or settlement	58	88	32
Total net cost of benefits	**224**	**261**	**190**
Total expense regarding defined deposits pension plans	**201**	**189**	**181**
Total expenses included in respect Severance pay, retirement and pension payments	**425**	**450**	**371**
Of which: expenses included in salaries and related expenses	279	281	262
Of which: expenses included in other expenses	146	169	109

Post retirement retiree benefits			
Cost of service	4	6	6
Cost of interest	22	25	27
Amortization of unrecognized amounts:			
Net actuarial loss (income)	(4)	4	4
Cost of prior service	(1)	(1)	(1)
Total amortization of unrecognized amounts	**(5)**	**3**	**3**
Other, including income from reduction or settlement	-	(1)	-
Total net cost of benefits	**21**	**33**	**36**
Of which: expenses included in salaries and related expenses	4	6	6
Of which: expenses included in other expenses	17	27	30

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

2. Expense for the year (continued)

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

	For the year ended December 31					
	2019	2018	2017	2019	2018	2017
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (income) for the year	259	53	87	109	(144)	23
Amortization of actuarial (loss) income	(49)	(51)	(50)	4	(4)	(4)
Amortization of credit in respect of prior service	-	-	-	1	1	1
Amortization of net liability in respect of the transition	-	(41)	(11)	-	-	-
Changes in foreign currency exchange rates	2	(1)	4	-	-	1
Other, including loss (profit) from reduction or settlement	(58)	(88)	(32)	-	1	-
Total recognized in other comprehensive loss (income)	**154**	**(128)**	**(2)**	**114**	**(146)**	**21**
Total net cost of benefits[(1)]	**224**	**261**	**190**	**21**	**33**	**36**
Total amount recognized in net cost of benefits and in other comprehensive income	**378**	**133**	**188**	**135**	**(113)**	**57**

Footnote:
(1) See item 2.1 above.

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

	Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions	
Net actuarial loss	55	-
Settlements	25	-
Total amount expected to be amortized from other comprehensive income	**80**	**-**

3. Assumptions

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

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

	December 31			
	2019	2018	2019	2018
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	0.11%-0.93%	1.83%-2.54%	-0.13%-1.15%	1.32%-2.70%
Retirement rate	0.19%-20.56%	0.31%-19.78%		
Remuneration growth rate	1.80%	1.70%		

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

3. Assumptions

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

	December 31			
	2019	2018	2019	2018
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	0.21%-2.54%	1.06%-2.23%	-0.04%-2.70%	0.66%-2.35%
Anticipated long-term return on the plan's assets	2.99%	3.41%		
Remuneration growth rate	1.7%	1.88%		

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

	Increase of one percentage point				Decrease of one percentage point			
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits	
	December 31							
	2019	2018	2019	2018	2019	2018	2019	2018
	in NIS millions							
Discount rate	(297)	(270)	(44)	(30)	315	282	45	31
Retirement rate	68	89	-	-	(73)	(96)	-	-
Remuneration growth rate	269	202	-	-	(238)	(180)	-	-

4. The plan's assets

4.1 COMPOSITION OF THE FAIR VALUE OF THE PLAN'S ASSETS

	December 31, 2019			December 31, 2018		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	53	-	53	21	-	21
Shares	643	34	677	587	31	618
Bonds:						
Government	390	23	413	375	27	402
Corporate	359	78	437	655	82	737
Total bonds	749	101	850	1,030	109	1,139
Other	7	38	45	9	28	37
Total	**1,452**	**173**	**1,625**	**1,647**	**168**	**1,815**

4.2 FAIR VALUE OF THE PLAN'S ASSETS BY TYPE OF ASSET AND ALLOCATION TARGET FOR THE YEAR 2020

	Allocation target	of the plan's assets	
	Year 2020	December 31, 2019	December 31, 2018
	in percentage		
Type of asset			
Cash and deposits with banks	0.6-16.4	3.3	1.2
Shares	33.3-42.8	41.7	34.0
Bonds:			
Government	22.8-30.7	25.4	22.2
Corporate	28.1-36	26.9	40.6
Total bonds	50.9-66.7	52.3	62.8
Other	1.7-11.1	2.8	2.0
Total		**100.0**	**100.0**

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

5. Cash flow

5.1 DEPOSITS

	Forecast[1]	Actual deposits	
		For the year ended December, 31	
	2020	2019	2018
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	25	35	63

Footnote:
(1) Assessment of expected deposits with defined benefit pension plans during 2020.

5.2 BENEFITS EXPECTED TO BE PAID BY THE BANK IN THE FUTURE

	Severance pay and pension payments
Year	In NIS millions
2020	150
2021	146
2022	182
2023	162
2024	173
2025-2029	770
2030 and thereafter	1,222
Total	**2,805**

D. Remuneration policy for officers of the Bank (2017-2019). The Annual General Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank for 2017-2019, in accordance with Section 267A of the Companies Act. The remuneration policy is effective for a period of three years since date of approval by the General Meeting. The formation of a remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in the Directive of the Supervisor and to the provisions of the Remuneration Act.

The Bank's remuneration policy is, inter alia, subject to the provisions of the Companies Act, to Proper Conduct of Banking Business Directive No. 301A in the matter of the remuneration policy of a banking corporation (hereinafter: "Directive of the Supervisor" or "Directive 301A"), as amended from time to time, and to the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (hereinafter: "the Remuneration Act"), published on April 12, 2016.

Among other things, the plan includes the following components: the maximum monthly salary and the considerations in determining it; thirteen's month salary; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in a total amount of up to four monthly salaries; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; reimbursement of expenses in respect of relocation between countries incurred by an officer following appointment; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers was based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank on a discretionary award component. Special instructions have been determined, within the framework of the policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to each one of the officers has been determined and also included is the possibility for the distribution of an award for special contribution and a discretionary award payable out of a budget at the disposal of the President & CEO. In the framework of the policy arrangements for the spreading of the annual award, instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO were determined.

23. Employee Benefits (continued)

The Remuneration Committee and to the Board of Directors are authorized to approve an award to an officer who is subject to the President & CEO, not on the basis of measurable criteria up to a maximum of three monthly salaries to an officer as above, and subject to the award budget, by use of discretion as stated in the remuneration policy.

The President & CEO is authorized to approve immaterial changes in the terms of office of officers subject to her, without requiring approval of the Remuneration Committee, in accordance with the Companies Regulations (Relief regarding transactions with interested parties), 2000.

Within the framework of the policy, Directives were introduced whereby a variable remuneration that would be awarded and paid, would be refundable the existence of criteria determined in the remuneration policy, in accordance with the terms of Directive 301A.

The policy includes limitations regarding the scope of remuneration for officers, minding the rules and limitations stated in the Remuneration Act.

The policy includes instructions allowing the granting of capital remuneration to officers, subject to the restrictions on the scope of remuneration stated in the remuneration policy.

The principles detailed in the remuneration plan applied to the terms of office and employment of officers of the Bank, approved as from the date of approval of the remuneration policy. In no way did the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, which existed at date of approval of the policy.

The approved remuneration policy did not directly apply to the terms of office and employment of officers of the Bank`s subsidiaries. Notwithstanding, the principles of the Bank`s remuneration policy were adopted as part of the Group's remuneration policy, which applied, with the required adjustments, to officers of the Bank`s subsidiaries in Israel.

Amendment of remuneration policy for the Bank’s officers. At the general meeting held on June 7, 2018, it was resolved to approve an amendment to the remuneration policy for the Bank’s officers, in accordance with Section 267A of the Companies Law, whereby the Remuneration Committee and the Board of Directors will be granted the power to approve, in special circumstances justifying such action, special payments, such as an award for an exceptional contribution, in excess of the amount of NIS 2.25 million (the maximum amount specified for a vice president’s total annual remuneration, not including payments and deposits for pension and redundancy payments pursuant to the law), provided that the special payment does not exceed the maximum amount under Section 2(a) of the Remuneration for Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016.

Prolonging of the effective period of the remuneration policy for Officers at the Bank. The Bank's annual general meeting of shareholders, held on September 16, 2019, decided to approve the prolonging of the effective period of the remuneration policy for officer at the Bank, in accordance with Section 267A of the Companies Act, for a period of up to six months from date of termination of the effect of the present remuneration policy (namely until May 8, 2020, at the latest). This, in order to enable the new President & CEO to state his position prior to the adoption of a remuneration policy and an award mechanism for officers of the Bank, to apply in respect of the years 2020 to 2022, and in order for the plan to include also the terms of employment of the new President & CEO.

A new remuneration policy for Officers of the Bank. The Agenda of the Bank's general meeting of shareholders convened for March 18, 2020, contains a proposed resolution approving the remuneration policy in respect of Officers of the Bank for the years 2020-2022.

E. **Remuneration policy for officers of the Bank (2014-2016)** was described in Note 23 D to the financial statements as of December 31, 2017.

F. **Award plan for members of Bank's Management and for the Internal Auditor (2015-2016)**

Awards in respect of 2016. The entitlement to an annual award did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a basic award in an amount equivalent to one month’s basic salary for each of the Executive Vice Presidents, in a total amount of NIS 998 thousand for all the Executive Vice Presidents; a special circumstances award package in an amount of NIS 988 thousand for the Executive Vice Presidents (granted by the former President & CEO, differentially); and a special contribution award, for three Vice Presidents, in a total amount of NIS 500 thousand.

The approved awards totaled NIS 2,496 thousand. The Remuneration Committee and the Board of Directors has approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC’s expense in respect to the arrangement in lieu of criminal proceedings; the costs in respect to the 2016 retirement plan. Elimination of the aforesaid special profits and losses has not affected the total amount of the awards.

23. Employee Benefits (continued)

G. Award plan for members of the Bank's Management and for the Internal Auditor (2017–2019)

1. General. On December 26, 2016, the Bank's Board of Directors adopted the recommendation of the Remuneration Committee and approved the award plan for members of the Bank's Management and for the Internal Auditor for the years 2017–2019 ("the plan"), in accordance with the remuneration policy for an officer at the Bank ("the Remuneration Policy").
2. The annual award to Executive Vice Presidents
   - (a) General. The annual award to Executive Vice Presidents (including the Internal Auditor) is composed of an award that shall be based on attaining collective indices ("collective award"), and an award that shall be based on indices derived from attaining goals of the division/operation over which the Executive Vice President is in charge ("a personal award").
   - (b) The total award to the Executive Vice President in respect of the collective indices and the personal indices shall not exceed six (6) monthly salaries (or five (5) monthly salaries for a supervision and control Executive Vice President).
   - (c) The threshold terms for the payment of the annual award shall be the attainment of the threshold goals of the following cumulative indices:
     1. The rate of return on equity in the award year shall not be less than 6% (six percent), after eliminating extraordinary profits or losses (as defined in the Remuneration Policy);
     2. The total capital adequacy ratio and the common equity tier 1 ratio, in accordance with the Bank's annual consolidated financial statements for the same award year, shall not be less than the minimum ratios specified in the directives of the Supervisor of Banks;
     3. The actual efficiency ratio, as calculated on the basis of the Bank's consolidated financial statements for the award year, and after eliminating extraordinary profits or losses (as defined in the Remuneration Policy), shall not be more than two percentage points (2%) above the efficiency ratio goal, as set by the Board of Directors in the Bank's work plan for the award year;
     4. Attaining the threshold score in the qualitative index, which shall include the Executive Vice President's contribution in implementing corporate governance processes, attaining general goals of the Bank in the risk management fields, complying with laws (including internal enforcement in the securities field and/or in other fields), regulatory directives and the Bank's procedures.

        If, in the award year, any of the Executive Vice Presidents should fail to meet the threshold terms referred to in this subparagraph, that Executive Vice President shall not be entitled to an annual award for that year. However, such an occurrence will not prejudice the entitlement of the other Executive Vice Presidents to an annual award.
   - (d) The collective award – the collective award for each Executive Vice President will be restricted to an amount that shall not exceed three monthly salaries of the Executive Vice President, and two monthly salaries of a supervision and control Executive Vice President. The collective indices shall include the return on equity (with a weighting of 50%) and the efficiency ratio (with a weighting of 50%). For every collective index, a target goal shall be specified; according to which a minimum and maximum goal for that index will be computed, attainment of which confers entitlement at the percentages determined in the plan out of the upper limit of the award relating to that index.
   - (e) The personal award – the personal award shall be restricted to an amount not exceeding three monthly salaries for each Executive Vice President and shall be computed on the basis of indices that focus on the goals set for the division over which the Executive Vice President is in charge in the said year, as set by the President & CEO. For every index, a target goal shall be specified; according to which a minimum and a maximum goal for that index will be computed, attainment of which confers entitlement at the percentages determined in the plan out of the upper limit of the award relating to that index.
   - (f) Remuneration for officers engaged in risk management, control and audit

     In relation to the Bank's risk management, control and audit functions (the Internal Auditor, the Chief Accountant and the Chief Risk Officer, hereinafter: "the supervision and control functions"), particular provisions were included as part of the plan that take into consideration the importance and sensitivity of the duties entrusted with these functions;

     In accordance with the directives of the Supervisor of Banks, the ratio between the fixed remuneration and the variable remuneration of the supervision and control functions shall lean more in favor of the fixed remuneration, including in relation to officers not included among the supervision and control functions.

     Accordingly, the Bank established that the part of the annual award attributable to the collective indices shall be lower for the supervision and control functions than that for the other officers.

23. Employee Benefits (continued)

The President & CEO's duties relating to recommending the personal indices and their weightings and to exercising judgment in connection with the components of the annual award shall be performed by the Audit Committee in relation to the Bank's Internal Auditor and by the Risk Management Committee, in consultation with the Bank's President & CEO, in relation to the Bank's Chief Risk Officer.

3. Award in respect of a special contribution and discretionary award
   (a) Award in respect of a special contribution – The Remuneration Committee and the Board of Directors are authorized to grant to all Executive Vice Presidents or any one of them (also during the award year and also if the threshold terms were not fulfilled in the award year) a special award in respect of exceptional performance or special contribution towards the attainment of the Bank's goals, including in respect of fulfillment of measurable criteria determined in advance by the Board of Directors, on condition that the total amount of the awards in respect of special contribution shall not exceed an amount of NIS 500 thousand per annum and subject to the upper limit of all awards as stated in item 4 below.
   (b) Discretionary award – a discretionary awards budget shall be placed at the disposition of the Bank's President & CEO. The said budget shall not exceed an amount arrived at by multiplying the number of Executive Vice Presidents entitled to such awards by two average monthly salaries of said Executive Vice Presidents, and this shall be divided between them at the discretion of the Bank's President & CEO, even if the threshold terms in that year have not been fulfilled, if in the opinion of the President & CEO, reasons existed that justified it, or if an annual award was distributed in the award year. The total amount of the discretionary award shall not exceed an amount equal to three monthly salaries in respect of a single Executive Vice President, and subject to the upper limit of all awards as stated in item 4 below.
4. Upper limits of the awards
   The total amount of the awards to all officers (including the President & CEO) for the award year shall not exceed 2.5% of the net profit attributed to the Bank's shareholders, in accordance with the annual financial statements for the award year.
   The total amount of awards to which any one Executive Vice President shall be entitled to in respect of an award year, including discretionary awards and an award in respect of a special contribution, shall not exceed eight monthly salaries of that Executive Vice President.
   The total amount of the awards for the supervision and control functions in respect of an award year, including discretionary awards and an award in respect of a special contribution, shall not exceed seven monthly salaries of that Executive Vice President.
5. Spreading the award
   (a) 50% of the total amount of the awards in respect of the award year shall be paid shortly after the publication of the Bank's financial statements for the award year.
   (b) 50% of the total amount of the awards shall be linked to the increase in the CPI, shall be deferred and shall be spread over three equal installments over the three years following the date of becoming entitled to the amount of the awards (hereinafter: "the deferred award" and "the deferred award installment").
   (c) Payment of the deferred award installment shall be contingent on the Bank not recording a loss in its consolidated financial statements for the award year that preceded the date of paying the deferred award installment.
   (d) Notwithstanding the aforesaid, if in any award year the variable remuneration to which an officer is entitled in respect of that year did not exceed 40% of the officer's fixed remuneration, he shall be paid 100% of the total amount of the awards in respect of the award year, without the spreading and deferral mechanism being activated.
6. The plan adopts also the instructions of the remuneration policy for officers in respect of the authority of the Board of Directors to reduce the total amount of awards, the annual remuneration upper limit for an Executive Vice President, instructions regarding the clawback of amounts of awards paid to an Executive Vice President and the circumstances in which the total award amount would be denied.
7. Awards in respect of 2017. The Remuneration Committee and the Board of Directors approved the distribution of a collective award in accordance with the upper limits of the award, in light of the Bank's attainment of the maximum goals set in the remuneration plan (see item 2 (d) above), and the distribution of a personal award in accordance with the attainment of the goals set for the Division over which the Executive Vice President is in charge (see item 2 (e) above). A discretionary award portion was distributed by the President & CEO on a differential basis (see item 3 (b) above). It should be noted that the actual distribution of the portion was affected by the limits determined in the remuneration plan, and in particular the upper remuneration limit for an Executive Vice President. The total of the awards for 2017 amounted to NIS 7,017 thousand. In calculating the awards, no extraordinary profits or losses were approved.

23. Employee Benefits (continued)

The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the new remuneration policy that was approved by the general meeting on November 8, 2016, in relation to the 2017 awards. Accordingly, the spreading mechanism has been applied to three members of Management, in whose case the variable remuneration exceeded 40% of the fixed remuneration.

8. Awards in respect of 2018. In View of the Bank conforming to the threshold conditions for the annual award, the Remuneration Committee and the Board of Directors approved the allocation of a collective award in accordance with the attaining of the collective indices stated in the remuneration plan (see item 2 (d) above) and the allocation of a personal award in accordance with attainment of the goals set for the Division under responsibility of the respective Executive Vice President (see item 2 (e) above). The Remuneration Committee and the Board of Directors approved that three members of Management, who were appointed or retired during the year 2018, and who acted as members of Management for a period of less than six months, would be entitled to a proportional part of the annual award in respect to their period of office during this year. The discretionary award portion was allocated by the President & CEO on a differential basis (see item 3 (b) above). It is noted that the actual allocation of the award portion was affected by the limitations determined in the remuneration plan, and in particular, the maximum remuneration for each Executive Vice President. The total amount of the awards granted in respect of the year 2018 totaled NIS 7,421 thousand. In the framework for computing the awards no extraordinary profits or losses were approved.

   In accordance with the remuneration plan, the mechanism for the spreading of the award applied in 2018 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

   The remuneration committee confirmed the fulfillment of the conditions for the payment of the first installment of the deferred award for 2017 in respect of 3 members of Management, in accordance with the policy for the remuneration of Officers. The remuneration committee confirmed the fulfillment of the conditions for the payment of the second installment of the deferred award for 2017 in respect of 3 members of Management, in accordance with the policy for the remuneration of Officers.

   In addition, in April 2018, the Remuneration Committee and the Board of Directors approved the payment of an award for special contribution to one member of Management in the amount of NIS 150 thousand.

9. Awards in respect of 2019. In View of the Bank conforming to the threshold conditions for the annual award, the Remuneration Committee and the Board of Directors approved the allocation of a collective award in accordance with the attaining of the collective indices stated in the remuneration plan (see item 2 (d) above) and the allocation of a personal award in accordance with attainment of the goals set for the Division under responsibility of the respective Executive Vice President (see item 2 (e) above). The Remuneration Committee and the Board of Directors have approved special contribution bonuses to two executive vice presidents, in a total amount of NIS 186 thousand. In addition, the discretionary award portion was allocated by the President & CEO on a differential basis (see item 3 (b) above). It is noted that the actual allocation of the award portion was affected by the limitations determined in the remuneration plan. The total amount of the awards granted in respect of the year 2019 totaled NIS 7,836 thousand. In the framework for computing the awards no extraordinary profits or losses were approved.

   In accordance with the remuneration plan, the mechanism for the spreading of the award applied in 2019 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

   The remuneration committee confirmed the fulfillment of the conditions for the payment of the first installment of the deferred award for 2018 in respect of 2 members of Management, in accordance with the policy for the remuneration of Officers.

H. 2018 efficiency plan

(1) The Bank's Board of Directors approved on August 14, 2018, an efficiency plan, according to which approx. 230 employees of the Bank shall be entitled to early retirement at beneficial terms, most of whom, by the end of 2018.

The plan increased the liability in the Bank's books by an amount of NIS 145 million (before the tax effect; in excess of the cost of severance pay under the law and also in excess of the ex gratia fund existing in the Bank's books prior to approval of the plan).

The cost of updating the actuarial liability to employees in respect of the efficiency plan has been treated as an actuarial loss and recognized in other comprehensive income.

23. Employee Benefits (continued)

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

In reporting periods in which a "settlement" occurs (as defined in U.S. GAAP), an additional amount of the balances of "actuarial profits and losses" would be amortized over and above the said amortization, at the rates of settlement costs borne by the Bank (actual payments, whether in respect of natural retirement or in respect of early retirement) out of the balance of the liability for severance pay.

(2) The board of directors of MDB approved on November 13, 2018, an efficiency plan which, inter alia, includes voluntary retirement at preferential terms of approx. 20 employees, at a total cost of NIS 25 million. The increase in the liability for payment of severance pay in respect of implementing this plan amounted to approx. NIS 12 million. The plan was largely implemented in the last quarter of 2018.

24. Shareholders' Equity, Preferred Shares and Dividends

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels):

	December 31,2019 and 2018	
	Authorized	Issued and Fully Paid-Up
Ordinary “A” Shares of NIS 0.1 par value each	260,515,000	116,401,699
6% Cumulative Preferred Shares,of NIS 0.00504 each (equivalent to 10 pounds sterling each)	202	202
Total shareholders equity	**260,515,202**	**116,401,901**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to 10 pounds sterling, is entitled to an annual dividend in an amount of NIS 2.83, and at the time of liquidation to a distribution in an amount of NIS 47.25. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the item "other liabilities".

C. (1) Increase of the authorized share capital in the years 2006-2008 - creation of a pool of shares for the purpose of "forced conversion events" of subordinate capital notes Series "A" and "B". The special meetings of shareholders convened on December 26, 2006 and September 22, 2008, resolved to increase the Bank's authorized share capital by a total amount of 820 million ordinary A shares of NIS 0.1 par value each. The shares derived from the said increases are intended to be issued to investors in subordinate capital notes (series "A") in a total amount of NIS 2 billion, in the event of a compulsory conversion of the principal amount and/or interest, in certain circumstances that have been determined by the Supervisor of Banks (hereinafter: "compulsory conversion events"; for further details, see Note 25 below).

In December 2006, May 2007 and September 2008, the Bank issued subordinate capital notes (Series "A") in an approximate par value of NIS 1,147 million (see Note 25 L (2) hereunder). In respect of the said capital notes the Bank maintained in its share capital a pool of approx. NIS 470 million ordinary "A" shares (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

In March 2009, the Bank issued approx. 350 million par value of subordinate capital notes (Series "B") (see Note 25 L (3) hereunder). In respect of the said capital notes, the Bank maintained in its authorized share capital a pool of approx. 267 million shares to be used, if required, in a forced conversion event (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

(2) Increase of the authorized share capital in 2009 - increase for the purpose of raising tier 1 capital. The special meeting of shareholders convened on December 15, 2009 resolved to increase the Bank's authorized share capital by 111 million ordinary A shares of NIS 0.1 par value each. The shares created by the said increase were intended to promote a move for the raising of tier 1 capital. The Bank is committed towards the State of Israel, which at that date owned a 20% of the Bank’s shares, that the shares constituting part of the Bank's authorized share capital, which were created as a result of the said increase in capital, will be utilized for the above purpose and will not be used for any other purposes. In December 2010 the bank completed a share offer to the public as well as a rights issue.

24. Shareholders' Equity, Preferred Shares and Dividends (continued)

D. Dividend

(1) **General.** The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) **Restrictions established in instructions of the Supervisor of Banks.** Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) **Distribution of a dividend in respect of preferred shares.** The annual general meeting of shareholders, held on September 16, 2019, resolved to approve a dividend for the year 2019, at the rate of 6%, payable to the holders of 40,000 6% preferred, cumulative shares of a par value of NIS 0.00504 each. The dividend amounts to £24,000, and was paid on December 31, 2019.

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

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

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

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

(5) Details regarding the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
May 17, 2018	June 6, 2018	32.0	10	2.75
August 15, 2018	September 2, 2018	42.0	10	3.61
November 15, 2018	December 4, 2018	43.9	10	3.77
March 11, 2019	March 28, 2019	48.6	15	4.18
May 16, 2019	June 3, 2019	60.8	15	5.22
August 14, 2019	September 1, 2019	81.8	15	7.02
November 27, 2019	December 16, 2019	64.0	15	5.50

Distribution of a dividend out of profits of the fourth quarter of 2019. In accordance and in continuation with the policy, as stated, the Bank's Board of Directors decided, on March 15, 2020, to distribute a dividend at the rate of 15% of the profits of the fourth quarter of 2019, in the amount of NIS 48.75 million, comprising approx. 4.19 Agora for each ordinary share of NIS 0.1 par value.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks

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

Computed according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

A. **Adoption of Basel III instructions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below (as of December 31, 2019 and December 31, 2018) reflects deductions, in accordance with the transitional instructions. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain, is 12.5% (for details regarding the required addition in respect of housing loans, see below).

The Bank prepared a detailed plan for attaining the capital targets, and is acting toward its implementation.

Implementation effects of the instructions regarding employee rights. Starting with January 1, 2015, the Bank implements the instruction regarding employee rights. The Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of four years. Respectively, an amount comprising 40% was deducted on January 1, 2015, and the balance was deducted gradually on January 1, of the years 2016 to 2018.

B. **Additional capital requirements in respect of housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and the total capital target by a rate which expresses 1% of the outstanding housing loans.

The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.20%.

C. **Relief regarding the efficiency plan 2016.** The Supervisor of Banks granted the Bank relief regarding its 2016 efficiency plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis including an increase in the special reserve for exceptional retirement cases – see Note 1 D 15.7; an amount of NIS 245 million net of tax; net of the reduction in the plan at MDB – see Note 23 I and net of the effect of changes in actuarial assumptions – see Note 1 D 15.7) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 159 million have been amortized to December 31, 2019.

D. **Relief regarding the efficiency plan 2018.** The Supervisor of Banks granted the Bank a relief regarding its 2018 efficiency plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 29 million have been amortized to December 31, 2019. For additional details regarding the Bank's efficiency plan, see Note 23 H.

E. **Capital components subject to fluctuations.** The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, in respect of a change in the volume of risk assets and deductions from capital, in respect of changes in market return, which affect the profits of the available-for-sale portfolio and are recognized in the capital reserve, and in respect of actuarial changes recognized in capital, as a result of changes in the interest rate used for the computation of the Bank's liabilities or other actuarial assumptions, such as mortality rates, retirement, etc.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

F. Capital for calculating ratio of capital

	December 31, 2019	December 31, 2018
	in NIS millions	
Common equity tier 1 after deductions	(1)19,009	(1)17,504
Additional tier 1 capital after deductions	534	712
Tier 1 capital	19,543	18,216
Tier 2 capital after deductions	6,021	5,140
Total capital	**25,564**	**23,356**

Footnote:
(1) See item "C" and "D" above.

G. Weighted risk assets balance

	December 31, 2019	December 31, 2018
	in NIS millions	
Credit risk[1]	165,883	153,081
Market Risk	2,858	3,412
CVA risk	1,489	1,441
Operational risk	14,216	12,987
Total weighted risk assets balance	**184,446**	**170,921**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 10 million (December 31,2018: NIS 32 million) due to adjustments in respect to the efficiency plan.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

H. Ratio of capital to risk assets

	December 31,	
	2019	2018
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.31	10.24
Ratio of total capital to risk assets	13.86	13.67
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(4)	9.20	9.19
Minimum total capital adequacy ratio required by the Supervisor of Banks(4)	12.70	12.69
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	11.0	11.4
Ratio of total capital to risk assets	13.7	14.0
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(5)	9.2	9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks(5)	12.7	12.7
2. Discount Bancorp Inc. (1)		
Ratio of common equity tier 1 to risk assets	14.1	14.3
Ratio of total capital to risk assets	15.2	15.3
Ratio of minimum common equity tier 1 required in accordance with local regulation(2)	4.5	4.5
Minimum total capital adequacy ratio required in accordance with local regulation(2)	8.0	8.0
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	12.9	14.8
Ratio of total capital to risk assets	14.0	15.9
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks(3)	11.5	11.5

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) IDB New York is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) In accordance with of the approach by the Supervisor of Banks, ICC was required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010. The Supervisor of banks announced the cancellation of the restriction on February 4, 2018.

(4) With an addition of 0.2% (December 31, 2018: 0.19%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) With an addition of 0.20%, similar to December 31, 2018, in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

I. Capital components for calculating ratio of capital

	December 31,	
	2019	2018
	in NIS millions	
A. Common Equity Tier 1		
Common equity	19,193	17,669
Difference between common equity and common equity tier 1	(178)	(222)
Total common equity tier 1 before supervisory adjustments and deductions	19,015	17,447
Supervisory adjustments and deductions		
Goodwill and other intangible assets	164	160
Supervisory adjustments and other deductions	(6)	3
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	158	163
Total adjustments in respect to the efficiency plan	152	220
Total common equity tier 1 after supervisory adjustments and deductions	**19,009**	**17,504**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	534	712
Total additional tier 1 capital after deductions	**534**	**712**
C. Tier 2 capital		
Instruments before deductions	3,844	3,135
Allowance for credit losses before deductions	2,092	1,932
Minority interests in a subsidiary	85	73
Total tier 2 capital before deductions	6,021	5,140
Deductions	-	-
Total tier 2 capital	**6,021**	**5,140**

J. The effect of the transitional instructions on the ratio of common equity tier 1

	December 31,	
	2019	2018
	In %	
Ratio of common equity tier 1 to risk assets before the effect of the adjustments in respect to the efficiency plan	10.22	10.11
Effect of the adjustments in respect to the efficiency plan	0.09	0.13
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.31	10.24

K. Clarification regarding the recognition of hybrid capital instruments

(1) Clarification regarding the recognition of hybrid capital instruments issued prior to the Basel II guidelines taking effect

At the Bank's request, the Supervisor of Banks clarified in a letter dated March 3, 2010, that until otherwise determined, the specific terms established for the recognition of hybrid capital instruments, as detailed in the approvals granted for each issue of the said instrument, continue to apply with respect to the particular issue even after the Basel II guidelines taking effect.

The Supervisor further clarified, to avoid doubt, that whenever the Bank is required to maintain capital adequacy ratios (overall, primary, original or other), including as a precondition for the recognition of hybrid capital instruments as a part of the Bank's capital base, such ratios shall not be changed, despite the change made from time to time in the criteria for the issue, and that they will be computed in accordance with the calculation method in practice at that date.

The above stated relates to issues made by the Bank as detailed in Sections L and M hereunder.

(2) On December 25, 2013, the Supervisor of Banks approved the removal of the condition for the non-recognition of hybrid capital instruments (hybrid tier 1 and upper tier 2) in cases where the original tier 1 capital ratio falls below 6.5%.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

L. The issue of hybrid tier 1 capital

(1) General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in items (2) and (3) below have been recognized as hybrid tier 1 capital under the Basel II rules. The said capital notes are not qualified in terms of the Basel III instructions, though according to the transitional instructions they are recognized in the transitional period as additional tier I capital, and will be gradually eliminated in the years 2014-2021.

(2) Issue of hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement.

The Governor of the Bank of Israel approved that the abovementioned subordinate capital notes will be deemed hybrid capital instruments and will be recognized as part of the Bank’s tier 1 capital (see item (1) "General" above). On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

On September 22, 2008, the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank’s Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 25 J (2) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "A". The subordinate capital notes were issued for a period of 99 years and the principal will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly.

The Bank is entitled, at its own discretion, to redeem the subordinate capital notes prematurely, after a minimum of 15 years from the issuance date, subject to the conditions stated in the notes and to approval from the Supervisor of Banks.

The subordinated capital notes will bear linked interest at the rate of 5.10%. In the event that the capital notes are not prematurely redeemed after fifteen years, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate of 1% over the original spread determined for the first fifteen years (namely 2.495%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 398.5 million of the Bank's ordinary "A" shares.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank’s assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

Recognition of the capital notes as hybrid tier 1 capital. The Governor of the Bank of Israel approved the Bank’s inclusion of the capital notes as hybrid tier 1 capital (see item (1) "General" above), subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K (2) to the financial statements as of December 31, 2015).

Following are part of the basic conditions for recognition of the capital notes as upper tier 1 capital:

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

(1) Non-accrual interest - In "special circumstances", as defined below, on the due date for payment of interest, such interest will not be payable and the entitlement of holders of the capital notes to interest will expire. Interest not paid as a result of existence of the special circumstances will not accumulate and will be erased after the payment date. Following are the special circumstances:

(a) The Bank's Board of Directors has determined that the Bank is unable to honor its obligations, which rank higher than the subordinate capital notes (series "A") or are equivalent thereto, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank's annual or interim financial statements, respectively, to notes to the financial statements regarding the Bank's inability to fulfill its obligations, as stated above;

(b) The Bank's Board of Directors has determined that probability exists that payment of the interest would create a situation in which the Bank will be unable to settle its existing and/or expected liabilities, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank's annual or interim financial statements, respectively, to notes to the financial statements regarding the probability of such situation;

(c) During six consecutive quarters, the financial statements for the last of which were published prior to the date for payment of the interest, the Bank did not report on accrued Net profit (i.e. if the simple addition of the quarterly amounts of the net earning or losses reported in the Bank's financial statements, for six consecutive quarters, constituted a negative amount);

(d) The Bank's last financial statements published prior to the date of the interest payment indicate that the Bank has no distributable profits.

(2) Allotment of shares in respect of interest - In the case of erasure of interest the Bank is empowered to issue shares to holders of the capital notes against the erased interest. Such shares may be issued only in respect of interest not paid in the same year, and shares may not be issued in respect of interest erased in prior years.

(3) Sustaining of losses - The Bank is required to convert all outstanding balances of principal and interest in respect of the subordinate capital notes into the Bank's ordinary "A" shares, of the circumstances described below occur:

(a) If the ratio of the overall tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a particular quarter below 6%, and does not recover within 90 days from the date of issue of the said financial statements, to a rate of at least 6%, conversion will be implemented immediately;

(b) If the ratio of the tier 1 capital to the Bank's risk assets, excluding the hybrid tier 1 capital (hereinafter - "the original tier 1 capital"), as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5.5%, and does not recover until the date of publication of the financial statements for the following quarter to a rate of at least 5.5% (even if the ratio of the overall tier 1 capital exceeds 6% at that time), conversion will be implemented immediately;

(c) If the ratio of the original tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 6% but not lower than 5.5%, and does not recover to a rate of at least 6% until the end of the two quarters following that quarter, as stated in the Bank's interim financial statements, conversion will be implemented immediately (even if the ratio of the overall tier 1 capital exceeds 6% at that time), unless the Supervisor of Banks directs otherwise;

(d) If the ratio of the original tier 1 capital, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5%, immediate partial conversion will be implemented in an amount that would recover the Bank's original primary capital ratio published for that quarter to at least 5%;

(e) According to the Bank's financial statements, the Bank's retained earnings become negative;

(f) The Bank's independent auditors drew attention in their audit report or review report attached to the annual financial statements or to the Bank's interim financial statements, respectively, to notes to the financial statements which express significant uncertainties regarding the continued existence of the Bank as a "going concern".

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

(4) Change in terms, premature redemption, and/or increase in interest rate - the subordinate capital notes will be issued for a period of 99 years and may be redeemed at the discretion of the issuer, subject to advance written approval from the Supervisor of Banks, after a minimum period of 15 years. Additionally, other terms of the subordinate capital notes may not be changed without advance written approval from the Supervisor of Banks.

Without detracting from this condition, one step-up of interest by up to 100 basis points over the original margin determined for the first period of 15 years is enabled, after at least 15 years from the issuance date.

Regarding recognition of the capital notes as upper tier 1 capital, the Board of Directors adopted a capital adequacy policy according to which the Bank will maintain an original primary capital adequacy ratio (excluding the compound primary capital) of at least 6.5%, at all times.

(3) Issue of hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

On March 26, 2009 the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank’s Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 23 J (3) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "B". The principal on the subordinate capital notes will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes will be paid four times a year. The Bank shall be entitled to announce, at its own discretion, the early redemption of the principal sum of the subordinated capital notes and of the linkage increments and interest accrued as of date of the actual early redemption, subject to the terms specified in the note, and subject to the prior approval of the Supervisor of Banks.

The subordinated capital notes will, in the period from date of issue and until December 31, 2021 (hereunder: "the first interest period"), carry linked interest at the rate of 8.7%. In the event that an early redemption will not occur on December 31, 2021, then the subordinated capital notes will carry interest at a variable rate to be fixed in advance for each period of five years, with the addition of a "step up" interest of 1% over the original margin fixed for the first interest period (namely, 7.13%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 267 million ordinary "A" shares of the Bank, will be allocated in respect of the issued capital notes, as stated.

The terms for recognition of the subordinated capital notes (series "B") as hybrid tier 1 capital. The basic terms determined by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 1 capital (see item L "General" above) are identical to the terms determined for Series "A" (as detailed in Section L (2) above) with the following changes:

- The definition of "special circumstances" no longer includes the case of six consecutive quarters showing a loss (subsection (6) C).
- The following case was added to the definition of "special circumstances": where the Supervisor has instructed the cancellation of interest payments after realizing that a real danger exists that the interest payment might lead to a situation where the Bank would be unable to meet its obligations.
- Within the framework of the definition of cases where, if realized, an immediate conversion of the outstanding balance of principal and interest of the subordinated capital notes into the Bank's ordinary "A" shares would be effected, the definition of the term relating to the reduction in the proportion of the original tier 1 capital to below 5% (Section (8) (d)), was changed as follows: in the event that the proportion of the original tier 1 capital, as stated in the financial statements or in the Bank's interim financial statements, once in every quarter, fell in a particular quarter below 5%, the said conversion shall be effected immediately.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

For details regarding clarifications in the matter of hybrid capital instruments, see item K above.

M. The issue of upper tier 2 capital

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

Terms of the subordinated capital notes (Series 1). The principal sum of the subordinate capital notes (Series 1) shall be repaid in one amount on April 20, 2058, subject to the right of Discount Manpikim Ltd. for the early redemption in full, as described below. The principal sum and interest of the subordinate capital notes (Series 1) are linked to the CPI. The subordinate capital notes carry an annual interest of 6.4% during the initial period (as defined below), payable four times per year.

Subject to the terms detailed in the trust deed signed in respect of the subordinate capital notes (Series 1) and subject to the approval of the Supervisor of Banks, Discount Manpikim would be entitled, at its discretion, to announce the early redemption in full of the subordinate capital notes, as from April 20, 2020 (hereinafter: "the initial period"). The Bank intends to act towards the redemption in full of the capital notes in accordance with the said terms. On February 12, 2020, the Bank received approval of the Supervisor of Banks for the early redemption of the capital notes, subject to compliance with the regulatory capital limitations. On February 20, 2020, Manpikim announced the early redemption in full of the capital notes.

The rights of the holders of the subordinated capital notes were deferred as regards claims by all other creditors of Discount Manpikim and of the Bank of any class, with the exception of holders of capital notes which constitute and/or will constitute from time to time the hybrid tier 1 capital issued by the Bank.

Terms for the recognition of the subordinated capital notes as upper tier 2 capital. The Supervisor of Banks permitted the Bank to include the subordinated capital notes as upper tier 2 capital (see "General" above) subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K to the financial statements as of December 31, 2015).

For details regarding clarifications in the matter of hybrid capital instruments, see item K above.

N. Issuance of subordinate debt notes which include a loss absorption mechanism (Series "L")

On January 10, 2017, the Bank issued an amount of approx. NIS 784 million par value of subordinate debt notes (series "L"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "L") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "L") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "L") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules.

The principal sum of the subordinate debt notes (Series "L") will be repaid in one amount on January 10, 2027, unless the Bank has previously used its right for the early redemption if the subordinate debt notes after five years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "L"), carries a fixed annual interest of 3.60% payable once a year.

Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, the Bank shall write-off (fully or partly) the subordinate debt notes. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Notice to the Bank by the Supervisor of Banks regarding the decision to carry out the raising of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of fifteen years from the initial date of issue of the subordinate debt notes (namely, until January 10, 2032), in accordance with the above, the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

O. Issuance of subordinate debt notes which include a loss absorption mechanism (Series "F")

On October 29, 2019, the Bank issued (through Manpikim Company) an amount of approx. NIS 784 million par value of subordinate debt notes (series "F"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "F") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "F") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "F") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules. On January 7, 2020, the Bank (through Manpikim Company) issued to a classified investor in a private placement, subordinate debt notes (Series "F") in the nominal value of NIS 100 million.

The principal sum of the subordinate debt notes (Series "F") will be repaid in one amount on October 29, 2030, unless the Discount Manpikim has previously used its right for the early redemption if the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "F"), carries a fixed annual interest of 1.46% payable once a year.

Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, the Discount Manpikim shall write-off (fully or partly) the subordinate debt notes. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Notice to the Bank by the Supervisor of Banks regarding the decision to carry out the raising of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of 7 years from the date of the write-off, the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

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

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

	December 31,	
	2019	2018
	in NIS millions	
A. Consolidated		
Tier 1 capital[(1)]	19,543	18,216
Total exposures	284,621	264,000
	In %	
Leverage ratio	6.9	6.9
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	6.5	7.1
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0
2. Discount Bakcorp Inc.		
Leverage ratio	10.9	10.8
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	8.0	9.5
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0

Footnote:

(1) For the effect of the adjustments in respect to the efficiency plans, see items 1 H ,I.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

2. Leverage ratio according to Directives of the Supervisor of Banks (continued)

Factors which may materially affect the leverage ratio. The changes in the scope of exposure and the Tier I capital of the Bank may lead to changes in the Bank's leverage ratio. For possible changes in the regulatory capital, see item 1 E above.

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

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

General. As from April 1, 2015, the Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking industry in Israel. The liquidity coverage ratio tests a 30-day horizon in the stress test and is intended to ensure that a banking corporation maintains an inventory of high quality liquid assets covering the liquidity requirements of the banking corporation within that time horizon. The Directive determines the manner of calculation of the liquidity coverage ratio, including the definition of characteristics and operating requirements as to the "inventory of high quality liquid assets" (the numerator) and the haircuts in their respect as well as the net cash outflow expected in the stress test as defined in the Directive for the 30 calendar days (the denominator).

The stress test determined in the Directive includes a shock combining a shock specific to the corporation as well as a market-wide shock, within the framework of which standard withdrawal rates have been determined for the cash outflows and rates of deposits of cash inflows in accordance with the categories of the different balances.

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

Revision of the FAQ file for the implementation of Proper Conduct of Banking Business Directive (No. 221) regarding the liquidity coverage ratio. The revised file clarifies, inter alia, that debit balances arising from credit card operations may be recognized as cash inflows at the rate of 100% instead of the previous rate of 50%. The Bank implements the said clarification as from October 1, 2016.

Factors which may materially affect the liquidity coverage ratio. The Bank manages the liquidity risk with the aim of ensuring the ability to honor its liabilities in different variable situations. This, in accordance with requirements and restrictions determined by the Board of Directors in the matter of liquidity risk management and in accordance with guidelines of the Supervisor of Banks.

Factors that may materially impact the liquidity situation and in respect of which the Bank has made preparations, include different situations, local and international, which may affect the cost of raising resources and their availability, the value of liquid assets and the repayment ability of the Bank's customers.

	For the three months ended	
	2019	2018
	In %	
A. Consolidated		
Liquidity coverage ratio	121.2	124.8
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	129.6	136.4
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries[(1)]		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	136.5	133.1
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0

Footnotes:

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

26. Contingent Liabilities and Special Commitments

A. Off-Balance sheet Commitment at year-end regarding activity based[1] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[2]				
Israeli currency - non linked	214	285	214	285
Israeli currency - linked to the CPI	348	362	321	338
Foreign currency	33	38	33	38
Total	**595**	**685**	**568**	**661**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 31 million (2018: NIS 22 million), have not been included in the table.

B. Cash flows in respect of collection commissions and interest margins of activity based on loan requirements – Consolidated[3]

	December 31							
	2019							2018
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	-	-	-	1	5	-	6	6
Expected future flows based on Management's estimates of early repayments	-	-	-	1	5	-	6	6
Discounted expected future flows based on Management's estimates of early repayments[1]	-	-	-	1	4	-	5	4
In Israeli currency, CPI-linked:								
Future contractual flows	3	3	2	2	1	-	11	15
Expected future flows based on Management's estimates of early repayments	3	3	1	1	-	-	8	12
Discounted expected future flows based on Management's estimates of early repayments[2]	3	3	1	1	-	-	8	12

Footnotes:

(1) The capitalization was performed according to weighted rate of 1.21% (2.61% :2018)

(2) The capitalization was performed according to weighted rate of 0.16% (0.59% :2018)

(3) There were no cash flows in foreign currency during the reported periods

Information as to the granting of loans during the year by the mortgage banks - consolidated

	December 31	
	2019	2018
Loans out of deposits repayable according to the repayment of loans	47	38
Standing loans	12	8

26. Contingent Liabilities and Special Commitments (continued)

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	in NIS millions			
1. Long-term lease contracts - rent payable in future years:				
First year	147	158	68	70
Second year	147	123	58	62
Third year	124	103	50	49
Fourth year	96	78	37	46
Fifth year	77	64	25	37
Sixth year and thereafter	753	248	106	139
Total	**1,344**	**774**	**344**	**403**
2. Commitment to acquire buildings and equipment	151	154	109	143
3. Commitment to invest in private investment funds and in venture capital funds	488	583	-	-

4. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Maof Clearing House Ltd., are responsible towards the Maof Clearing House, together with the members of the Maof Clearing House, to any financial indebtedness arising from Maof Clearing House transactions (transactions regarding options and future contracts settled by the Maof Clearing House) made at the Stock Exchange. For this purpose, the Maof Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2019, amounts to approx. NIS 194 million, comprising 34.47% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2019, amounted to NIS 5 million, comprising 0.89% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Maof Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 E). Each of the banks is also committed to pay the Maof Clearing House any monetary charge that may result from its operations and from the operation of their customers in respect of performing Maof transactions cleared at the Clearing House.
5. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at the Bank of Israel (in which cash is deposited). (See Note 27 H).
6. Tafnit is committed towards Tachlit Dollar Worldwide Ltd., previously held by Tafnit at the rate of 20%, and toward Synergetica Ltd., which owns approximately 80% of Tachlit Dollar Worldwide Ltd., to transfer to Tachlit Dollar Worldwide Ltd., a company that issues ETN's, a total amount not exceeding US$1 million, to cover its current operating expenses and to fulfill its obligations towards the holders of its ETN's.

   Regarding Tafnit's commitments as stated, it should also be noted that as part of the transaction for the sale of the ETN's operation, the parties signed a letter of assignment, according to which all obligations and rights deriving from the ETN's operation have been irrevocably assigned to Synergetics Ltd., with specific reference to the commitment made by Tafnit Investment House to invest in two ETN companies (including Tachlit Dollar WorldWide Ltd.) assigned to Synergetics Ltd. As of the present time, as long as the commitment of Tafnit towards the ETN companies remains in effect, Synergetics Ltd. is obligated to indemnify Tafnit in case this commitment materializes.
7. The subsidiary of the Bank was engaged in providing a full array of trust and custodianship services and served, inter alia, as a trustee for certain bonds that were issued to the public pursuant to a prospectus and traded on the Tel-Aviv Stock Exchange. The company is preparing to close down its operations and it is left with only a small amount of activity.

26. Contingent Liabilities and Special Commitments (continued)

8. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank's request in other companies held, directly or indirectly, by the Bank (see hereunder).

   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

   d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, granted in September 2006 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 1.5 billion. In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

   e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated February 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion.

   f) Manpikim granted in February 2009 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 3 billion.

   g) On October 31, 2012, Manpikim granted an indemnification to Directors, the CEO and the Financial Comptroller of the company, with respect to a shelf Prospectus respecting a notice of acceptance of liability within the framework of the merger dated May 31, 2012, between Discount Mortgage Issues Ltd. and Manpikim ("the merger Prospectus"), in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

   In respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in items (d) to (g) above, the Bank has granted an indemnity to Manpikim.

26. Contingent Liabilities and Special Commitments (continued)

h) In April 2013, the Bank's Board of Directors resolved to grant a general commitment for indemnification that will be provided by the Bank to officers of Manpikim, within the framework of which, the Bank had granted indemnification also in respect of prospectuses that Manpikim would publish in the future. The text of the indemnification undertaking will be based upon the text of the indemnification letter to officers of the Bank and subsidiaries, approved by the Bank, which includes a limitation regarding the maximum amount of the indemnity.

i) **Indemnification in respect of Trustees for the holders of debt notes issued by the Bank and by Discount Manpikim.** In accordance with the terms of the Deeds of Trust, the Trustees are entitled to indemnification by the Bank in respect of reasonable expenses incurred in connection with action taken by power of their duty under the Deeds of Trust, as well as to indemnification in respect of certain events in accordance with the indemnification terms contained in the Deeds of Trust.

j) **Liability Insurance of Officers.** On December 2, 2015, the Bank's annual general meeting resolved to grant approval in advance for the Bank to purchase a policy for directors' and other officers' liability insurance, as they were and shall be from time to time, at the Bank and at the Bank Group, to be valid during their service with the Bank, including in respect to their service, on behalf of the Bank, as officers of any other company in which the Bank has a holding, directly or indirectly, and to amend accordingly the Bank's remuneration policy.

The main points of the engagement include the following: the Bank's purchase of a policy for directors' and other officers' liability insurance shall be made for insurance periods, the first of which shall begin at the end of the current insurance period, and shall end at the conclusion of the policy period that shall be renewed in 2019; the purchase of the group policy may be made by extending or renewing the existing policy, or by way of purchasing a new policy, where required; the group policy's liability coverage shall not exceed US$250 million per event and per insurance period; the annual premium in respect to the group policy shall not exceed US$1 million with an increase of up to 20% per year; in the event of a claim against any of the officers, they shall not be subject to any deductible.

The Bank shall be responsible for the deductible in an amount that is to be determined in the group policy, and which shall not exceed US$250 thousand per event; engaging in the purchase of such a group policy from time to time is subject to the approval of the Remuneration Committee and the Bank's Board of Directors, and in doing so they shall confirm that the group policy is in accordance with the Bank's remuneration policy valid at the time of approving the Policy and/or in accordance with the terms of the proposed resolution at the time of calling the general meeting referred to above, that the purchase is for the benefit of the Bank and that the terms of the Policy are reasonable, taking into account the exposure of the officers and the Bank, the scope of the coverage and the market terms on the date of making their decision.

The Bank's General Meeting of Shareholders held on September 16, 2019, resolved to approve the extension, of the validity of the remuneration policy for officers of the Bank, including approval to purchase an insurance policy, as stated, until May 8, 2020. The Agenda for the Bank's General Meeting of Shareholders convened for March 19, 2020, contains a proposed resolution to approve in advance an engagement of the Bank in respect of an insurance policy, as stated, whether by way of purchase of a new policy or by way of extending the validity of the existing policy, within the period of validity of the remuneration policy, which is tabled for approval by that same meeting.

k) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), subject to exceptions detailed in the decision, deriving from the Bank's articles regarding liability exemption.

In addition, the abovementioned special General Meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with raising of tier 1 capital implemented in the Bank in December 2006 and May 2007.

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

l) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, in accordance with the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 2011 and the Antitrust Law (Amendment No. 13), 2012.

26. Contingent Liabilities and Special Commitments (continued)

m) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution regarding the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank's articles and the remuneration policy accordingly.
Within the framework of the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not in respect to reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

n) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009. The general meeting of shareholders of that bank, held on October 31, 2012 and on March 24, 2013, approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, in order to add indemnification in respect of administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution which was granted to officers of MDB, in order to agree with the indemnification terms granted to officers of Discount Bank.

o) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In August 2011 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards (in Diners since the year 2015). The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors on July 2009. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

p) **Indemnification of officers of subsidiary companies.** In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been approved by the Bank`s Board of Directors in July 2009, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, Discount Capital, Discount Capital Underwriting Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In December 2016, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group, following the amendments approved in the resolution regarding indemnification of officers of Discount Bank.

q) In the December 2014 agreement for the sale of DBLA's operations, indemnities were granted to the buyer in respect of various representations.

r) In the November 2015 agreement for the sale of the customer operations of IDB (Swiss) Bank DBLA, indemnities were granted to the buyer, limited with regard to period and amount, in respect of various representations.
In accordance with the Swiss regulations, the records of IDB (Swiss) Bank, which was liquidated and struck off, have to be maintained for a period of ten years from date of termination of the banking activities.

9. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc.; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.
This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

26. Contingent Liabilities and Special Commitments (continued)

10. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

    b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.

    c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

11. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot, and the Bank is unable to assess the cost of its participation in the evacuation of tenants as aforesaid.

12. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their counsels, respectively, as the case may be, adequate provisions have been included in the financial statements, where required. The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, has been assessed as reasonably possible, amounted to approx. NIS 966 million as of December 31, 2019.

    12.1 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and other credit card companies. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies.

    The Plaintiffs claim that the first binding arrangement is an arrangement for the charging of a cross commission in respect of transactions made through the use of debit or pre-paid cards. As regards the second binding arrangement, the Plaintiffs claim that it involves the unlawful withholding of monies due to trading houses, in respect of transactions made by debit cards and pre-paid cards, for a period of twenty days, following the date of collection of the money by the credit card companies.

    On February 24, 2015, a motion for withdrawal from the claim was filed. On July 1, 2015, the Court approved the motion for withdrawal. Concurrently, in accordance with the approval of the Court, alternative Appellant and representative have been found, who undertook the conduct of the proceedings on behalf of the class. A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion.

    An action requesting declaratory relief was filed with the Competition Tribunal on October 16, 2017, in which the Tribunal is requested to state that upon submission of the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. The credit card companies, including ICC, have filed a motion for the dismissal in limine of the claim, together with a motion for a deferment of the date for submission of the response brief to the matter itself, in the event that the motion for dismissal is dismissed.

    On October 16, 2018, the Competition Tribunal admitted the motions for the in limine dismissal of the motion for the granting of declaratory relief. On December 4, 2018, an appeal against the decision of the Competition Tribunal was submitted. On June 18, 2019, the Supreme Court dismissed the appeal. On December 23, 2018, the Appellants submitted a motion to the Supreme Court, sitting as a High Court of Justice, against the Competition Commissioner. It is requested in the motion that the Court instructs the Competition Commissioner to act in order to clarify, or annul, or change the verdict of the Competition Court. The Plea is fixed for hearing on March 19, 2020.

26. Contingent Liabilities and Special Commitments (continued)

12.2 A lawsuit was filed against the Bank on October 19, 2014, with the Central-Lod District Court, together with a motion for its approval as a class action suit.

The Claimant argues that in violation of the law, the Bank charges its customers an excessive early repayment commission in respect of loans which are not housing loans. It is being argued that the Bank acts in contravention of Proper Conduct of Banking Business Directive No. 454. The Claimant stated that it is unable to estimate the amount of the damage caused.

The Bank submitted a response to the motion for approval on July 21, 2016. After conducting evidentiary hearings and the submission of the parties' final arguments, on November 3, 2019, a ruling was given that partially certifies the conduct of the claim as a class action, applying only to non-regulated loans and only with respect to the risk component out of all components of the commission. On December 18, 2019, the Plaintiff filed an appeal with the Supreme Court against the decision of the District Court. The appeal is fixed for hearing on December 23, 2020.

12.3 On February 21, 2017, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. The motion claims that the Bank charges customers entitled to be defined as a "small business", with commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess commissions. The Claimants stated the amount of the claim at NIS 261 million.

The response of the Bank was filed on July 23, 2017. A preliminary hearing was held on December 19, 2018, in the presence of all the parties regarding additional motions for approval filed in this matter against additional banks.

A preliminary hearing in the presence of all the Respondents to the motions for approval was fixed for June 3, 2020.

12.4 Different legal proceedings have been and are conducted in Australia and in Israel against the Bank and against MDB, relating to accounts held with these two banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims are based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia. The possibility exists that additional claims would be submitted in the same matter by additional related companies (additional details are presented in Item (c) and in Item 13.1 hereunder).

(a) A legal action filed against the Bank and against MDB in September 2017. The action was filed with a Federal Court in Australia by two Australian companies (through their Liquidator), which had held accounts with the two banks, and based on amended tax assessments issued to these companies by the Australian Tax Authorities. The action relates to different transactions recorded in the accounts of the companies in the years 1997 to 2005. The original amount of the action was approx. AUD 11 million, claimed from MDB and an amount of approx. AUD 9.3 million claimed from the Bank.

An amended action brief was filed on September 2, 2019, according to which, the Liquidator of the companies and the Tax Authorities were attached as additional Plaintiffs in respect of one of the causes of action. In addition, the amount of the claim was reduced to approx. AUD 16 million in respect of both banks.

On January 31, 2020, the parties signed a compromise agreement and the claim against the banks was deleted. The amount payable under this agreement is not material to the Bank.

(b) On December 4, 2016, the Bank received notice of a legal action against the Bank and against additional Defendants, which had been filed with the Federal Court in Australia. The action was served by the Liquidators of three Australian companies, which had held accounts with the Bank. The action relates to different transactions recorded in the said accounts in the years 1992 to 2009. At date of service of the action, the amount claimed was AUD 100 million. According to the Plaintiffs, the amount claimed includes interest in accordance with Australian law of an annual rate of 8%. The Bank has filed motions for the cancellation of the permit for serving outside the jurisdiction and for the stay of proceedings, inter alia, on grounds of arguments claiming lack of authority and an improper forum. Hearing of the preliminary arguments of the Bank was held on November 12, 2019. A decision in the matter is still pending. An amended action brief was filed on November 14, 2019, according to which, the Liquidators and the Tax Authorities were attached as additional Plaintiffs in respect of one of the causes of action.

26. Contingent Liabilities and Special Commitments (continued)

(c) On October 3, 2019, the Liquidators of the three Plaintiff companies in the proceedings discussed in subsection (b) above, and of four additional companies that had held accounts with the Bank ("the additional companies") filed motions for the recognition in Israel of the liquidation proceedings of these companies conducted in Australia, as well as of additional companies (which had no accounts with the Bank). These motions, which were filed with the Tel Aviv District Court, are argued to be based on the Insolvency and Economic Recovery Act, 2018. The Bank was not a party to the motions for recognition. On October 3, 2019, the Court admitted the said motions. On November 14, 2019, the Liquidators motioned the Court for an order instructing the Bank to deliver to them documents and information in the hands of the Bank relating to all the accounts that are conducted or which had been conducted at the Bank in the name of the companies in question or to accounts related to them. The Bank opposed the motion for delivery of documents and information and filed a motion for the cancellation of the said recognition proceedings. The Court stayed the decision regarding the motion for delivery of documents and information until after a decision is handed in the matter of the recognition proceedings. On March 3, 2020, a hearing on the motion took place. On March 10, 2020, the motion for the cancellation of the recognition proceedings was withdrawn by mutual consent.

The Bank assess that it is very likely that the Australian Tax Authorities would issue amended tax assessments to the additional companies, following which, additional actions would be lodged against the Bank and/or MDB. It is estimated by the Bank that if such additional actions would in fact be lodged, as stated, then together with the proceedings described in Item (b) above and the proceedings described in Item 13.1 hereunder, the total amount of such actions may reach approx. AUD 190 million. An examination performed at the banks did not identify additional related accounts, in respect of which additional actions, as stated above, might be lodged.

It is emphasized that no monetary demand or monetary claim have as yet been submitted to the banks with respect to the additional companies, or with respect to the related company mentioned in Item 13.1 hereunder, and that to the best knowledge of the Bank, no amended tax assessment have as yet been issued to them. The estimate made by the Bank of the total amount of the claims, as stated above, is based on data contained in the legal briefs of the Liquidators being part of the proceedings already in progress, on data existing in the hands of the Bank and on the basis of the principles for computation of the damage, as detailed by the Liquidators in the proceedings discussed in Item (a) above. In view of the above, difficulty exists in assessing the amounts of the actions that might be lodged, if at all, in respect of the said companies, and the amounts of the actions served, if at all, might be significantly higher or lower than the amounts estimated.

For details pertaining to additional proceedings which are being conducted in a similar matter, see Item 13.1 hereunder.

12.5 An action together with a motion for approval of the action as a class action suit was filed on May 6, 2018, with the Tel Aviv-Jaffa District Court against ICC and two additional Respondents. The subject of the motion is the claim that the Respondents had not provided proper disclosure regarding the charging of interest by them. The Claimants stated the amount of their claim in respect of all class members, and against all respondents, at NIS 181 million.

ICC submitted on March 5, 2019, its response to the motion for approval.

12.6 An action together with a motion for approval of the action as a class action suit was filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Custodian General Act, 1978, and the provisions of the Protection of Deposited Assets Act, 1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million.

The response of the Bank was filed in February 10, 2019. On July 28, 2019, the parties submitted a joint notice to the Court regarding their agreement to refer the case to mediation. In view of the demand of the Appellant to add to the mediation proceedings a cause of action not included in the claim, a mediation process shall not take place. A motion for the amendment of the motion for approval was filed on December 25, 2019. The Bank has to submit a response by March 17, 2020. A preliminary hearing was fixed for October 14, 2020.

26. Contingent Liabilities and Special Commitments (continued)

12.7 On July 22, 2018, a claim and a petition for the claim's approval as a class action were filed in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group. The response brief of the Respondents was submitted on March 25, 2019.

A preliminary hearing was held on January 7, 2020. At the end of the hearing, the Court ordered the representative of the Plaintiffs to edit, while reducing, the list of documents requested for disclosure and perusal thereof, as well as the questionnaire. On January 26, 2020, the Appellants filed an amended motion for the disclosure of documents. On March 8, , the Defendants filed a response brief to the motion.

12.8 A legal action was filed with the District Court Central Region on May 29, 2019, against MDB together with a motion for approval of the action as a class action suit. The Plaintiff claims that it had entered into a transaction with MDB, which was defined by MDB as a transaction for the discounting of checks, while in fact the transaction in substance was a loan transaction. Inter alia, the Plaintiff claims that MDB did not disclose the effective interest rate, which as alleged by the Plaintiff, included also the commission charged in respect of the transaction. It is further claimed that MDB had subjected the granting of credit to the opening of a deposit account pledged in favor of MDB in a way comprising the subjecting of a service to another service.

The Plaintiff stated the amount of the claim in respect of all class members at NIS 163 million.

On January 2, 2020, the power of a Court verdict was given to the request by mutual consent for the removal of the lawsuit.

13. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and requests to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which in the opinion of the Bank's, which is based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries which is based on legal opinions, respectively, it is not possible at this stage to evaluate their prospects of success, and therefore no provision has been included in respect therewith.

13.1 The Bank has been informed, that on June 15, 2017, following a motion filed with an Australian Court, in proceedings being conducted regarding the Australian Tax Authorities and a company related to the companies mentioned in subsection 12.4 above, the Magistrate Court in Tel Aviv issued an order permitting an Israeli lawyer to collect testimonies and evidence from three employees of MDB (some of them already retired), and this in accordance with a motion for obtaining legal assistance between States.

On January 30, 2020, the motion that had been filed by MDB for permission to appeal the decision of the District Court ordering MDB to deliver documents to an Israeli lawyer, was rejected. The documents have been delivered to the liquidator. The collection of testimony has been scheduled for March 22, 24 and 25, 2020.

For details regarding additional proceedings in a similar matter, see Section 12.4 above.

13.2 A legal action was filed with the Tel Aviv District Court on June 5, 2019, against the Bank and against five additional banks, together with a motion for approval of the action as a class action suit.

The subject matter of the motion is foreign currency conversion operations. It is alleged that when customers transact a foreign currency conversion operation, the charges applying to such a transaction comprise of two commission fees: an operation commission (which, as alleged, is properly disclosed in the published pricelists of the Respondents) and an additional commission, which as claimed is an exchange differences commission, which according to the Plaintiff is not properly disclosed neither in the pricelists nor in the transaction statement issued to the customer. It is therefore argued that the charging of such a commission fee is in contradiction of the law. It is further claimed that whereas such charge is hidden from the eyes of the customers, they have no way of knowing the actual cost of currency conversion services.

As to the operation commission, it is claimed that the Bank and two other banks compute such commission on the transaction amount including the exchange difference increment, thus charging an excessive operation commission.

The Plaintiff has stated the amount of the claim against the Bank in respect of all class members at NIS 1,486 million.

26. Contingent Liabilities and Special Commitments (continued)

On October 10, 2019, the Bank submitted a motion for the in limine dismissal of the motion, as well as a motion for extension of the date for submission of its response. On October 27, 2019, the Appellant submitted his response brief to the motions. On January 16, 2020, the Court decided that the date for submission of the response to the motion for approval is deferred until after a decision is given regarding the motion for the in limine dismissal. A hearing was held on March 9, 2020. A judgment was given whereby the petitioner must give notice, by March 25, 2020, of whether he wishes to continue with the proceedings.

13.3 On December 19, 2019, the Bank received a claim brief together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants.

The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Private Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the claim brief.

As argued in the claim brief, the controlling stockholders of the Plaintiff had acted for the granting of loans by the Plaintiff to entities under their control, such loan monies being later transferred through bank accounts in order to hide their source, and finally usurped for the personal benefit of the controlling stockholders. It is further argued that as part of the fraud and embezzlement perpetrated in accordance with the instructions of the controlling stockholders, an amount of US$1.2 billion was smuggled to Israel by way of monetary transfers from a bank account in Cyprus belonging to a company owned by the controlling stockholders to its account with the Bank. As described in the claim brief, the said monetary transfers were made in the years from 2007 to 2011. According to the arguments of the Plaintiff by allowing these monetary transfers to and from the Bank, the Bank has caused damage to the Plaintiff, and this, as argued by the Plaintiff, is in contradiction to the duties applying to him under the Prohibition of Money Laundering Act in Israel.

The amount of the claim against all defendants is stated at NIS 2.1 billion.

The Court fee was paid on January 30, 2020.

On February 17, 2020, the Bank filed a motion for the dismissal in limine of the claim or, alternately, for a stay of proceedings therein due to the parallel proceedings being conducted overseas. A motion was also filed to extend the date for submitting a defense brief until a ruling is given on the motion for dismissal in limine. On March 8, the Plaintiff filed his response brief, according to which he opposes the motion for extension of the date for submission of a defense brief. The response of the Plaintiff to the motion for the in limine dismissal is to be filed by March 29, 2020.

13.4 On January 30, 2020, four lawsuits were filed with the Tel Aviv District Court against the Bank together with motions for their approval as class action suits. The lawsuits refer to a failure in the installation of a server regarding the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damage.

The amounts of the claims in respect of all members of the class amount in the four motions to NIS 850 million, NIS 500 million, NIS 25 million and NIS 2.5 million, respectively.

On March 4, 2020, the Bank filed motions in all the cases of motions for approval, whereby the Court was asked to use its authority to order the dismissal of three of the four motions for approval. In addition, the Court was asked to instruct that the Bank's response to the remaining motion for approval be submitted within 90 days from the date of the decision on the motions. On March 5, 2020, the Court granted to the petitioners in each of the motions for approval a right to respond, within 21 days.

14. (a) Discount Capital company invests in private equity funds, in venture capital funds and in nonfinancial corporations. As of December 31, 2019, the outstanding balance of investment commitments made by Discount Capital amounted in total to US$155 million (as of December 31, 2018: US$165 million).

(b) Discount Capital owns approx. 19.6% of the equity of Menif. As of December 31, 2019, the facility for granting guaranties to projects of Menif, amounted to a maximum amount of NIS 100 million. As of December 31, 2019, guaranties have been provided in the amount of NIS 95 million (December 31, 2018: NIS 79 million).

15. **An agreement for provision of services to government employees.** On May 10, 2007 the Bank signed an agreement in this regard for the granting of loans, credit facilities and other banking services to State employees for a period of seven years beginning on January 1, 2008. The agreement with the State terminated on December 31, 2014. At the end of each calendar year, the Bank is required to provide an unconditional self-obligation to the sum of 10% of the balance of the loans or NIS 20 million, whichever is lower, until the full settlement of the loans provided within the framework of this engagement. The balance of loans amounted on December 31, 2019, to NIS 103 million.

26. Contingent Liabilities and Special Commitments (continued)

16. **An agreement for provision of services to teaching staff employees.** On September 26, 2007, the Bank signed an agreement for the granting of subsidized loans to teachers and of conditional loans to education students. The engagement with the Accountant General was terminated on June 30, 2014. At the end of each calendar year the Bank is required to forward an unconditional self-commitment in an amount of 10% of the balance of loans or NIS 10 million, whichever is lower, until the repayment in full of all loans granted within the framework of the said engagement. The balance of loans amounted on December 31, 2019, to NIS 13.7 million.
17. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC.
    The investment in the project amounted at December 31, 2019, to NIS 200 million. Discount Leasing has entered into agreements with suppliers with respect to the construction of the "Discount Campus", in a total amount of NIS 148 million. The balance of the commitment in respect of the project as of December 31, 2019, amounts to NIS 73 million. Subsequent to balance sheet date, the liability increased in an additional amount of NIS 590 million.
18. **Merger of Municipal Bank.** On November 13, 2018, a merger agreement (hereinafter – "the merger agreement") has been signed between MDB and Municipal Israel Bank Ltd. (hereinafter: "Municipal Bank"), within the framework of which and subject to the fulfillment of conditions precedent stated therein, Municipal Bank would merge with and into MDB by way of a contractual merger in accordance with Chapter One of Part Eight of the Companies Act, 1999. The general meeting of shareholders of Municipal Bank approved on January 3, 2019, the proposal for the merger with MDB.
    The original date for the expiry of the contract was fixed for June 1, 2019, unless it is deferred by mutual consent of the parties in writing. The general meeting of shareholders of Municipal Bank, in its resolutions dated June 30, 2019 and October 10, 2019, approved extension of the validity of the agreement until December 1, 2019.
    In terms of the agreement, MDB is under obligation to pay to the shareholders of Municipal Bank an amount of approx. NIS 670 million (hereinafter: "the consideration"). Whereas the agreement has not been fulfilled until April 1, 2019, the consideration payable to the shareholders of Municipal Bank was increased as follows:
    - For the period from April 1, 2019 until May 31, 2019 – an amount of NIS 1.25 million per month;
    - For the period from June 1, 2019 until August 31, 2019 – an amount of NIS 2.25 million per month;
    - For the period from September 1, 2019 until date of consummation of the transaction – an amount of NIS 4.5 million per month (or a proportionate part thereof); on condition that that the total consideration shall not amount to less than NIS 691 million.

    As stated, the merger agreement contains different conditions precedent. In the course of 2019, approvals required for the consummation of the transactions were obtained, as follows:
    - On May 23, 2019, the Bank received the confirmation of the Competition Commissioner for the merger of Municipal Bank with MDB, subject to certain terms, the essence of which is the sale of the credit portfolio of several local authorities (hereinafter: "the confirmation terms");
    - On May 30, 2019, a confirmation of the Tax Authority was received, regularizing the tax issues upon consummation of the merger;
    - On August 22, 2019, the Competition Commissioner approved Union Bank as the potential purchaser of the credit portfolio, and also approved the scope and composition of the credit portfolio expected to be purchased by it in accordance with the approval of the Competition Authority and on the basis of the data that had been provided to it;
    - The confirmation by the Supervisor of Banks for the merger, in accordance with the terms stated by the Competition Authority, was received on September 2, 2019.

    On November 11, 2019, Municipal Bank, MDB and Union Bank signed an agreement for the sale of a part of the credit portfolio of Municipal to Union Bank of Israel Ltd. (hereinafter: "the credit portfolio" and the "sale agreement", respectively). Consummation of the sale agreement was completed proximate before the consummation of the merger on December 1, 2019.
    The merger was completed on December 1, 2019, following fulfillment of all conditions precedent to the merger. Following the merger, Municipal Bank ceased to exist. An amount of NIS 693 million was paid in consideration for the shares.
    Accounting and measurement rules. The assets and liabilities owned by Municipal Bank and acquired on December 1, 2019, date of consummation of the merger, as stated – were recorded in the books on the basis of their fair value (including the fair value of intangible assets in an immaterial amount, recognized at date of the merger), based upon a valuation performed by a qualified assessor (relying, inter alia, on the fair value valuations of the real estate acquired and the liabilities for payment of employees' rights, performed by a qualified real estate assessor and a qualified actuary, respectively).

26. Contingent Liabilities and Special Commitments (continued)

Legal proceedings regarding the merger. On July 26, 2019, Jerusalem Bank filed with the Competition Tribunal at the Jerusalem District Court, an appeal against the decision of the Competition Commissioner. The Claimant argues that the approval of the merger transaction impairs competition and prevents the entry into the market of new players in the credit market for municipal authorities. On August 15, 2019, the Bank, MDB, Municipal Bank and the Competition Commissioner filed motions for the in limine rejection of the appeal.

A hearing in the presence of the parties was held on January 12, 2020. A verdict in the appeal was given on February 25, 2020, in which the Court ordered the in limine removal of the appeal.

27. Pledges, Restrictive Terms and Collateral

A. IDB New York has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2019 amounted to US$1,021 million (NIS 3,529 million) [December 31, 2018: US$1,207 million (NIS 4,525 million)].

In addition, IDB New York pledged loans in favor of the Federal Home Loan Bank, in the amount of approx. US$506 million (NIS 1,750 million) as of December 31, 2019 as a collateral for deposits received from it [as at December 31, 2018: approx. US$132 million (NIS 495 million)].

B. IDB New York has sold securities, under buyback terms, in the amount of approx. US$110 million (NIS 380 million) as of December 31, 2019 [as at December 31, 2018: US$345 million (NIS 1,292 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of approx. US$15 million (NIS 52 million) [as at December 31, 2018: US$15 million (NIS 56 million)].

D. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. As of December 31, 2015 the deposit was nullified and it remained at a zero balance throughout the years 2017-2019.

E. Note 26 C 4 above describes the risk fund established by the Maof clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2019, amounted to approx. NIS 194 million (December 31, 2018: NIS 196 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank's customers and in respect of the Bank's activity itself (nostro) as of December 31, 2019, was approx. NIS 430 million (2018: NIS 797 million).

According to the Memorandum and Bye Laws of the Maof clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Maof clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Maof Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Maof Clearing House at the Stock Exchange Clearing House and at an account in the name of the Maof Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Maof transactions to which it is responsible towards the Maof Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts.

It is noted that on October 27, 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the Maof clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these clearing houses with the Bank of Israel, this in order to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the Maof clearing house, this in addition to earlier pledges and without derogating there from.

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the Maof clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

27. Pledges, Restrictive Terms and Collateral (continued)

Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Maof Clearing House, the amount of which at December 31, 2019, totaled approx. NIS 948 million (December 31, 2018: NIS 1,283 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Maof Clearing House. The value of the collateral in favor of the Maof Clearing House, as stated, amounted on December 31, 2019, to approx. NIS 17 million (December 31, 2018: NIS 41 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2019, to approx. NIS 2 million (December 31, 2018: NIS 2 million).

Balance of collateral provided to the Maof Clearing House

	Balance as of December 31, 2019	Highest balance during the year 2019	Average balance* in 2019	Balance as of December 31, 2018
	In NIS millions			
Cash	52	65	50	65
Securities	915	1,481	1,212	1,262

* The reporting is made on the basis of the month-end balances.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

G. (1) The Bank enters into Credit Support Appendix (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits designed for the delimitation of the exposure to the other party, until the date of the next measurement. As of December 31, 2019, the Bank allocated in favor of various banks deposits in a total amount of approx. NIS 546 million (December 31, 2018: NIS 257 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank with respect to the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

(2) IDB New York also engages in CSA type agreements. As of December 31, 2019, IDB New York provided in favor of various banks deposits in a total amount of approx. US$45 million (NIS 157 million) [December 31, 2018: US$0.96 million (NIS 3.56 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2019, MDB provided in favor of various banks deposits in a total amount of approx. NIS 20 million (December 31, 2018: NIS 13 million).

H. As detailed in Note 26 C 5 above, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearing House (hereinafter: "the Clearing House" or "Stock Exchange Clearing House"), the Bank pledged as security for its obligations towards the Clearing House all the Bank's rights in the security deposit managed by the Clearing House (in which the Bank deposits securities) and all its rights in funds under the name of the Clearing House, deposited with the Bank of Israel. The value of the collateral amounted on December 31, 2019, to NIS 135 million (as at December 31, 2018: NIS 131 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2019, amounted to NIS 21 million (December 31, 2018: NIS 21 million).

Balance of collateral provided to the Stock Exchange Clearing House

	Balance as of December 31, 2019	Highest balance during the year 2019	Average balance* in 2019	Balance as of December 31, 2018
	In NIS millions			
Cash	36	36	36	36
Securities	120	120	118	117

* The reporting is made on the basis of the month-end balances.

27. Pledges, Restrictive Terms and Collateral (continued)

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the new settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2019, at approx. NIS 1.30 billion (December 31, 2018: NIS 2.73 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds valued, as at December 31, 2019, at approx. NIS 302 million (December 31, 2018: NIS 301 million).

Details of the pledge agreement

	Balance as of December 31, 2019	Highest balance during the year 2019	Average balance* in 2019	Balance as of December 31, 2018
	In NIS millions			
Pledged securities (market value)	1,602	3,021	2,137	3,028

* The report is based on outstanding monthly balances.

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

The Bank and MDB did not participate in the years 2017-2019 in the said credit tenders.

Details of the deposits

	Balance as of December 31, 2019	Highest balance during the year 2019	Average balance* in 2019	Balance as of December 31, 2018
	In NIS millions			
Deposits with the Bank of Israel	21,349	21,407	16,335	16,250

* The report is based on outstanding monthly balances.

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2019 was approx. NIS 531 million (December 31, 2018: NIS 774 million).

27. Pledges, Restrictive Terms and Collateral (continued)

L. The sources and uses of the securities that had been received and the Bank's and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	In NIS millions			
The sources:				
Securities against cash	531	774	531	774
Total	**531**	**774**	**531**	**774**
The uses:				
Securities sold under repurchase arrangements	380	1,292	-	-
Total	**380**	**1,292**	**-**	**-**

M. Details of securities pledged to the lenders

	Consolidated		The Bank	
	December 31		December 31	
	2019	2018	2019	2018
	In NIS millions			
Available for sale securities	2,356	2,793	1,814	2,138
Held-to-maturity bonds	541	1,974	540	1,967
Total	**2,897**	**4,767**	**2,354**	**4,105**

These securities have been deposited as collateral with the lenders, who are not permitted to sell or pledge them.

N. In the reporting period, IDB New York created a pledge of the "securities pledged for deposits" type – a pledge of CLO-type securities to local authorities against deposits that are received from them. The balance of the pledged securities amounted on December 31, 2019 to approx. NIS 178 million (approx. US$51 million).

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, Swap, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, components of embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.
      The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Maof activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.
   c. Liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

2. Some of the derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (derivatives not-for-trade) and the balance of which if defined as derivatives held for trade.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions. The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

   When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value. When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.
6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.
7. Cash flow hedge

   The subsidiary IDB New York designates certain derivatives as hedge for cash flow. The change in the fair value of derivatives hedging exposure to changes in cash flows from assets, liabilities or from foreseen transactions, are firstly recognized in other comprehensive income and thereafter, when the hedged item affects profit or loss, it is reclassified to the statement of profit and loss.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 2019			December 31, 2018		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
Interest rate contracts						
Forward and Futures contracts	6,888	7,283	14,171	7,170	7,971	15,141
Options written	381	5,514	5,895	-	13,486	13,486
Options purchased	405	3,124	3,529	-	12,777	12,777
Swaps[(1)]	12,111	131,026	143,137	11,358	108,245	119,603
Total[(2)]	**19,785**	**146,947**	**166,732**	**18,528**	**142,479**	**161,007**
Of which: Hedging derivatives[(5)]	3,838	-	3,838	3,522	-	3,522
Foreign currency contracts						
Forward and Futures contracts[(3)]	1,529	19,731	21,260	862	14,924	15,786
Options written	-	13,067	13,067	-	12,051	12,051
Options purchased	-	12,235	12,235	6	11,228	11,234
Swaps	33,634	37,708	71,342	24,536	36,838	61,374
Total	**35,163**	**82,741**	**117,904**	**25,404**	**75,041**	**100,445**
Contracts on shares						
Forward and Futures contracts	-	45	45	-	44	44
Options written	163	8,773	8,936	-	9,431	9,431
Options purchased[(4)]	168	8,773	8,941	-	9,443	9,443
Swaps	-	656	656	-	1,173	1,173
Total	**331**	**18,247**	**18,578**	**-**	**20,091**	**20,091**
Commodities and other contracts						
Forward and Futures contracts	-	849	849	-	1,544	1,544
Options written	21	3	24	-	4	4
Options purchased	21	3	24	-	4	4
Total	**42**	**855**	**897**	**-**	**1,552**	**1,552**
Total stated amount	**55,321**	**248,790**	**304,111**	**43,932**	**239,163**	**283,095**

Footnotes:

	December 31, 2019	December 31, 2018
(1) Of which: swaps on which the Bank pays a fixed interest	45,991	40,610
(2) Of which: shekel/CPI swaps	11,701	13,062
(3) Of which: spot foreign currency swap contracts	1,778	2,360
(4) Of which: traded on the Stock Exchange	9,116	9,009

(5) The Bank conducts accounting hedge by way of IRS transactions.

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
	December 31, 2019					
Interest rate contracts	187	2,733	2,920	321	2,728	3,049
Of which: Hedging	34	-	34	99	-	99
Foreign currency contracts	343	852	1,195	546	829	1,375
Contracts on shares	8	380	388	8	380	388
Commodities and other contracts	1	54	55	1	53	54
Total assets/liabilities in respect of derivatives gross[(1)]	**539**	**4,019**	**4,558**	**876**	**3,990**	**4,866**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	539	4,019	4,558	876	3,990	4,866
Of which: not subject to net settlement arrangement or similar arrangements	-	358	358	41	359	400
	December 31, 2018					
Interest rate contracts	154	1,232	1,386	253	1,154	1,407
Of which: Hedging	32	-	32	52	-	52
Foreign currency contracts	594	987	1,581	282	823	1,105
Contracts on shares	-	733	733	-	732	732
Commodities and other contracts	-	38	38	-	38	38
Total assets/liabilities in respect of derivatives gross[(1)]	**748**	**2,990**	**3,738**	**535**	**2,747**	**3,282**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	748	2,990	3,738	535	2,747	3,282
Of which: not subject to net settlement arrangement or similar arrangements	-	660	660	-	707	707

Footnote:
(1) Of which: NIS 13 million (December 31, 2018: NIS 12 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 27 million (December 31, 2018: NIS 33 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

B. Accounting hedge

1. Effect of accounting hedge

	For the year ended December 31, 2019
	Interest income (expenses)
	In NIS millions
Profit (loss) on fair value hedge	
Interest rate contracts	
Hedged items	65
Hedging derivatives	(68)

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

B. Accounting hedge (continued)

2. Items hedged by fair value hedge

	December 31, 2019		
	Book value	Cumulative fair value adjustments increasing the book value	
		Existing hedge relations	Discontinued hedge relations
	In NIS millions		
Securities	2,204	73	8
Deposits from the public	1,266	(10)	-

3. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	For the year ended December 31, 2019
	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)
	In NIS millions
Interest rate contracts	32
Foreign currency contracts	(879)
Contracts on shares	1
Commodities and other contracts	-
Total	**(846)**

Footnote:

(1) Included in the item Non-interest financing income (expenses)

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2019					
Balance sheet balance of assets in respect of derivative instruments(2)	38	1,379	27	88	3,026	4,558
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(1,241)	(16)	-	(1,931)	(3,188)
Credit risk mitigation in respect of cash collateral received	-	(117)	(1)	(88)	(40)	(246)
Net amount of assets in respect of derivative instruments	**38**	**21**	**10**	**-**	**1,055**	**1,124**
Off-balance sheet credit risk in respect of derivative instruments(1)	249	103	44	18	577	991
Total credit risk in respect of derivative instruments(4)	**287**	**1,482**	**71**	**106**	**3,603**	**5,549**
Balance sheet balance of liabilities in respect of derivative instruments(3)	302	2,015	18	-	2,531	4,866
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,241)	(16)	-	(1,931)	(3,188)
Pledged cash collateral	-	(690)	-	-	(110)	(800)
Net amount of liabilities in respect of derivative instruments	**302**	**84**	**2**	**-**	**490**	**878**
	December 31, 2018					
Balance sheet balance of assets in respect of derivative instruments(2)	82	1,520	130	-	2,006	3,738
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(1,015)	(3)	-	(677)	(1,695)
Credit risk mitigation in respect of cash collateral received	-	(406)	(10)	-	(70)	(486)
Net amount of assets in respect of derivative instruments	**82**	**99**	**117**	**-**	**1,259**	**1,557**
Off-balance sheet credit risk in respect of derivative instruments(1)	194	205	141	9	627	1,176
Total credit risk in respect of derivative instruments(4)	**276**	**1,725**	**271**	**9**	**2,633**	**4,914**
Balance sheet balance of liabilities in respect of derivative instruments(3)	441	1,328	25	59	1,429	3,282
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,015)	(3)	-	(677)	(1,695)
Pledged cash collateral	-	(251)	-	-	-	(251)
Net amount of liabilities in respect of derivative instruments	**441**	**62**	**22**	**59**	**752**	**1,336**

Footnotes:

(1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and between the balance sheet amount of assets in respect of derivative instruments of the borrower.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,545 million included in the item assets in respect of derivative instruments (December 31, 2018: NIS 3,726 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,839 million included in the item liabilities in respect of derivative instruments (December 31, 2018: NIS 3,249 million).

(4) The amount does not include the above deductions.

(5) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 3,164 million (as of December 31, 2018 – an amount of NIS 1,687 million).

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

D. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	December 31, 2019				
Interest rate contracts					
Shekel/CPI	1,450	2,964	4,593	2,694	11,701
Other	21,059	28,088	44,355	61,529	155,031
Foreign currency contracts	61,758	39,168	12,021	4,957	117,904
Contracts on shares	17,254	677	647	-	18,578
Commodities and other contracts	59	789	49	-	897
Total	**101,580**	**71,686**	**61,665**	**69,180**	**304,111**
	December 31, 2018				
Interest rate contracts					
Shekel/CPI	1,508	4,290	4,249	3,015	13,062
Other	8,845	31,996	57,340	49,764	147,945
Foreign currency contracts	51,686	34,517	7,706	6,536	100,445
Contracts on shares	17,785	1,115	1,191	-	20,091
Commodities and other contracts	584	968	-	-	1,552
Total	**80,408**	**72,886**	**70,486**	**59,315**	**283,095**

29. Regulatory Operating Segments and Geographical Areas Information

A. General

As stated in Note 1 D 19 above, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

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

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Large businesses segment" - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Act, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

"Financial management segment" - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in affiliated companies.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Allocation of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is allocated.

For details regarding managerial segments, see Note 30 below.

B. Classification of customers in certain cases. It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified to the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, in accordance with the rules detailed in the Directive.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, in accordance with the rules detailed in the Directive.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions had been taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

C. Changes in classification

(1) Improving the allocation of risk assets to the segments;

(2) In the course of 2019, the expense model has undergone changes and modifications within the framework of the current tuning of the model. The comparative data has been reclassified accordingly.

(3) Improving the allocation of non-interest income to the segments;

(4) Improving the allocation of trading derivatives operations to the different segments.

D. The principal assumptions, estimates and principles used in the preparation of segment information

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. Income

Net interest income. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks. According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

2. Expenses

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to the items above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);

29. Regulatory Operating Segments and Geographical Areas Information (continued)

- Allocation of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses in respect of mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 34.19% (2018: 34.19%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the statutory tax, net, recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated in accordance with the principles of Basel III.

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment: 9.2% in 2019, 9.19% in 2018, 9.18% in 2017.

4. Presentation of inter-segment expenses

The accountability between the profit centers in the Bank is made as described in item 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated

	For the year ended December 31, 2019				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,374	4	1,674	371	1,139
Interest expenses To external sources	217	124	141	37	100
Interest income, net from external sources	2,157	(120)	1,533	334	1,039
Interest income, net Intersegmental	(198)	204	30	(10)	(295)
Total Interest income, net	1,959	84	1,563	324	744
Non-interest financing income from external sources	2,321	657	1,083	221	296
Non-interest financing income Intersegmental	(719)	(589)	(493)	(94)	74
Total Non-interest financing income	1,602	68	590	127	370
Total income	**3,561**	**152**	**2,153**	**451**	**1,114**
Credit loss expenses (expenses reversal)	339	2	234	107	(21)
Operating and other expenses	3,144	116	1,329	278	537
Profit (loss) before taxes	78	34	590	66	598
Provision for taxes (tax savings) on profit	12	11	201	21	198
Profit (loss) after taxes	66	23	389	45	400
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	66	23	389	45	400
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(44)	-	(10)	(2)	(7)
Net Profit (loss) Attributed to the bank's shareholders	**22**	**23**	**379**	**43**	**393**
Average Assets	66,660	277	35,852	10,553	36,867
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	65,682	209	35,274	10,443	36,759
Balance of credit to the public at the period end(3)	69,211	326	36,837	12,628	39,529
Balance of impaired debts	189	-	624	231	342
Balance of debts (not impaired) in arrear for over ninety days	416	-	60	1	1
Average Liabilities	79,656	15,477	40,297	7,323	22,789
Of which - Average Deposits from the public	75,463	15,342	35,131	6,243	19,584
Balance of deposits from the public at the period end	75,312	16,368	37,022	7,590	20,305
Average Risk-assets(1)	50,600	443	35,170	12,803	39,820
Balance of Risk-assets at the period end (1)	51,186	489	35,758	13,608	41,511
Average assets under management(2)	33,401	19,927	27,430	9,857	38,146
Interest income, net:					
Margin from credit activity to the public	1,632	2	1,401	295	702
Margin from deposits activity from the public	327	82	162	29	42
Other	-	-	-	-	-
Total Interest income, net	**1,959**	**84**	**1,563**	**324**	**744**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
26	560	6,148	60	1,131	228	1,419	7,567
129	424	1,172	134	299	69	502	1,674
(103)	136	4,976	(74)	832	159	917	5,893
145	124	-	197	(123)	(74)	-	-
42	260	4,976	123	709	85	917	5,893
211	(1,245)	3,544	47	99	81	227	3,771
(205)	2,026	-	-	-	-	-	-
6	781	3,544	47	99	81	227	3,771
48	**1,041**	**8,520**	**170**	**808**	**166**	**1,144**	**9,664**
(5)	-	656	(1)	35	-	34	690
61	181	5,646	273	323	57	653	6,299
(8)	860	2,218	(102)	450	109	457	2,675
(3)	339	779	(36)	148	41	153	932
(5)	521	1,439	(66)	302	68	304	1,743
-	16	16	-	-	-	-	16
(5)	537	1,455	(66)	302	68	304	1,759
-	6	(57)	-	-	-	-	(57)
(5)	**543**	**1,398**	**(66)**	**302**	**68**	**304**	**1,702**
836	61,393	212,438	1,319	22,029	9,902	33,250	245,688
-	172	172	-	-	-	-	172
689	-	149,056	1,329	22,195	-	23,524	172,580
676	-	159,207	1,423	22,361	-	23,784	182,991
295	-	1,681	-	133	-	133	1,814
-	-	478	-	-	-	-	478
15,665	16,576	197,783	8,914	17,456	3,232	29,602	227,385
15,610	-	167,373	8,831	17,293	-	26,124	193,497
18,076	-	174,673	9,047	17,730	-	26,777	201,450
1,420	13,538	153,794	1,590	23,807	2,085	27,482	181,276
1,259	12,813	156,624	1,694	23,775	2,353	27,822	184,446
73,682	2,376	204,819	13,767	-	-	13,767	218,586
21	-	4,053	24	557	-	581	4,634
21	-	663	99	152	-	251	914
-	260	260	-	-	85	85	345
42	**260**	**4,976**	**123**	**709**	**85**	**917**	**5,893**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2018				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,241	4	1,551	348	1,109
Interest expenses To external sources	221	106	113	29	90
Interest income, net from external sources	2,020	(102)	1,438	319	1,019
Interest income, net Intersegmental	(280)	181	13	(22)	(304)
Total Interest income, net	1,740	79	1,451	297	715
Non-interest financing income from external sources[6]	1,044	(410)	163	40	346
Non-interest financing income Intersegmental[6]	485	480	404	79	9
Total Non-interest financing income	1,529	70	567	119	355
Total income	**3,269**	**149**	**2,018**	**416**	**1,070**
Credit loss expenses (expenses reversal)	363	1	111	(40)	120
Operating and other expenses	[5] 3,084	[5] 119	[5] 1,366	[5] 276	[5] 462
Profit (loss) before taxes	(178)	29	541	180	488
Provision for taxes (tax savings) on profit	[5](72)	[5] 10	[5] 190	[5] 62	[5] 164
Profit (loss) after taxes	(106)	19	351	118	324
Bank's share in operating loss of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(106)	19	351	118	324
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(32)	-	(7)	(2)	(5)
Net Profit (loss) Attributed to the bank's shareholders	**(138)**	**19**	**344**	**116**	**319**
Average Assets	59,619	257	32,326	9,885	34,892
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	58,671	181	31,805	9,795	34,889
Balance of credit to the public at the period end[3]	62,042	200	33,595	10,068	37,156
Balance of impaired debts	155	-	507	137	399
Balance of debts (not impaired) in arrear for over ninety days	377	-	54	4	-
Average Liabilities	75,024	14,951	37,835	7,229	19,801
Of which - Average Deposits from the public	71,075	14,837	32,779	6,227	17,143
Balance of deposits from the public at the period end	73,951	16,765	33,994	5,925	18,968
Average Risk-assets[1]	[4]45,559	[4]453	[4]31,285	[4]12,567	[4]38,380
Balance of Risk-assets at the period end [1]	[4]46,880	[4]424	[4]32,400	[4]11,952	[4]38,582
Average assets under management[2]	35,904	19,145	25,223	7,422	40,491
Interest income, net:					
Margin from credit activity to the public	1,513	2	1,326	275	676
Margin from deposits activity from the public	227	77	125	22	39
Other	-	-	-	-	-
Total Interest income, net	**1,740**	**79**	**1,451**	**297**	**715**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C (1) above.
(5) Reclassified - see C (2) above.
(6) Reclassified - see C (3) above.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
25	475	5,753	54	1,001	245	1,300	7,053
81	476	1,116	93	186	132	411	1,527
(56)	(1)	4,637	(39)	815	113	889	5,526
90	322	-	207	(135)	(72)	-	-
34	321	4,637	168	680	41	889	5,526
(72)	2,206	3,317	44	97	36	177	3,494
84	(1,541)	-	-	-	-	-	-
12	665	3,317	44	97	36	177	3,494
46	**986**	**7,954**	**212**	**777**	**77**	**1,066**	**9,020**
1	-	556	(2)	(14)	-	(16)	540
(5) 52	(5) 179	5,538	246	314	50	610	6,148
(7)	807	1,860	(32)	477	27	472	2,332
(5)(3)	(5) 300	651	(11)	143	6	138	789
(4)	507	1,209	(21)	334	21	334	1,543
-	6	6	-	-	-	-	6
(4)	513	1,215	(21)	334	21	334	1,549
-	2	(44)	-	-	-	-	(44)
(4)	**515**	**1,171**	**(21)**	**334**	**21**	**334**	**1,505**
841	59,601	197,421	1,348	20,117	10,360	31,825	229,246
-	126	126	-	-	-	-	126
710	-	136,051	1,348	20,113	-	21,461	157,512
733	-	143,794	1,375	21,909	-	23,284	167,078
295	-	1,493	-	140	-	140	1,633
-	-	435	-	-	-	-	435
14,522	14,486	183,848	8,729	15,971	3,843	28,543	212,391
14,495	-	156,556	8,713	15,942	-	24,655	181,211
13,044	-	162,647	9,216	17,053	-	26,269	188,916
(4)1,483	(4)13,108	142,835	1,425	20,194	1,839	23,458	166,293
(4)1,776	(4)12,568	144,582	1,664	21,761	2,914	26,339	170,921
72,915	7,833	208,933	13,410	-	-	13,410	222,343
19	-	3,811	12	408	-	420	4,231
15	-	505	156	272	-	428	933
-	321	321	-	-	41	41	362
34	**321**	**4,637**	**168**	**680**	**41**	**889**	**5,526**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2017				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	1,994	4	1,451	328	929
Interest expenses To external sources	201	88	67	14	61
Interest income, net from external sources	1,793	(84)	1,384	314	868
Interest income, net Intersegmental	(252)	136	(55)	(41)	(209)
Total Interest income, net	1,541	52	1,329	273	659
Non-interest financing income from external sources	1,921	574	914	177	381
Non-interest financing income Intersegmental	(522)	(506)	(346)	(51)	(65)
Total Non-interest financing income	1,399	68	568	126	316
Total income	**2,940**	**120**	**1,897**	**399**	**975**
Credit loss expenses (expenses reversal)	333	-	145	21	23
Operating and other expenses	(5) 2,871	(5) 122	(5) 1,272	(5) 254	(5) 403
Profit (loss) before taxes	(264)	(2)	480	124	549
Provision for taxes (tax savings) on profit	(5)(114)	(5)(2)	(5) 169	(5) 42	(5) 190
Profit (loss) after taxes	(150)	-	311	82	359
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(150)	-	311	82	359
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(45)	-	(10)	(2)	(7)
Net Profit (loss) Attributed to the bank's shareholders	**(195)**	**-**	**301**	**80**	**352**
Average Assets	55,628	255	30,018	9,538	29,687
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	54,787	188	29,554	9,477	29,706
Balance of credit to the public at the period end(3)	56,129	217	30,825	9,651	32,698
Balance of impaired debts	88	-	566	284	538
Balance of debts (not impaired) in arrear for over ninety days	357	-	45	5	-
Average Liabilities	73,786	14,541	32,256	7,097	18,289
Of which - Average Deposits from the public	69,502	14,431	28,027	6,294	16,276
Balance of deposits from the public at the period end	68,766	15,656	27,220	6,230	17,632
Average Risk-assets(1)	(4)41,627	(4)423	(4)30,515	(4)13,226	(4)35,615
Balance of Risk-assets at the period end (1)	(4)44,214	(4)445	(4)30,991	(4)12,878	(4)38,378
Average assets under management(2)	35,835	19,099	20,211	4,732	43,716
Interest income, net:					
Margin from credit activity to the public	1,363	2	1,244	254	630
Margin from deposits activity from the public	178	50	85	19	29
Other	-	-	-	-	-
Total Interest income, net	**1,541**	**52**	**1,329**	**273**	**659**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C (1) above.
(5) Reclassified - see C (2) above.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
31	388	5,125	45	800	243	1,088	6,213
35	455	921	64	106	147	317	1,238
(4)	(67)	4,204	(19)	694	96	771	4,975
46	375	-	141	(91)	(50)	-	-
42	308	4,204	122	603	46	771	4,975
94	(838)	3,223	44	81	10	135	3,358
(83)	1,573	-	-	-	-	-	-
11	735	3,223	44	81	10	135	3,358
53	**1,043**	**7,427**	**166**	**684**	**56**	**906**	**8,333**
(21)	-	501	(3)	76	-	73	574
(5) 47	(5) 196	5,165	211	247	71	529	5,694
27	847	1,761	(42)	361	(15)	304	2,065
(5) 9	(5) 312	606	(17)	160	(2)	141	747
18	535	1,155	(25)	201	(13)	163	1,318
-	1	1	-	-	-	-	1
18	536	1,156	(25)	201	(13)	163	1,319
-	4	(60)	-	-	-	-	(60)
18	**540**	**1,096**	**(25)**	**201**	**(13)**	**163**	**1,259**
968	61,592	187,686	1,352	19,529	11,719	32,600	220,286
-	148	148	-	-	-	-	148
883	-	124,595	1,355	19,577	-	20,932	145,527
642	-	130,162	1,333	19,373	-	20,706	150,868
299	-	1,775	-	355	-	355	2,130
-	-	407	-	-	-	-	407
14,431	15,431	175,831	9,345	15,198	4,607	29,150	204,981
14,394	-	148,924	9,244	15,034	-	24,278	173,202
14,645	-	150,149	8,789	16,232	-	25,021	175,170
(4) 1,410	(4) 11,620	134,436	1,365	20,018	1,499	22,882	157,318
(4) 996	(4) 10,228	138,130	1,318	19,152	1,470	21,940	160,070
68,903	7,474	199,970	13,426	-	-	13,426	213,396
24	-	3,517	16	422	-	438	3,955
18	-	379	106	181	-	287	666
-	(5) 308	308	-	-	46	46	354
42	**308**	**4,204**	**122**	**603**	**46**	**771**	**4,975**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2019								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	969	525	880	2,374	2	-	2	4	2,378
Interest expenses To external sources	-	2	215	217	-	-	124	124	341
Interest income, net From external sources	969	523	665	2,157	2	-	(122)	(120)	2,037
Interest income, net Intersegmental	(592)	(29)	423	(198)	(2)	-	206	204	6
Total Interest income, net	**377**	**494**	**1,088**	**1,959**	**-**	**-**	**84**	**84**	**2,043**
Non-interest financing income From external sources	13	1,108	1,200	2,321	-	1	656	657	2,978
Non-interest financing income Intersegmental	-	-	(719)	(719)	-	-	(589)	(589)	(1,308)
Total Non-interest financing income	**13**	**1,108**	**481**	**1,602**	**-**	**1**	**67**	**68**	**1,670**
Total income	**390**	**1,602**	**1,569**	**3,561**	**-**	**1**	**151**	**152**	**3,713**
Credit loss expenses	27	139	173	339	-	-	2	2	341
Operating and other expenses	103	1,145	1,896	3,144	-	-	116	116	3,260
Profit (loss) before taxes	260	318	(500)	78	-	1	33	34	112
Provision for taxes (tax savings) on profit	88	106	(182)	12	-	-	11	11	23
Profit (loss) after taxes	172	212	(318)	66	-	1	22	23	89
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(44)	-	(44)	-	-	-	-	(44)
Net Profit (loss) Attributed to the bank's shareholders	**172**	**168**	**(318)**	**22**	**-**	**1**	**22**	**23**	**45**
Average Assets	34,423	15,468	16,769	66,660	113	44	120	277	66,937
Of which - Average credit to the public[(3)]	34,543	15,253	15,886	65,682	112	45	52	209	65,891
Balance of credit to the public at the period end[(3)]	36,798	16,421	15,992	69,211	176	48	102	326	69,537
Balance of impaired debts	-	55	134	189	-	-	-	-	189
Balance of debts (not impaired) in arrear for over ninety days	353	-	63	416	-	-	-	-	416
Average Liabilities	43	2,738	76,875	79,656	-	41	15,436	15,477	95,133
Of which - Average Deposits from the public	-	20	75,443	75,463	-	-	15,342	15,342	90,805
Balance of deposits from the public at the period end	-	18	75,294	75,312	-	-	16,368	16,368	91,680
Average Risk-assets[(1)]	20,345	13,311	16,944	50,600	62	47	334	443	51,043
Balance of Risk-assets at the period end [(1)]	20,781	13,544	16,861	51,186	88	47	354	489	51,675
Average assets under management[(2)]	382	-	33,019	33,401	-	-	19,927	19,927	53,328
Interest income, net:									
Margin from credit activity to the public	377	494	761	1,632	-	-	2	2	1,634
Margin from deposits activity from the public	-	-	327	327	-	-	82	82	409
Total Interest income, net	**377**	**494**	**1,088**	**1,959**	**-**	**-**	**84**	**84**	**2,043**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2018								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	909	486	846	2,241	2	-	2	4	2,245
Interest expenses To external sources	-	2	219	221	-	-	106	106	327
Interest income, net From external sources	909	484	627	2,020	2	-	(104)	(102)	1,918
Interest income, net Intersegmental	(598)	(32)	350	(280)	(1)	-	182	181	(99)
Total Interest income, net	**311**	**452**	**977**	**1,740**	**1**	**-**	**78**	**79**	**1,819**
Non-interest financing income From external sources[6]	15	1,024	5	1,044	-	1	(411)	(410)	634
Non-interest financing income Intersegmental[6]	-	-	485	485	-	-	480	480	965
Total Non-interest financing income	**15**	**1,024**	**490**	**1,529**	**-**	**1**	**69**	**70**	**1,599**
Total income	**326**	**1,476**	**1,467**	**3,269**	**1**	**1**	**147**	**149**	**3,418**
Credit loss expenses	23	152	188	363	-	-	1	1	364
Operating and other expenses[5]	107	1,068	1,909	3,084	-	-	119	119	3,203
Profit (loss) before taxes	196	256	(630)	(178)	1	1	27	29	(149)
Provision for taxes (tax savings) on profit[5]	68	81	(221)	(72)	-	-	10	10	(62)
Profit (loss) after taxes	128	175	(409)	(106)	1	1	17	19	(87)
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(32)	-	(32)	-	-	-	-	(32)
Net Profit (loss) Attributed to the bank's shareholders	**128**	**143**	**(409)**	**(138)**	**1**	**1**	**17**	**19**	**(119)**
Average Assets	30,240	13,337	16,042	59,619	84	38	135	257	59,876
Of which - Average credit to the public[3]	30,365	13,197	15,109	58,671	84	39	58	181	58,852
Balance of credit to the public at the period end[3]	32,684	14,028	15,330	62,042	95	39	66	200	62,242
Balance of impaired debts	-	46	109	155	-	-	-	-	155
Balance of debts (not impaired) in arrear for over ninety days	316	-	61	377	-	-	-	-	377
Average Liabilities	77	2,548	72,399	75,024	-	36	14,915	14,951	89,975
Of which - Average Deposits from the public	-	23	71,052	71,075	-	-	14,837	14,837	85,912
Balance of deposits from the public at the period end	-	23	73,928	73,951	-	-	16,765	16,765	90,716
Average Risk-assets[1][4]	17,238	12,298	16,023	45,559	42	40	371	453	46,012
Balance of Risk-assets at the period end [1][4]	18,568	12,037	16,275	46,880	52	40	332	424	47,304
Average assets under management[2]	399	-	35,505	35,904	-	-	19,145	19,145	55,049
Interest income, net:									
Margin from credit activity to the public	311	452	750	1,513	1	-	1	2	1,515
Margin from deposits activity from the public	-	-	227	227	-	-	77	77	304
Total Interest income, net	**311**	**452**	**977**	**1,740**	**1**	**-**	**78**	**79**	**1,819**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C (1) above.
(5) Reclassified - see C (2) above.
(6) Reclassified - see C (3) above.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses - operations in Israel, consolidated

	For the year ended December 31, 2019									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	484	1,190	1,674	88	283	371	323	816	1,139	3,184
Interest expenses From external sources	29	112	141	5	32	37	8	92	100	278
Interest income, net From external sources	455	1,078	1,533	83	251	334	315	724	1,039	2,906
Interest income, net Intersegmental	(38)	68	30	(9)	(1)	(10)	(78)	(217)	(295)	(275)
Total Interest income, net	**417**	**1,146**	**1,563**	**74**	**250**	**324**	**237**	**507**	**744**	**2,631**
Non-interest financing income From external sources	161	922	1,083	37	184	221	87	209	296	1,600
Non-interest financing income Intersegmental	(98)	(395)	(493)	(5)	(89)	(94)	31	43	74	(513)
Total Non-interest financing income	**63**	**527**	**590**	**32**	**95**	**127**	**118**	**252**	**370**	**1,087**
Of which - Credit Card income	-	149	149	-	34	34	-	114	114	297
Total income	**480**	**1,673**	**2,153**	**106**	**345**	**451**	**355**	**759**	**1,114**	**3,718**
Credit loss expenses (expenses reversal)	37	197	234	36	71	107	11	(32)	(21)	320
Operating and other expenses	168	1,161	1,329	26	252	278	13	524	537	2,144
Profit before taxes	275	315	590	44	22	66	331	267	598	1,254
Provision for taxes on profit	90	111	201	14	7	21	111	87	198	420
Profit after taxes	185	204	389	30	15	45	220	180	400	834
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(10)	(10)	-	(2)	(2)	-	(7)	(7)	(19)
Net Profit Attributed to the bank's shareholders	**185**	**194**	**379**	**30**	**13**	**43**	**220**	**173**	**393**	**815**
Average Assets	11,879	23,973	35,852	2,382	8,171	10,553	10,509	26,358	36,867	83,272
Of which - Average credit to the public(3)	11,787	23,487	35,274	2,382	8,061	10,443	10,524	26,235	36,759	82,476
Balance of credit to the public at the period end(3)	12,472	24,365	36,837	2,459	10,169	12,628	10,999	28,530	39,529	88,994
Balance of impaired debts	274	350	624	69	162	231	152	190	342	1,197
Balance of debts (not impaired) in arrear for over ninety days	8	52	60	1	-	1	1	-	1	62
Average Liabilities	6,467	33,830	40,297	1,444	5,879	7,323	3,406	19,383	22,789	70,409
Of which - Average Deposits from the public	6,338	28,793	35,131	1,425	4,818	6,243	3,392	16,192	19,584	60,958
Balance of deposits from the public at the period end	6,556	30,466	37,022	1,456	6,134	7,590	3,459	16,846	20,305	64,917
Average Risk-assets(1)	11,868	23,302	35,170	3,044	9,759	12,803	13,574	26,246	39,820	87,793
Balance of Risk-assets at the period end (1)	12,145	23,613	35,758	2,928	10,680	13,608	13,927	27,584	41,511	90,877
Average assets under management(2)	452	26,978	27,430	1,229	8,628	9,857	14	38,132	38,146	75,433
Interest income, net:										
Margin from credit activity to the public	391	1,010	1,401	68	227	295	228	474	702	2,398
Margin from deposits activity from the public	26	136	162	6	23	29	9	33	42	233
Total Interest income, net	**417**	**1,146**	**1,563**	**74**	**250**	**324**	**237**	**507**	**744**	**2,631**

Footnotes:

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses - operations in Israel, consolidated

	For the year ended December 31, 2018									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	425	1,126	1,551	84	264	348	274	835	1,109	3,008
Interest expenses From external sources	22	91	113	4	25	29	5	85	90	232
Interest income, net From external sources	403	1,035	1,438	80	239	319	269	750	1,019	2,776
Interest income, net Intersegmental	(33)	46	13	(10)	(12)	(22)	(72)	(232)	(304)	(313)
Total Interest income, net	**370**	**1,081**	**1,451**	**70**	**227**	**297**	**197**	**518**	**715**	**2,463**
Non-interest financing income From external sources[6]	9	154	163	20	20	40	135	211	346	549
Non-interest financing income Intersegmental[6]	61	343	404	7	72	79	(30)	39	9	492
Total Non-interest financing income	**70**	**497**	**567**	**27**	**92**	**119**	**105**	**250**	**355**	**1,041**
Of which - Credit Card income	-	132	132	-	29	29	-	82	82	243
Total income	**440**	**1,578**	**2,018**	**97**	**319**	**416**	**302**	**768**	**1,070**	**3,504**
Credit loss expenses (expenses reversal)	12	99	111	(12)	(18)	(40)	(19)	139	120	191
Operating and other expenses[5]	172	1,194	1,366	30	246	276	15	447	462	2,104
Profit before taxes	256	285	541	79	101	180	306	182	488	1,209
Provision for taxes on profit[5]	86	104	190	27	35	62	105	59	164	416
Profit after taxes	170	181	351	52	66	118	201	123	324	793
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(7)	(7)	-	(2)	(2)	-	(5)	(5)	(14)
Net Profit Attributed to the bank's shareholders	**170**	**174**	**344**	**52**	**64**	**116**	**201**	**118**	**319**	**779**
Average Assets	10,134	22,192	32,326	2,359	7,526	9,885	8,897	25,995	34,892	77,103
Of which - Average credit to the public[3]	10,032	21,773	31,805	2,352	7,443	9,795	8,954	25,935	34,889	76,489
Balance of credit to the public at the period end[3]	10,939	22,656	33,595	2,370	7,698	10,068	10,162	26,994	37,156	80,819
Balance of impaired debts	293	214	507	55	82	137	59	340	399	1,043
Balance of debts (not impaired) in arrear for over ninety days	10	44	54	4	-	4	-	-	-	58
Average Liabilities	5,732	32,103	37,835	1,651	5,578	7,229	3,206	16,595	19,801	64,865
Of which - Average Deposits from the public	5,617	27,162	32,779	1,630	4,597	6,227	3,184	13,959	17,143	56,149
Balance of deposits from the public at the period end	5,736	28,258	33,994	1,579	4,346	5,925	3,552	15,416	18,968	58,887
Average Risk-assets[1][4]	9,350	21,935	31,285	3,223	9,344	12,567	12,400	25,980	38,380	82,232
Balance of Risk-assets at the period end [1][4]	10,386	22,014	32,400	2,748	9,204	11,952	12,625	25,957	38,582	82,934
Average assets under management[2]	447	24,776	25,223	488	6,934	7,422	258	40,233	40,491	73,136
Interest income, net:										
Margin from credit activity to the public	351	975	1,326	65	210	275	192	484	676	2,277
Margin from deposits activity from the public	19	106	125	5	17	22	5	34	39	186
Total Interest income, net	**370**	**1,081**	**1,451**	**70**	**227**	**297**	**197**	**518**	**715**	**2,463**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C (1) above.
(5) Reclassified - see C (2) above.
(6) Reclassified - see C (3) above.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

In accordance with the transitional instructions, these financial statements present for the first time separate data regarding the financial management segment. Accordingly, no comparative data is presented.

H. Financial Management Segment – domestic operations, consolidated

	For the year ended December 31, 2019				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	24	536	-	-	560
Interest expenses To external sources	-	421	-	3	424
Interest income, net From external sources	24	115	-	(3)	136
Interest income, net Intersegmental	(14)	138	-	-	124
Total Interest income, net	10	253	-	(3)	260
Non-interest financing income From external sources	229	(1,667)	109	84	(1,245)
Non-interest financing income Intersegmental	59	1,967	-	-	2,026
Total Non-interest financing income	288	300	109	84	781
Total income	**298**	**553**	**109**	**81**	**1,041**
Operating and other expenses	109	32	23	17	181
Profit before taxes	189	521	86	64	860
Provision for taxes on profit	61	180	52	46	339
Profit after taxes	128	341	34	18	521
Bank's share in operating income of affiliated companies	-	-	16	-	16
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	6	-	-	6
Net Profit Attributed to the bank's shareholders	**128**	**347**	**50**	**18**	**543**
Average Assets	7,202	52,122	1,896	173	61,393
Of which - Investment in Investee companies	-	-	172	-	172
Average Liabilities	4,606	11,312	-	658	16,576
Average Risk-assets(1)	4,996	6,172	1,636	734	13,538
Balance of Risk-assets at the period end (1)	4,340	6,124	1,594	755	12,813
Average assets under management(2)	-	-	-	2,376	2,376
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	58	(97)	-	-	(39)
Net CPI linkage differences(3)	3	11	-	-	14
Net interest exposure(3)	47	570	-	-	617
Net share exposure(3)	5	-	-	-	5
Total net interest income and non-interest income, on an accrual basis	**113**	**484**	**-**	**-**	**597**
Profits or losses on sale or on impairment in value	-	140	-	-	140
Change in the difference between fair value and the accrual basis	-	(71)	-	-	(71)
Other non-interest income	185	-	-	-	185
Total net interest income and non-interest income	**298**	**553**	**109**	**81**	**1,041**

Footnotes:

Average balance were computed on the basis of balance at beginning of a quarter or a month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2018				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	32	439	-	4	475
Interest expenses To external sources	(1)	475	-	2	476
Interest income, net From external sources	33	(36)	-	2	(1)
Interest income, net Intersegmental	(24)	346	-	-	322
Total Interest income, net	9	310	-	2	321
Non-interest financing income From external sources(7)	345	1,660	116	85	2,206
Non-interest financing income Intersegmental(6)	64	(1,605)	-	-	(1,541)
Total Non-interest financing income	409	55	116	85	665
Total income	**418**	**365**	**116**	**87**	**986**
Operating and other expenses(5)	112	39	18	10	179
Profit before taxes	306	326	98	77	807
(5)Provision for taxes on profit	12	192	32	64	300
Profit after taxes	294	134	66	13	507
Bank's share in operating income of affiliated companies	-	-	6	-	6
Net Loss from ordinary operations Attributed to the non-controlling rights holders	-	2	-	-	2
Net Profit Attributed to the bank's shareholders	**294**	**136**	**72**	**13**	**515**
Average Assets	6,646	50,870	1,790	295	59,601
Of which - Investment in Investee companies	-	-	126	-	126
Average Liabilities	4,167	10,012	-	307	14,486
Average Risk-assets(1)(4)	5,540	5,732	1,283	553	13,108
Balance of Risk-assets at the period end (1)(4)	4,979	5,760	1,329	500	12,568
Average assets under management(2)	-	3	-	7,830	7,833
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	63	81	-	-	144
Net CPI linkage differences(3)	(30)	88	-	-	58
Net interest exposure(3)(6)	488	45	-	-	533
Net share exposure(3)	(7)	-	-	-	(7)
Total net interest income and non-interest income, on an accrual basis	**514**	**214**	**-**	**-**	**728**
Profits or losses on sale or on impairment in value	-	49	-	-	49
Change in the difference between fair value and the accrual basis	-	102	-	-	102
Other non-interest income	(96)	-	-	-	(96)
Total net interest income and non-interest income	**418**	**365**	**116**	**87**	**986**

Footnotes:

Average balance were computed on the basis of balance at beginning of a quarter of a month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Including in respect of securities and derivative instruments.

(4) Reclassified - see C (1) above.

(5) Reclassified - see C (2) above.

(6) Reclassified - see C (3) above.

(7) Reclassified - see C (4) above.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

I. Information on geographical areas

	Income[1]			Net Income (loss) attributed to the bank's shareholders			Assets	
	For the year end December 31						As at December 31	
	2019	2018	2017	2019	2018	2017	2019	2018
	in NIS millions							
Israel	8,520	7,954	7,427	1,398	1,171	1,096	226,149	204,828
North America	1,145	1,065	916	304	333	177	33,636	34,331
Europe	(1)	1	(10)	-	1	(14)	38	17
Total Overseas	**1,144**	**1,066**	**906**	**304**	**334**	**163**	**33,674**	**34,348**
Total Consolidated	**9,664**	**9,020**	**8,333**	**1,702**	**1,505**	**1,259**	**259,823**	**239,176**

Footnote:
(1) Income - Interest income, net, before credit loss expenses and non-interest income.

It is noted that in view of the sale of operations of IDB (Swiss) Bank and the closing down of the London Branch, operations in Europe are discontinued also.

30. Managerial Operating Segments

A. General

1. According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - Segments under responsibility of the Banking Division (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking - In this framework are included banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment (with effect as from January 1, 2020, responsibility for Middle Market banking was transferred from the Banking Division to the Corporate Division).
   - Segment under the responsibility of the Corporate Division (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - This framework includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - Segment under the responsibility of the Financial Markets Division (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – In this framework is included the financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - Segments including the activities of the principal subsidiaries in the Group:

     Discount Capital – Operations in the field of investment (in companies, in private equity funds, in venture capital funds and in mezzanine operations), in the field of investment banking, in the initiation and assistance of public and private placements and in providing underwriting and distribution services (by means of a subsidiary company).

30. Managerial Operating Segments (continued)

Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB New York.

ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.

- Other segment – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

3. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, in accordance with criteria used for dividing the activity between the administrative segments.

B. Information regarding managerial operating segments

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
	For the year ended December 31, 2019									
Interest income, net	2,722	603	869	278	9	900	505	2	5	5,893
Non-interest income	1,106	136	391	559	107	229	[4]1,358	68	(183)	3,771
Total income	**3,828**	**739**	**1,260**	**837**	**116**	**1,129**	**1,863**	**70**	**(178)**	**9,664**
Credit loss expenses (expenses reversal)	393	95	22	-	(1)	34	147	-	-	690
Operating and other expenses	3,197	445	544	127	42	654	1,440	28	(178)	6,299
Income (loss) before taxes	238	199	694	710	75	441	276	42	-	2,675
Provision for taxes (tax saving) on income	65	67	236	283	19	153	97	13	(1)	932
Income (loss) after taxes	173	132	458	427	56	288	179	29	1	1,743
Bank’s share in income of affiliated companies, net of tax effect	1	-	-	10	7	-	-	-	(2)	16
Net income before attributed to the non-controlling rights holders	174	132	458	437	63	288	179	29	(1)	1,759
Net income attributed to the non-controlling rights holders	-	-	-	-	-	-	(56)	(2)	1	(57)
Net Income attributed to the bank's shareholders	**174**	**132**	**458**	**437**	**63**	**288**	**123**	**27**	**-**	**1,702**
Balance of Assets	81,167	25,475	50,530	70,249	1,607	33,773	19,158	7,696	(29,832)	259,823
Balance of credit to the public	78,677	25,814	46,000	-	30	23,784	18,561	-	(9,875)	182,991
Balance of deposits from the public	124,673	20,539	30,430	7,027	-	26,776	18	-	(8,013)	201,450

footnote:

(1) The contribution to the Bank's business results.

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	Retail banking(2)	Middle market banking	Corporate banking	Financial management	Discount Capital(1)	Discount Bancorp(1)	Israel Credit Cards(1)	other	Adjustments	Total
	For the year ended December 31, 2018									
	In NIS millions									
Interest income, net	2,468	554	803	343	7	879	463	3	6	5,526
Non-interest income	1,131	136	385	421	125	177	1,235	62	(178)	3,494
Total income	**3,599**	**690**	**1,188**	**764**	**132**	**1,056**	**1,698**	**65**	**(172)**	**9,020**
Credit loss expenses (expenses reversal)	375	(27)	48	-	1	(16)	159	-	-	540
Operating and other expenses	(2)3,257	(2)449	(2)480	(2)137	34	611	1,329	23	(172)	6,148
Income (loss) before taxes	(33)	268	660	627	97	461	210	42	-	2,332
Provision for taxes (tax saving) on income	(2)(17)	(2)93	(2)226	(2)237	29	138	71	12	-	789
Income (loss) after taxes	(16)	175	434	390	68	323	139	30	-	1,543
Bank's share in income of affiliated companies, net of tax effect	1	-	-	6	2	-	-	-	(3)	6
Net income (loss) before attributed to the non-controlling rights holders	(15)	175	434	396	70	323	139	30	(3)	1,549
Net income attributed to the non-controlling rights holders	-	-	-	-	-	-	(44)	(3)	3	(44)
Net Income (loss) Attributed to the bank's shareholders	**(15)**	**175**	**434**	**396**	**70**	**323**	**95**	**27**	**-**	**1,505**
Balance of Assets	75,211	19,180	47,791	64,065	1,559	34,554	16,015	4,314	(23,513)	239,176
Balance of credit to the public	73,281	19,345	43,247	-	85	23,284	15,622	-	(7,786)	167,078
Balance of deposits from the public	122,261	14,707	26,295	3,942	-	26,270	23	-	(4,582)	188,916

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified – see Note 29 C (2).

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	For the year ended December 31, 2017									
	In NIS millions									
Interest income, net	2,214	513	754	295	1	765	423	4	6	4,975
Non-interest income	1,121	137	355	369	268	146	1,087	41	(166)	3,358
Total income	**3,335**	**650**	**1,109**	**664**	**269**	**911**	**1,510**	**45**	**(160)**	**8,333**
Credit loss expenses (expenses reversal)	389	54	(65)	-	-	73	124	-	(1)	574
Operating and other expenses	[2]3,168	[2]423	[2]425	[2]139	41	526	1,094	38	(160)	5,694
Income (loss) before taxes	(222)	173	749	525	228	312	292	7	1	2,065
Provision for taxes (tax saving) on income	[2](95)	[2]60	[2]261	[2]210	62	140	102	7	-	747
Income (loss) after taxes	(127)	113	488	315	166	172	190	-	1	1,318
Bank’s share in income of affiliated companies, net of tax effect	1	-	-	2	(1)	-	1	-	(2)	1
Net income (loss) before attributed to the non-controlling rights holders	(126)	113	488	317	165	172	191	-	(1)	1,319
Net income attributed to the non-controlling rights holders	-	-	-	-	-	-	(60)	(2)	2	(60)
Net Income (loss) Attributed to the bank's shareholders	**(126)**	**113**	**488**	**317**	**165**	**172**	**131**	**(2)**	**1**	**1,259**
Balance of Assets	69,358	18,052	39,518	63,855	1,483	32,288	14,053	3,288	(20,674)	221,221
Balance of credit to the public	67,508	18,219	37,619	-	-	20,706	13,668	-	(6,852)	150,868
Balance of deposits from the public	111,598	14,569	24,656	2,909	-	25,021	22	-	(3,605)	175,170

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified – see Note 29 C (2).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses

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

A. Debts and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses - Consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2019					
Balance of allowance for credit losses, as at December 31, 2018	1,606	187	657	2,450	1	2,451
An addition stemming from the merger of Municipal Bank	25	-	-	25	-	25
Expenses for credit loss	351	27	312	690	-	690
Accounting write-offs	(386)	(7)	(484)	(877)	-	(877)
Collection of debts written-off in previous years	248	-	233	481	-	481
Net accounting write-offs	(138)	(7)	(251)	(396)	-	(396)
Financial statements translation adjustments	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at December 31, 2019	**1,823**	**207**	**717**	**2,747**	**1**	**2,748**
Of which: In respect of off-balance sheet credit instruments	170	-	53	223	-	223
	2018					
Balance of allowance for credit losses, as at December 31, 2017	1,560	178	566	2,304	1	2,305
Expenses for credit loss	178	23	339	540	-	540
Accounting write-offs	(476)	(14)	(446)	(936)	-	(936)
Collection of debts written-off in previous years	324	-	197	521	-	521
Net accounting write-offs	(152)	(14)	(249)	(415)	-	(415)
Financial statements translation adjustments	20	-	1	21	-	21
Balance of allowance for credit losses, as at December 31, 2018	**1,606**	**187**	**657**	**2,450**	**1**	**2,451**
Of which: In respect of off-balance sheet credit instruments	125	-	51	176	-	176
	2017					
Balance of allowance for credit losses, as at December 31, 2016	1,702	168	469	2,339	-	2,339
Expenses for credit loss	243	15	315	573	1	574
Accounting write-offs	(761)	(5)	(410)	(1,176)	-	(1,176)
Collection of debts written-off in previous years	401	-	193	594	-	594
Net accounting write-offs	(360)	(5)	(217)	(582)	-	(582)
Financial statements translation adjustments	(25)	-	(1)	(26)	-	(26)
Balance of allowance for credit losses, as at December 31, 2017	**1,560**	**178**	**566**	**2,304**	**1**	**2,305**
Of which: In respect of off-balance sheet credit instruments	155	-	38	193	-	193

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2019					
Recorded amount of debts:						
Examined on a specific basis[1]	85,059	-	761	85,820	5,980	91,800
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]233	36,974	-	37,207	-	37,207
Group - other	26,759	185	33,020	59,964	243	60,207
Total debts	**112,051**	**37,159**	**33,781**	**182,991**	**6,223**	**189,214**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,285	-	82	1,367	-	1,367
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]206	-	207	-	207
Group - other	367	1	582	950	1	951
Total allowance for Credit Losses	**1,653**	**207**	**664**	**2,524**	**1**	**2,525**
	December 31, 2018					
Recorded amount of debts:						
Examined on a specific basis[1]	75,208	-	539	75,747	5,389	81,136
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]231	32,779	-	33,010	-	33,010
Group - other	[2]28,054	145	30,122	58,321	450	58,771
Total debts	**103,493**	**32,924**	**30,661**	**167,078**	**5,839**	**172,917**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,096	-	64	1,160	-	1,160
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]185	-	186	-	186
Group - other	384	2	542	928	1	929
Total allowance for Credit Losses	**1,481**	**187**	**606**	**2,274**	**1**	**2,275**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 89,986 million (December 31, 2018 - NIS 79,503 million) and the allowance in its respect in an amount of NIS 1,060 million (December 31, 2018 - NIS 937 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of December 31, 2018 – an amount of NIS 235 million).

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million (December 31, 2018 - NIS 4 million), and computed on a group basis, in an amount of NIS 130 million (December 31, 2018 - NIS 116 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

3. Change in the balance of the allowance for credit losses – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	2019					
Balance of allowance for credit losses, as at December 31, 2018	1,030	164	309	1,503	1	1,504
Credit loss expenses	176	23	124	323	-	323
Accounting write-offs	(240)	(7)	(242)	(489)	-	(489)
Collection of debts written-off in previous years	182	-	129	311	-	311
Net accounting write-offs	(58)	(7)	(113)	(178)	-	(178)
Balance of allowance for credit losses, as at December 31, 2019	**1,148**	**180**	**320**	**1,648**	**1**	**1,649**
Of which: In respect of off-balance sheet credit instruments	153	-	18	171	-	171
	2018					
Balance of allowance for credit losses, as at December 31, 2017	1,010	157	282	1,449	1	1,450
Credit loss expenses	115	20	165	300	-	300
Accounting write-offs	(348)	(13)	(243)	(604)	-	(604)
Collection of debts written-off in previous years	253	-	105	358	-	358
Net accounting write-offs	(95)	(13)	(138)	(246)	-	(246)
Balance of allowance for credit losses, as at December 31, 2018	**1,030**	**164**	**309**	**1,503**	**1**	**1,504**
Of which: In respect of off-balance sheet credit instruments	108	-	18	126	-	126
	2017					
Balance of allowance for credit losses, as at December 31, 2016	1,143	151	231	1,525	-	1,525
Credit loss expenses	65	11	181	257	1	258
Accounting write-offs	(537)	(5)	(231)	(773)	-	(773)
Collection of debts written-off in previous years	339	-	101	440	-	440
Net accounting write-offs	(198)	(5)	(130)	(333)	-	(333)
Balance of allowance for credit losses, as at December 31, 2017	**1,010**	**157**	**282**	**1,449**	**1**	**1,450**
Of which: In respect of off-balance sheet credit instruments	132	-	15	147	-	147

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

4. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	December 31,2019					
Recorded amount of debts:						
Examined on a specific basis[1]	64,004	-	441	64,445	6,049	70,494
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	214	31,451	-	31,665	-	31,665
Group - other	7,312	-	14,594	21,906	-	21,906
Total debts	**71,530**	**31,451**	**15,035**	**118,016**	**6,049**	**124,065**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	892	-	62	954	-	954
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]1	[2]180	-	181	-	181
Group - other	102	-	240	342	1	343
Total allowance for Credit Losses	**995**	**180**	**302**	**1,477**	**1**	**1,478**
	December 31,2018					
Recorded amount of debts:						
Examined on a specific basis[1]	60,027	-	275	60,302	6,039	66,341
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	209	27,989	-	28,198	-	28,198
Group - other	7,203	-	14,122	21,325	-	21,325
Total debts	**67,439**	**27,989**	**14,397**	**109,825**	**6,039**	**115,864**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	821	-	51	872	-	872
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]1	[2]164	-	165	-	165
Group - other	100	-	240	340	1	341
Total allowance for Credit Losses	**922**	**164**	**291**	**1,377**	**1**	**1,378**

:Footnotes

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 69,277 million (December 31, 2018 - NIS 65,146 million) and the allowance in its respect in an amount of NIS 746 million (December 31, 2018 - NIS 703 million) computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million (December 31, 2018 - NIS 3 million), computed on a group basis, in amount of NIS 110 million (December 31, 2018 - NIS 98 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts

1. Credit quality and arrears - consolidated

	December 31, 2019					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	14,367	49	123	14,539	8	72
Construction and Real Estate - Real Estate Activity	10,480	39	190	10,709	2	12
Financial Services	8,241	59	300	8,600	1	2
Commercial - Other	51,283	967	691	52,941	51	203
Total Commercial	**84,371**	**1,114**	**1,304**	**86,789**	**62**	**289**
Private Individuals - Housing Loans	36,551	[5]372	-	36,923	353	119
Private Individuals - Other Loans	31,999	371	189	32,559	57	157
Total Public - Activity in Israel	**152,921**	**1,857**	**1,493**	**156,271**	**472**	**565**
Banks in Israel	743	-	-	743	-	-
Government of Israel	2,063	-	-	2,063	-	-
Total Activity in Israel	**155,727**	**1,857**	**1,493**	**159,077**	**472**	**565**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,767	212	245	9,224	-	98
Commercial - Other	15,159	803	76	16,038	-	1
Total Commercial	**23,926**	**1,015**	**321**	**25,262**	**-**	**99**
Private Individuals	1,452	6	-	1,458	6	-
Total Public - Activity Abroad	**25,378**	**1,021**	**321**	**26,720**	**6**	**99**
Foreign banks	1,965	-	-	1,965	-	-
Foreign governments	1,452	-	-	1,452	-	-
Total Activity Abroad	**28,795**	**1,021**	**321**	**30,137**	**6**	**99**
Total public	**178,299**	**2,878**	**1,814**	**182,991**	**478**	**664**
Total banks	**2,708**	**-**	**-**	**2,708**	**-**	**-**
Total governments	**3,515**	**-**	**-**	**3,515**	**-**	**-**
Total	**184,522**	**2,878**	**1,814**	**189,214**	**478**	**664**

For footnotes see next page.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	December 31, 2018					
		Problematic(1)			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired(2)	Total	In Arrears of 90 Days or More(3)	In Arrears of 30 to 89 Days(4)
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	12,496	71	88	12,655	13	28
Construction and Real Estate - Real Estate Activity	9,506	14	281	9,801	1	11
Financial Services	9,553	1	298	9,852	1	7
Commercial - Other	44,439	620	625	45,684	43	149
Total Commercial	**75,994**	**706**	**1,292**	**77,992**	**58**	**195**
Private Individuals - Housing Loans	32,377	(5)334	-	32,711	310	99
Private Individuals - Other Loans	28,896	406	155	29,457	61	174
Total Public - Activity in Israel	**137,267**	**1,446**	**1,447**	**140,160**	**429**	**468**
Banks in Israel	399	-	-	399	-	-
Government of Israel	2,167	-	-	2,167	-	-
Total Activity in Israel	**139,833**	**1,446**	**1,447**	**142,726**	**429**	**468**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,068	131	139	9,338	-	-
Commercial - Other	15,601	515	47	16,163	-	14
Total Commercial	**24,669**	**646**	**186**	**25,501**	**-**	**14**
Private Individuals	1,411	6	-	1,417	6	1
Total Public - Activity Abroad	**26,080**	**652**	**186**	**26,918**	**6**	**15**
Foreign banks	2,104	-	-	2,104	-	-
Foreign governments	1,169	-	-	1,169	-	-
Total Activity Abroad	**29,353**	**652**	**186**	**30,191**	**6**	**15**
Total public	**163,347**	**2,098**	**1,633**	**167,078**	**435**	**483**
Total banks	**2,503**	**-**	**-**	**2,503**	**-**	**-**
Total governments	**3,336**	**-**	**-**	**3,336**	**-**	**-**
Total	**169,186**	**2,098**	**1,633**	**172,917**	**435**	**483**

Footnotes:

(1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.

(2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.

(3) Classified as unimpaired problematic debts. Accruing interest income.

(4) Debts in arrears for between 30 and 89 days which accrue interest income, in amount of NIS 196 million are classified as unimpaired problematic debts (December 31, 2018 - NIS 125 million).

(5) Including housing loans in amount of NIS 9 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (December 31, 2018 - NIS 10 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

	December 31, 2019				
	Balance[(1)] of impaired debts in respect of which specific allowance exist[(2)]	Balance of specific allowance[(2)]	Balance[(1)] of impaired debts for which specific allowance do not exist[(2)]	Total balance[(1)] of Impaired Debts	Contractual principal amount of impaired debts[(3)]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	97	26	26	123	1,061
Construction and Real Estate - Real Estate Activity	120	6	70	190	935
Financial Services	300	22	-	300	402
Commercial - Other	516	152	175	691	2,977
Total Commercial	**1,033**	**206**	**271**	**1,304**	**5,375**
Private Individuals - Other Loans	152	66	37	189	553
Total Public - Activity in Israel	**1,185**	**272**	**308**	**1,493**	**5,928**
Total Activity in Israel	**1,185**	**272**	**308**	**1,493**	**5,928**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	144	35	101	245	602
Commercial - Other	-	-	76	76	131
Total Commercial	**144**	**35**	**177**	**321**	**733**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**144**	**35**	**177**	**321**	**733**
Total Activity Abroad	**144**	**35**	**177**	**321**	**733**
Total public	**1,329**	**307**	**485**	**1,814**	**6,661**
Total	**1,329**	**307**	**485**	**1,814**	**6,661**
Of which:					
Measured according to present value of cash flows	1,125	285	109	1,234	
Debts under troubled debt restructurings	715	137	328	1,043	

For footnotes see next page.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	December 31, 2018				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	56	15	32	88	1,545
Construction and Real Estate - Real Estate Activity	168	8	113	281	1,077
Financial Services	298	22	-	298	404
Commercial - Other	450	124	175	625	3,444
Total Commercial	**972**	**169**	**320**	**1,292**	**6,470**
Private Individuals - Other Loans	123	54	32	155	528
Total Public - Activity in Israel	**1,095**	**223**	**352**	**1,447**	**6,998**
Total Activity in Israel	**1,095**	**223**	**352**	**1,447**	**6,998**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	139	139	498
Commercial - Other	-	-	47	47	127
Total Commercial	**-**	**-**	**186**	**186**	**625**
Private Individuals	-	-	-	-	1
Total Public - Activity Abroad	**-**	**-**	**186**	**186**	**626**
Total Activity Abroad	**-**	**-**	**186**	**186**	**626**
Total public	**1,095**	**223**	**538**	**1,633**	**7,624**
Total	**1,095**	**223**	**538**	**1,633**	**7,624**
Of which:					
Measured according to present value of cash flows	888	196	84	972	
Debts under troubled debt restructurings	868	163	357	1,225	

Footnotes:

(1) Recorded amount.

(2) Specific allowance for credit losses.

(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME

	2019			2018			2017		
	Average balance of Impaired Debts[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis	Average balance of Impaired Debts[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis	Average balance of Impaired Debts[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate - Construction	138	2	2	109	1	1	157	2	-
Construction and Real Estate - Real Estate Activity	268	7	6	315	6	4	256	5	4
Financial Services	300	8	1	310	7	-	591	14	10
Commercial - Other	842	16	10	853	14	10	1,313	16	11
Total Commercial	**1,548**	**33**	**19**	**1,587**	**28**	**15**	**2,317**	**37**	**25**
Private Individuals - Other Loans	226	7	3	177	4	2	102	3	2
Total Public - Activity in Israel	**1,774**	**40**	**22**	**1,764**	**32**	**17**	**2,419**	**40**	**27**
Total Activity in Israel	**1,774**	**40**	**22**	**1,764**	**32**	**17**	**2,419**	**40**	**27**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	241	5	-	143	6	-	133	7	1
Commercial - Other	92	5	-	232	8	-	338	7	-
Total Commercial	**333**	**10**	**-**	**375**	**14**	**-**	**471**	**14**	**1**
Total Public - Activity Abroad	**333**	**10**	**-**	**375**	**14**	**-**	**471**	**14**	**1**
Total Activity Abroad	**333**	**10**	**-**	**375**	**14**	**-**	**471**	**14**	**1**
Total	**2,107**	**[(3)]50**	**22**	**2,139**	**[(3)]46**	**17**	**2,890**	**[(3)]54**	**28**

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amount of NIS 68 million (31.12.2018 - NIS 81 million, 31.12.2017 - NIS 99 millions).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	December 31, 2019				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	32	-	-	11	43
Construction and Real Estate - Real Estate Activity	44	-	1	31	76
Financial Services	-	-	-	296	296
Commercial - Other	215	-	3	117	335
Total Commercial	**291**	**-**	**4**	**455**	**750**
Private Individuals - Other Loans	77	-	1	80	158
Total Public - Activity in Israel	**368**	**-**	**5**	**535**	**908**
Total Activity in Israel	**368**	**-**	**5**	**535**	**908**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	26	-	-	47	73
Commercial - Other	1	-	-	61	62
Total Commercial	**27**	**-**	**-**	**108**	**135**
Total Public - Activity Abroad	**27**	**-**	**-**	**108**	**135**
Total Activity Abroad	**27**	**-**	**-**	**108**	**135**
Total	**395**	**-**	**5**	**643**	**1,043**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at December 31, 2019, to NIS 17 million (December 31, 2018– NIS 33 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	December 31, 2018				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	22	-	-	7	29
Construction and Real Estate - Real Estate Activity	119	-	3	15	137
Financial Services	-	-	-	295	295
Commercial - Other	379	-	-	102	481
Total Commercial	**520**	**-**	**3**	**419**	**942**
Private Individuals - Other Loans	74	-	1	56	131
Total Public - Activity in Israel	**594**	**-**	**4**	**475**	**1,073**
Total Activity in Israel	**594**	**-**	**4**	**475**	**1,073**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	9	-	-	101	110
Commercial - Other	-	-	-	42	42
Total Commercial	**9**	**-**	**-**	**143**	**152**
Total Public - Activity Abroad	**9**	**-**	**-**	**143**	**152**
Total Activity Abroad	**9**	**-**	**-**	**143**	**152**
Total	**603**	**-**	**4**	**618**	**1,225**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	2019			2018			2017		
	Debt restructuring performed								
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate - Construction	234	31	30	166	24	23	100	23	22
Construction and Real Estate - Real Estate Activity	17	8	8	19	20	20	13	7	7
Financial Services	5	(1)-	(1)-	4	(1)-	(1)-	5	(1)-	(1)-
Commercial - Other	1,016	120	117	864	169	165	505	246	245
Total Commercial	**1,272**	**159**	**155**	**1,053**	**213**	**208**	**623**	**276**	**274**
Private Individuals - Other Loans	6,450	145	143	5,927	144	140	3,609	75	72
Total Public - Activity in Israel	**7,722**	**304**	**298**	**6,980**	**357**	**348**	**4,232**	**351**	**346**
Total Activity in Israel	**7,722**	**304**	**298**	**6,980**	**357**	**348**	**4,232**	**351**	**346**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	1	22	22	-	-	-	10	105	105
Commercial - Other	3	50	40	6	42	42	4	110	110
Total Commercial	**4**	**72**	**62**	**6**	**42**	**42**	**14**	**215**	**215**
Private Individuals	5	(1)-	(1)-	5	(1)-	(1)-	1	(1)-	(1)-
Total Public - Activity Abroad	**9**	**72**	**62**	**11**	**42**	**42**	**15**	**215**	**215**
Total Activity Abroad	**9**	**72**	**62**	**11**	**42**	**42**	**15**	**215**	**215**
Total	**7,731**	**376**	**360**	**6,991**	**399**	**390**	**4,247**	**566**	**561**

Footnote:
(1) An amount lower than NIS 1 million.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	2019		2018		2017	
	Failure of restructured debts[1]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	93	5	49	7	32	12
Construction and Real Estate - Real Estate Activity	10	13	10	9	7	4
Financial Services	-	-	1	(2)-	-	-
Commercial - Other	406	25	297	20	154	11
Total Commercial	**509**	**43**	**357**	**36**	**193**	**27**
Private Individuals - Other	3,693	31	3,143	28	1,827	17
Total Public - Activity in Israel	**4,202**	**74**	**3,500**	**64**	**2,020**	**44**
Total Activity in Israel	**4,202**	**74**	**3,500**	**64**	**2,020**	**44**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	-	-	-	-	1	13
Commercial - Other	-	-	-	-	2	30
Total Commercial	**-**	**-**	**-**	**-**	**3**	**43**
Private Individuals	1	(2)-	2	(2)-	-	-
Total Public - Activity Abroad	**1**	**(2)-**	**2**	**(2)-**	**3**	**43**
Total Activity Abroad	**1**	**(2)-**	**2**	**(2)-**	**3**	**43**
Total	**4,203**	**74**	**3,502**	**64**	**2,023**	**87**

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.

(2) An amount lower than NIS 1 million.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to changes in private consumption and in currency rates;
- Exposure to foreign competition, in particular to the effect of E-commerce;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent years, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- The growth in competition in recent years, whether within the banking industry or against off-banking institutions, may lead to erosion of the spreads, to a decline in the quality of borrowers, and as a result thereof to increased credit risk. The present credit policy examines thoroughly the risk involved in the underwriting of loans to existing and new customers using models and tools developed for sales points, thus reducing such risk.

(B) INDICATION OF CREDIT QUALITY

	December 31, 2019				December 31, 2018			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	96.6%	99.0%	98.3%	97.4%	97.3%	99.0%	98.2%	97.7%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	1.9%	1.0%	1.1%	1.6%	1.3%	1.0%	1.3%	1.3%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	1.5%	-	0.6%	1.0%	1.4%	-	0.5%	1.0%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.5%	0.6%	2.0%	1.4%	1.4%	0.6%	2.0%	1.4%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	40.1%	54.8%	117.3%	49.8%	46.1%	55.0%	107.2%	55.2%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

4. Additional information regarding housing loans

BALANCES FOR THE YEAR END, ACCORDING TO LOAN-TO-VALUE (LTV)[(1)] RATIO, MANNER OF REPAYMENT AND TYPE OF INTEREST:

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31, 2019			
First degree pledge: financing ratio	Up to 60%	24,096	406	14,440	369
	Over 60%	12,046	113	7,392	161
Second degree pledge or without pledge		1,017	141	432	3,514
Total		**(2)37,159**	**660**	**22,264**	**4,044**
		December 31, 2018			
First degree pledge: financing ratio	Up to 60%	21,359	344	12,815	297
	Over 60%	10,648	99	6,630	88
Second degree pledge or without pledge		917	75	423	2,581
Total		**(2)32,924**	**518**	**19,868**	**2,966**

Footnotes:

(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

(2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 233 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (December 31, 2018 - NIS 235 million).

C. Sale, purchase and syndications of credit to the public during the year

1. Sale and purchase of credit (consolidated)

	Credit risk sold					Credit risk purchased[(1)]		
	Credit sold this year	Off-balance sheet credit risk[(2)] sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Balance at end of year of credit sold, which is serviced by the banking corporation	Credit purchased this year[(4)]	Off-balance sheet credit risk[(2)] purchased this year	Of which: problematic credit
	In NIS millions							
	2019							
Total commercial	856	-	-	1	3,608	3,412	-	-
Total credit to the public risk	**856**	**-**	**-**	**1**	**3,608**	**3,412**	**-**	**-**
Credit to governments	-	-	-	-	-	750	-	-
Total debts	**856**	**-**	**-**	**1**	**3,608**	**4,162**	**-**	**-**
	2018							
Total commercial	248	-	-	6	2,228	2,388	-	-
Total credit to the public risk	**248**	**-**	**-**	**6**	**2,228**	**2,388**	**-**	**-**
Credit to governments	-	-	-	-	-	1,450	-	-
Total debts	**248**	**-**	**-**	**6**	**2,228**	**3,838**	**-**	**-**

Footnotes:

(1) The data do not include credit acquisition transactions at IDB New York, most of which is short-term factoring. The balance of the transactions amounted to NIS 428 million as of December 31, 2019 (December 31, 2018: NIS 178 million).

(2) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

For details regarding profit net in respect of loans sold, see Note 3.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year (continued)

2. Syndications and participation in loan syndications (consolidated)

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Share of the banking corporation		Share of others		Share of the banking corporation	
	Credit	Off-balance sheet credit risk[(1)]	Credit	Off-balance sheet credit risk[(1)]	Credit	Off-balance sheet credit risk[(1)]
	In NIS millions					
	2019					
Total commercial	3,272	765	7,292	831	5,176	1,880
Total credit to the public risk	**3,272**	**765**	**7,292**	**831**	**5,176**	**1,880**
Credit to governments	-	22	242	36	-	-
Total debts	**3,272**	**788**	**7,535**	**867**	**5,176**	**1,880**
	2018					
Total commercial	3,851	975	7,687	921	5,230	2,048
Total credit to the public risk	**3,851**	**975**	**7,687**	**921**	**5,230**	**2,048**
Credit to governments	583	37	250	87	-	-
Total debts	**4,434**	**1,012**	**7,937**	**1,008**	**5,230**	**2,048**

Footnote:
(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

3. Loan management activity

MDB manages loans for others, an activity that was acquired by it from Municipal Bank within the framework of the merger. Within this framework, MDB manages two types of loans, the balances of which as of December 31, 2019 amounted to NIS 2,274 million, as follows:

- loans sold by Municipal Bank to commercial entities, prior to the merger – NIS 1,260 million;
- loans granted to local authorities from the state budget – NIS 1,014 million.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public[1] and off-balance-sheet credit risk[3], by size of credit to individual burrowers

1. Consolidated

				December 31					
				2019			2018		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,394,092	2,330	1,943	1,356,285	1,948	1,678
Over	10	Up to	20	534,507	3,174	5,639	535,674	2,889	5,894
Over	20	Up to	40	554,852	6,397	9,875	517,361	5,679	9,418
Over	40	Up to	80	275,315	8,445	6,285	254,752	7,740	5,903
Over	80	Up to	150	96,652	7,675	2,870	93,155	7,334	2,766
Over	150	Up to	300	50,559	8,453	2,069	49,562	8,290	1,988
Over	300	Up to	600	32,066	11,773	2,245	30,813	11,302	2,083
Over	600	Up to	1,200	31,228	22,471	4,140	28,229	20,223	3,582
Over	1,200	Up to	2,000	8,853	10,626	2,558	7,563	9,196	2,082
Over	2,000	Up to	[4][5]4,000	3,677	7,891	2,186	3,318	7,265	1,840
Over	4,000	Up to	[4][5]8,000	1,460	6,826	1,724	1,371	6,367	1,650
Over	8,000	Up to	[4][5]20,000	1,205	12,202	3,043	1,071	11,311	2,440
Over	20,000	Up to	[4][5]40,000	678	15,976	3,358	619	14,545	3,532
Over	40,000	Up to	[4][5]200,000	724	40,954	16,772	627	35,072	15,356
Over	200,000	Up to	[4][5]400,000	68	13,058	5,229	50	9,234	4,455
Over	400,000	Up to	[4][5]800,000	*11	*3,778	2,491	*20	*8,428	2,604
Over	800,000	Up to	[4][5]1,200,000	7	4,008	2,857	4	1,798	1,920
Over	1,200,000	Up to	[4]1,600,000	2	2,519	193	2	2,174	660
Over	1,600,000	Up to	[4]2,000,000	-	-	-	1	1,265	684
Over	2,000,000	Up to	[4][5]2,400,000	2	2,303	2,276	1	2,140	12
Over	2,400,000	Up to	[4][5]2,800,000	-	-	-	1	23	2,508
Over	2,800,000	Up to	[4]3,200,000	-	-	-	-	-	-
Over	[4]3,200,000			**1	**5,656	-	**1	**5,933	-
Total				**2,985,959**	**196,515**	**77,753**	**2,880,480**	**180,156**	**73,055**
Mortgage backed securities issued by:									
**GNMA				1	5,656	-	1	5,933	-
*FNMA				1	349	-	1	548	-
*FHLMC				1	369	-	1	539	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2019 – 6,846 NIS million, as of December 31, 2018 - NIS 5,673 million).

(4) Consolidated - by combining specific balances.

(5) Reclassified – change in the classification of the data of a number of burrowers, following the improvement of the specific consolidation of the accounts related to them.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public[1] and off-balance-sheet credit risk[3], by size of credit to individual burrowers (continued)

2. The Bank

			December 31					
			2019			2018		
			Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
					in NIS millions			
Credit limit (in NIS thousand):								
		Up to 10	236,189	198	521	226,070	241	439
Over	10	Up to 20	102,939	587	1,036	107,156	570	1,118
Over	20	Up to 40	118,154	1,492	2,032	121,727	1,495	2,106
Over	40	Up to 80	102,416	3,284	2,668	103,753	3,282	2,691
Over	80	Up to 150	67,879	5,187	2,270	66,879	5,050	2,236
Over	150	Up to 300	37,387	6,110	1,674	36,867	6,028	1,617
Over	300	Up to 600	24,154	8,783	1,844	23,269	8,452	1,713
Over	600	Up to 1,200	25,820	18,521	3,576	23,385	16,696	3,097
Over	1,200	Up to 2,000	7,140	8,387	2,202	6,088	7,241	1,788
Over	2,000	Up to [5]4,000	2,623	5,344	1,785	2,344	4,885	1,502
Over	4,000	Up to [5]8,000	1,039	4,472	1,349	956	4,112	1,293
Over	8,000	Up to [5]20,000	653	6,275	1,748	585	5,932	1,399
Over	20,000	Up to [5]40,000	302	6,765	1,882	315	6,998	2,153
Over	40,000	Up to [5]200,000	379	21,497	10,074	329	18,069	9,986
Over	200,000	Up to [5]400,000	50	8,710	4,750	41	7,069	4,033
Over	400,000	Up to [5]800,000	11	3,778	2,484	17	6,918	2,578
Over	800,000	Up to [5]1,200,000	7	4,008	2,799	4	1,798	1,912
Over	1,200,000	Up to [5]1,600,000	3	3,991	221	3	3,552	678
Over	1,600,000	Up to -2,000,000	-	-	-	1	1,220	683
Over	2,000,000	Up to [5]2,400,000	2	2,303	2,276	2	4,371	16
Over	2,400,000	Up to [5]2,800,000	-	-	-	1	23	2,508
Over	2,800,000	Up to 3,200,000	-	-	-	-	-	-
Over	3,200,000		1	3,624	2	-	-	-
Total			**727,148**	**123,316**	**47,193**	**719,792**	**114,002**	**45,546**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit un the top level: NIS 3,626 million (2018: NIS 2,531 million).

(5) Reclassified – change in the classification of the data of a number of burrowers, following the improvement of the specific consolidation of the accounts related to them.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

E. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	December 31, 2019				December 31, 2018			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	904	5	561	4	1,234	5	777	4
Credit guarantees	2,426	28	1,632	22	2,139	27	1,445	21
Guarantees for home purchasers	11,183	3	10,277	2	9,184	3	8,114	2
Other guarantees and obligations	9,835	81	8,720	79	8,782	40	7,762	35
Unutilized facilities for transactions in derivative instruments	1,724	-	1,631	-	1,522	-	1,419	-
Unutilized facilities credit line for credit cards	31,052	44	6,256	10	28,543	39	5,985	7
Unutilized current loan account facilities and other credit facilities in on-call accounts	9,402	24	7,742	20	8,805	22	7,398	19
Irrevocable commitments to extend credit approved but not yet granted[3]	22,619	34	14,431	31	20,403	36	13,942	34
Commitment to issue guarantees	6,425	4	6,107	3	6,701	4	6,319	4

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaning interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

F. Guarantees

(1) General

The Bank provides a broad variety of guarantees and indemnities for its customers in order to improve their credit ability and to enable them to complete a wide range of transactions. For certain contracts, which meet the definition of the guarantee, the Bank recognizes – at the time of initial recognition – a liability in the amount of the fair value of the obligation with respect to the guarantee at the time of issuing the guarantee. The maximum amount of the potential future payments is determined in accordance with the nominal amount of the guarantees, without taking into account possible repayments or collateral held or pledged.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments

	Consolidated						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2019						
Letters of credit (standby)	184	35	-	-	-	219	-
Credit guarantees	1,792	532	66	36	-	2,426	21
Guarantees for home purchasers	-	-	-	-	11,183	11,183	41
Other guarantees and obligations	5,115	1,904	1,758	1,058	-	9,835	54
Total	**7,091**	**2,471**	**1,824**	**1,094**	**11,183**	**23,663**	**116**
	December 31, 2018						
Letters of credit (standby)	200	12	-	-	-	212	-
Credit guarantees	1,766	140	201	32	-	2,139	20
Guarantees for home purchasers	-	-	-	-	9,184	9,184	36
Other guarantees and obligations	4,973	1,384	1,625	800	-	8,782	49
Total	**6,939**	**1,536**	**1,826**	**832**	**9,184**	**20,317**	**105**

	The Bank						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2019						
Letters of credit (standby)	159	28	-	-	-	187	-
Credit guarantees	1,050	485	61	36	-	1,632	14
Guarantees for home purchasers	-	-	-	-	10,277	10,277	37
Other guarantees and obligations	4,293	1,648	1,738	1,041	-	8,720	41
Total	**5,502**	**2,161**	**1,799**	**1,077**	**10,277**	**20,816**	**92**
	December 31, 2018						
Letters of credit (standby)	171	3	-	-	-	174	-
Credit guarantees	1,105	116	193	31	-	1,445	13
Guarantees for home purchasers	-	-	-	-	8,114	8,114	30
Other guarantees and obligations	4,181	1,199	1,598	784	-	7,762	38
Total	**5,457**	**1,318**	**1,791**	**815**	**8,114**	**17,495**	**81**

(3) Evaluation of the guarantee risk

Most of the guaranties are rated according to the Credit Granting Rating.

32. Assets and Liabilities according to Linkage Terms

Consolidated

	December 31, 2019						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	22,992	29	2,346	310	367	-	26,044
Securities	20,486	685	14,176	1,408	10	980	37,745
Securities borrowed or purchased under resale agreements	531	-	-	-	-	-	531
Credit to the public, net	132,824	18,348	27,334	1,491	470	-	180,467
Credit to the Government	849	297	1,412	957	-	-	3,515
Investments in affiliated companies	-	-	-	-	-	171	171
Buildings and equipment	-	-	-	-	-	2,577	2,577
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,587	117	2,090	130	248	373	4,545
Other assets	2,191	28	968	-	470	407	4,064
Total assets	**181,460**	**19,504**	**48,326**	**4,296**	**1,565**	**4,672**	**259,823**
Liabilities							
Deposits from the public	134,716	4,611	54,021	5,853	2,249	-	201,450
Deposits from banks	4,248	2	2,061	102	6	-	6,419
Deposits from the Government	125	12	44	-	-	-	181
Securities loaned or sold under repurchase agreements	-	-	346	-	-	-	346
Bonds and Subordinated debt notes	5,699	7,389	-	41	-	-	13,129
Liabilities in respect of derivative instruments	1,769	199	2,113	171	219	368	4,839
Other liabilities	13,125	183	604	10	165	179	14,266
Total liabilities	**159,682**	**12,396**	**59,189**	**6,177**	**2,639**	**547**	**240,630**
Difference	21,778	7,108	(10,863)	(1,881)	(1,074)	4,125	19,193
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(15,754)	(2,814)	15,647	1,990	931	-	-
Options in the money, net (in terms of underlying asset)	1,219	-	(968)	(299)	48	-	-
Options out of the money, net (in terms of underlying asset)	(47)	-	(65)	109	3	-	-
Total	**7,196**	**4,294**	**3,751**	**(81)**	**(92)**	**4,125**	**19,193**
Options in the money, net (discounted par value)	1,148	-	(878)	(336)	66	-	-
Options out of the money, net (discounted par value)	(308)	-	(119)	520	(93)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

Consolidated (continued)

	December 31, 2018						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	18,066	35	2,937	449	371	-	21,858
Securities	19,734	1,544	14,604	967	10	1,039	37,898
Securities borrowed or purchased under resale agreements	774	-	-	-	-	-	774
Credit to the public, net	117,621	16,295	28,631	1,800	457	-	164,804
Credit to the Government	888	324	1,225	899	-	-	3,336
Investments in affiliated companies	-	2	-	-	-	133	135
Buildings and equipment	-	-	-	-	-	2,437	2,437
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	505	95	2,168	128	115	715	3,726
Other assets	1,991	11	941	49	541	515	4,048
Total assets	**159,579**	**18,306**	**50,506**	**4,292**	**1,494**	**4,999**	**239,176**
Liabilities							
Deposits from the public	123,985	4,839	51,785	5,933	2,374	-	188,916
Deposits from banks	3,883	3	2,817	176	7	-	6,886
Deposits from the Government	128	22	107	-	-	-	257
Securities loaned or sold under repurchase agreements	-	-	1,126	-	-	-	1,126
Bonds and Subordinated debt notes	3,168	5,236	-	72	-	-	8,476
Liabilities in respect of derivative instruments	502	141	1,596	176	115	719	3,249
Other liabilities	11,221	154	643	20	94	465	12,597
Total liabilities	**142,887**	**10,395**	**58,074**	**6,377**	**2,590**	**1,184**	**221,507**
Difference	16,692	7,911	(7,568)	(2,085)	(1,096)	3,815	17,669
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(10,314)	(3,720)	10,694	1,948	1,392	-	-
Options in the money, net (in terms of underlying asset)	277	-	(90)	40	(227)	-	-
Options out of the money, net (in terms of underlying asset)	(375)	-	364	29	(18)	-	-
Total	**6,280**	**4,191**	**3,400**	**(68)**	**51**	**3,815**	**17,669**
Options in the money, net (discounted par value)	347	-	(20)	(59)	(268)	-	-
Options out of the money, net (discounted par value)	(2,876)	-	2,658	334	(116)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank

	December 31, 2019						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	17,321	-	2,168	243	264	-	19,996
Securities	16,281	520	5,430	1,298	10	101	23,640
under resale agreements securities borrowed or purchased	531	-	-	-	-	-	531
Credit granted to the public, net	96,702	14,532	3,609	1,336	360	-	116,539
Credit granted to Governments	849	297	1,412	957	-	-	3,515
Investments in affiliated companies	1,008	94	-	-	-	9,215	10,317
Buildings and equipment	-	-	-	-	-	1,698	1,698
Debit balances of derivative financial instruments	1,590	115	1,866	128	193	364	4,256
Other assets	1,681	1	2	8	467	83	2,242
Total assets	**135,963**	**15,559**	**14,487**	**3,970**	**1,294**	**11,461**	**182,734**
Liabilities							
Deposits from the public	107,645	5,446	25,586	5,432	2,050	-	146,159
Deposits from banks	1,330	36	307	84	5	-	1,762
Deposits from the Government	4	12	-	-	-	-	16
Subordinated capital notes	1,159	2,691	-	41	-	-	3,891
Credit balances of derivative financial instruments	1,745	158	1,913	170	168	359	4,513
Other liabilities	7,289	89	64	4	150	119	7,715
Total liabilities	**119,172**	**8,432**	**27,870**	**5,731**	**2,373**	**478**	**164,056**
Difference	16,791	7,127	(13,383)	(1,761)	(1,079)	10,983	18,678
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(14,184)	(3,272)	14,633	1,875	948	-	-
Options in the money, net, (in terms of base asset)	1,218	-	(967)	(299)	48	-	-
Options out of the money, net, (in terms of base asset)	(46)	-	(65)	109	2	-	-
Total	**3,779**	**3,855**	**218**	**(76)**	**(81)**	**10,983**	**18,678**
Options in the money, net, (discounted nominal value)	1,147	-	(878)	(335)	66	-	-
Options out of the money, net, (discounted nominal value)	(308)	-	(119)	520	(93)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank (continued)

	December 31,2018						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	15,441	4	2,524	299	231	-	18,499
Securities	14,740	1,083	4,674	840	10	95	21,442
under resale agreements Securities borrowed or purchased	774	-	-	-	-	-	774
Credit granted to the public, net	87,137	14,089	5,247	1,650	325	-	108,448
Credit granted to Governments	888	324	1,225	899	-	-	3,336
Investments in affiliated companies	862	93	-	-	-	8,662	9,617
Buildings and equipment	-	-	-	-	-	1,671	1,671
Debit balances of derivative financial instruments	507	86	1,994	127	78	709	3,501
Other assets	1,604	2	3	23	541	358	2,531
Total assets	**121,953**	**15,681**	**15,667**	**3,838**	**1,185**	**11,495**	**169,819**
Liabilities							
Deposits from the public	101,146	4,631	23,011	5,484	2,128	-	136,400
Deposits from banks	1,235	40	436	162	7	-	1,880
Deposits from the Government	6	22	-	-	-	-	28
Subordinated capital notes	1,259	2,800	-	72	-	-	4,131
Credit balances of derivative financial instruments	501	90	1,472	173	78	713	3,027
Other liabilities	6,467	37	206	3	83	406	7,202
Total liabilities	**110,614**	**7,620**	**25,125**	**5,894**	**2,296**	**1,119**	**152,668**
Difference	11,339	8,061	(9,458)	(2,056)	(1,111)	10,376	17,151
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(8,573)	(4,052)	9,314	1,902	1,409	-	-
Options in the money, net, (in terms of base asset)	275	-	(88)	40	(227)	-	-
Options out of the money, net, (in terms of base asset)	(375)	-	364	29	(18)	-	-
Total	**2,666**	**4,009**	**132**	**(85)**	**53**	**10,376**	**17,151**
Options in the money, net, (discounted nominal value)	345	-	(18)	(59)	(268)	-	-
Options out of the money, net, (discounted nominal value)	(2,876)	-	2,658	334	(116)	-	-

Footnote:
(1) Includes those linked to foreign currency.

33. Assets and Liabilities according to Currency and Maturity Periods

Consolidated - in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2019

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets[10]	59,277	16,472	28,178	24,080	15,979
Liabilities	111,748	14,644	26,376	4,942	6,148
Difference	**(52,471)**	**1,828**	**1,802**	**19,138**	**9,831**
Derivative instruments (excluding options)	(4,395)	(3,313)	(10,577)	(192)	(929)
Options (in terms of underlying assets)	207	185	749	62	-
Difference after effect of derivative instruments:	(56,659)	(1,300)	(8,026)	19,008	8,902
Foreign currency[8]:					
Assets[11]	7,617	3,708	9,491	7,454	5,992
Liabilities	42,937	7,504	14,273	1,394	753
Difference	**(35,320)**	**(3,796)**	**(4,782)**	**6,060**	**5,239**
Of which: Difference in dollar	(29,812)	(4,385)	(4,590)	5,408	4,452
Of which: Difference in respect of foreign activity	(18,259)	(1,836)	2,903	5,155	3,389
Derivative instruments (excluding options)	4,395	3,313	10,577	192	929
Options (in terms of underlying assets)	(207)	(185)	(749)	(62)	-
Difference after effect of derivative instruments:	(31,132)	(668)	5,046	6,190	6,168
Total:					
Assets[1]	66,894	20,180	37,669	31,534	21,971
Liabilities[2]	154,685	22,148	40,649	6,336	6,901
Difference	**(87,791)**	**(1,968)**	**(2,980)**	**25,198**	**15,070**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of underlying assets)	-	-	-	-	-
[1] Of which: Credit to the public	38,625	18,298	31,369	25,007	17,593
[2] Of which: Deposits from the public	142,311	18,995	33,551	3,426	1,445
B. Balance Sheet Amount as December 31, 2018					
Total:					
Assets[3]	59,272	21,828	33,217	32,080	22,534
Liabilities[4]	148,623	19,069	35,476	8,260	2,641
Difference	**(89,351)**	**2,759**	**(2,259)**	**23,820**	**19,893**
[3] Of which: Credit to the public	34,787	18,255	27,517	24,875	16,519
[4] Of which: Deposits from the public	134,645	16,558	31,189	4,184	1,077

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 469 million (2018: NIS 307 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 6,333 million (2018: NIS 6,541 million) and an amount of NIS 746 million with no due date (2018: NIS 747 million).

(11) Including current loan account credit facilities in the amount of NIS 141 million (2018: NIS 386 million) and an amount of NIS 33 million with no due date (2018: NIS 263 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6] No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
12,342	10,592	28,098	20,802	5,993	221,813	1,524	201,166	2.31
1,730	1,552	4,995	1,338	243	173,716	-	172,355	0.46
10,612	**9,040**	**23,103**	**19,464**	**5,750**	**48,097**	**1,524**	**28,811**	**1.85**
190	(327)	1,503	(211)	-	(18,251)	-	(18,413)	-
-	-	-	-	-	1,203	-	1,058	-
10,802	8,713	24,606	19,253	5,750	31,049	1,524	11,456	-
3,707	4,099	10,848	5,615	2,014	60,545	1,131	53,985	2.39
357	303	755	386	245	68,907	35	67,728	0.91
3,350	**3,796**	**10,093**	**5,229**	**1,769**	**(8,362)**	**1,096**	**(13,743)**	**1.48**
3,097	3,093	9,900	5,207	1,754	(5,876)	901	(10,871)	-
2,350	2,355	5,529	4,937	1,559	8,082	1,064	3,380	-
(190)	327	(1,503)	211	-	18,251	-	18,413	-
-	-	-	-	-	(1,203)	-	(1,058)	-
3,160	4,123	8,590	5,440	1,769	8,686	1,096	3,612	-
16,049	14,691	38,946	26,417	8,007	282,358	2,655	255,151	2.33
2,087	1,855	5,750	1,724	488	242,623	35	240,083	0.59
13,962	**12,836**	**33,196**	**24,693**	**7,519**	**39,735**	**2,620**	**15,068**	**1.74**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
11,986	9,986	24,469	19,903	5,643	202,879	1,415	180,467	3.07
627	486	996	252	2	202,091	-	201,450	0.60
14,919	12,915	35,598	24,175	7,316	263,854	2,869	234,177	3.17
5,088	1,142	2,374	1,340	296	224,309	28	220,323	0.80
9,831	**11,773**	**33,224**	**22,835**	**7,020**	**39,545**	**2,841**	**13,854**	**2.37**
11,778	9,147	21,605	18,417	5,449	188,349	1,808	164,804	4.08
727	467	569	182	-	189,598	-	188,916	0.85

33. Assets and Liabilities according to Currency and Maturity Periods (continued)

The Bank - in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2019

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	47,422	10,366	19,840	17,193	11,523
Liabilities	84,733	9,349	18,569	3,265	5,203
Difference	**(37,311)**	**1,017**	**1,271**	**13,928**	**6,320**
Derivative instruments (excluding options)	(4,138)	(2,995)	(9,874)	(336)	(929)
Options (in terms of base assets)	206	185	749	62	-
Difference after effect of derivative instruments:	(41,243)	(1,793)	(7,854)	13,654	5,391
Foreign currency[8]:					
Assets[11]	5,022	2,297	1,845	1,793	2,114
Liabilities	20,378	4,154	9,140	956	389
Difference	**(15,356)**	**(1,857)**	**(7,295)**	**837**	**1,725**
Of which: Difference in dollar	(10,312)	(2,405)	(7,123)	231	1,317
Of which: Difference in respect of foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	4,138	2,995	9,874	336	929
Options (in terms of underlying assets)	(206)	(185)	(749)	(62)	-
Difference after effect of derivative instruments:	(11,424)	953	1,830	1,111	2,654
Total:					
Assets[1]	52,444	12,663	21,685	18,986	13,637
Liabilities[2]	105,111	13,503	27,709	4,221	5,592
Difference	**(52,667)**	**(840)**	**(6,024)**	**14,765**	**8,045**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of base assets)	-	-	-	-	-
(1) Of which: Credit to the public	30,575	10,832	16,006	13,955	10,170
(2) Of which: Deposits from the public	99,476	12,187	25,509	2,781	1,594
B. Balance Sheet Amount as December 31, 2018					
Total:					
Assets[3]	47,956	13,830	18,116	19,642	13,704
Liabilities[4]	101,660	12,681	23,726	4,953	2,208
Difference	**(53,704)**	**1,149**	**(5,610)**	**14,689**	**11,496**
(3) Of which: Credit to the public	27,504	10,493	14,727	13,723	9,172
(4) Of which: Deposits from the public	96,263	11,505	21,861	3,748	1,177

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 304 million (2018: NIS 244 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 3,776 million (2018: NIS 4,160 million) and an amount of NIS 572 million with no due date (2018: NIS 679 million).

(11) Including current loan account credit facilities in the amount of NIS 103 million (2018: NIS 218 million) and an amount of NIS 22 million with no due date (2018: NIS 254 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6] No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
8,384	8,066	22,051	17,247	4,956	167,048	1,523	151,599	2.47
1,410	1,340	4,195	1,113	147	129,324	-	127,865	0.50
6,974	**6,726**	**17,856**	**16,134**	**4,809**	**37,724**	**1,523**	**23,734**	**1.97**
190	(327)	1,503	(211)	-	(17,117)	-	(17,283)	-
-	-	-	-	-	1,202	-	1,058	-
7,164	6,399	19,359	15,923	4,809	21,809	1,523	7,509	-
1,192	1,612	5,062	677	455	22,069	24	19,674	2.57
257	209	699	386	245	36,813	2	35,713	0.97
935	**1,403**	**4,363**	**291**	**210**	**(14,744)**	**22**	**(16,039)**	**1.60**
691	740	4,251	270	195	(12,145)	48	(13,325)	-
-	-	-	-	-	-	-	-	-
(190)	327	(1,503)	211	-	17,117	-	17,283	-
-	-	-	-	-	(1,202)	-	(1,058)	-
745	1,730	2,860	502	210	1,171	22	186	-
9,576	9,678	27,113	17,924	5,411	189,117	1,547	171,273	2.48
1,667	1,549	4,894	1,499	392	166,137	2	163,578	0.60
7,909	**8,129**	**22,219**	**16,425**	**5,019**	**22,980**	**1,545**	**7,695**	**1.88**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
7,003	5,902	16,769	16,091	4,810	132,113	804	116,539	3.08
1,025	997	3,280	322	-	147,171	-	146,159	0.52
9,596	8,164	25,561	16,384	4,961	177,914	1,989	158,324	2.78
4,332	967	1,971	967	200	153,665	2	151,549	0.57
5,264	**7,197**	**23,590**	**15,417**	**4,761**	**24,249**	**1,987**	**6,775**	**2.21**
7,678	5,806	16,164	15,224	4,705	125,196	1,246	108,448	3.25
836	603	928	196	-	137,117	-	136,400	0.52

34. Balances and Fair Value Estimates of Financial Instruments

A. General

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not necessarily serve as an indication for the realization value of the financial instrument on the reporting date.

Estimating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Additionally, no consideration was given to commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value and the amounts presented in fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

C. **Methods and main assumptions used in estimating the fair value of financial instruments**

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Credit to the public, net - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2019, the Bank has classified some 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2018: 99%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 2 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1 million (compared to NIS 2 million and NIS 1 million, respectively, as of December 31, 2018).

Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 149 million (compared to an increase of NIS 74 million at December 31, 2018). The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.91 years on December 31, 2019, compared to 3.35 years, taking into consideration the forecast for early redemptions (December 31, 2018: 3.73 years and 3.35 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 25 million (compared to NIS 28 million at December 31, 2018). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2019 to 2.80 years, compared to 2.64 years, taking into consideration the forecast for early redemption (December 31, 2018: 2.50 years and 2.34 years, respectively).

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

D. Composition - consolidated[3]

	December 31, 2019				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	26,044	11,578	-	14,470	26,048
Securities[2]	37,745	22,929	14,222	839	37,990
Securities borrowed or purchased under resale agreements	531	-	-	531	531
Credit to the public, net	180,467	3,451	-	177,772	181,223
Credit to Governments	3,515	-	-	3,543	3,543
Assets in respect of derivative instruments	4,545	346	3,356	843	4,545
Other financial assets	1,840	14	13	1,813	1,840
Total financial assets	**[3]254,687**	**38,318**	**17,591**	**199,811**	**255,720**
Financial liabilities					
Deposits from the public	201,450	19,823	140,936	41,143	201,902
Deposits from banks	6,419	19	5,285	1,141	6,445
Deposits from the Government	181	-	122	62	184
Securities loaned or sold under repurchase agreements	346	-	-	347	347
Bonds and Subordinated debt notes	13,129	11,903	166	1,602	13,671
Liabilities in respect of derivative instruments	4,839	345	4,202	292	4,839
Other financial liabilities	10,630	469	27	10,134	10,630
Total financial liabilities	**[3]236,994**	**32,559**	**150,738**	**54,721**	**238,018**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	116	-	-	116	116

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 54,496 million and NIS 108,470 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. Composition - consolidated[3] (continued)

	December 31, 2018				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	21,858	9,490	-	12,462	21,952
Securities[2]	37,898	21,362	15,682	923	37,967
Securities borrowed or purchased under resale agreements	774	-	-	774	774
Credit to the public, net	164,804	3,567	-	161,137	164,704
Credit to Governments	3,336	-	-	3,336	3,336
Assets in respect of derivative instruments	3,726	654	2,297	775	3,726
Other financial assets	2,162	309	12	1,841	2,162
Total financial assets	**[3]234,558**	**35,382**	**17,991**	**181,248**	**234,621**
Financial liabilities					
Deposits from the public	188,916	17,909	132,910	38,319	189,138
Deposits from banks	6,886	708	5,136	1,057	6,901
Deposits from the Government	257	-	122	138	260
Securities loaned or sold under repurchase agreements	1,126	-	-	1,130	1,130
Bonds and Subordinated debt notes	8,476	7,217	215	1,617	9,049
Liabilities in respect of derivative instruments	3,249	653	2,382	214	3,249
Other financial liabilities	9,517	784	33	8,700	9,517
Total financial liabilities	**[3]218,427**	**27,271**	**140,798**	**51,175**	**219,244**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	105	-	-	105	105

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 49,969 million and NIS 96,242 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis

	December 31, 2019				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	14,824	2,408	-	-	17,232
Foreign Governments bonds	1,494	173	-	-	1,667
Israeli financial institutions bonds	103	42	-	-	145
Foreign financial institutions bonds	-	927	-	-	927
Bonds backed by assets (ABS) or by mortgage (MBS)	9	7,053	-	-	7,062
Bonds of others in Israel	156	166	-	-	322
Bonds of others abroad	-	2,207	-	-	2,207
Shares not for trading	116	12	-	-	128
Total available-for-sale bonds and shares not for trading	**16,702**	**12,988**	**-**	**-**	**29,690**
Trading Securities					
Israeli Government bonds	1,628	671	-	-	2,299
Foreign Governments bonds	16	-	-	-	16
Israeli financial institutions bonds	17	-	-	-	17
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	60	-	-	60
Bonds of others in Israel	58	-	-	-	58
Bonds of others abroad	-	-	-	-	-
Trading Shares	13	-	-	-	13
Total trading securities	**1,732**	**731**	**-**	**-**	**2,463**
Credit to the public in respect of securities loaned	3,451	-	-	-	3,451
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	172	-	172
Other Interest Rate Contracts	-	2,548	200	-	2,748
Foreign Currency Contracts	3	731	448	-	1,182
Shares Contracts	341	47	-	-	388
Commodity and other Contracts	2	30	23	-	55
Total assets in respect of derivative instruments	346	3,356	843	-	4,545
Other	-	13	-	-	13
Assets in respect of the "Maof" market operations	14	-	-	-	14
Total assets	**22,245**	**17,088**	**843**	**-**	**40,176**
Liabilities					
Deposits from the public in respect of securities borrowed	1,863	-	-	-	1,863
CLN deposits	-	-	144	-	144
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	97	-	97
Other Interest Rate Contracts	-	2,946	-	-	2,946
Foreign Currency Contracts	2	1,177	195	-	1,374
Shares Contracts	341	29	-	-	370
Commodity and other Contracts	2	50	-	-	52
Total liabilities in respect of derivative instruments	345	4,202	292	-	4,839
Other	-	27	-	-	27
Commitments in respect of the "Maof" market operations	14	-	-	-	14
Short sales of securities	455	-	-	-	455
Total liabilities	**2,677**	**4,229**	**436**	**-**	**7,342**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	December 31, 2018				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available for sale securities					
Of the Israeli Government	14,832	2,026	-	-	16,858
Of foreign governments	-	749	-	-	749
Of Israeli financial institutions	39	22	-	-	61
Of foreign financial institutions	-	1,314	-	-	1,314
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	9	6,846	-	-	6,855
Of others in Israel	58	90	-	-	148
Of others abroad	-	1,965	-	-	1,965
Shares	57	-	-	-	57
Total available-for-sale securities	**14,995**	**13,012**	**-**	**-**	**28,007**
Trading Securities					
Of the Israeli Government	1,032	981	-	-	2,013
Of foreign governments	-	-	-	-	-
Of Israeli financial institutions	19	-	-	-	19
Of foreign financial institutions	-	8	-	-	8
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	77	-	-	77
Of others in Israel	62	-	-	-	62
Of others abroad	-	8	-	-	8
Shares	59	-	-	-	59
Total trading securities	**1,172**	**1,074**	**-**	**-**	**2,246**
Credit to the public in respect of securities loaned	3,567	-	-	-	3,567
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	124	-	124
Other Interest Rate Contracts	1	968	293	-	1,262
Foreign Currency Contracts	7	1,217	345	-	1,569
Shares Contracts	643	90	-	-	733
Commodity and other Contracts	3	22	13	-	38
Total assets in respect of derivative instruments	654	2,297	775	-	3,726
Other	-	12	-	-	12
Assets in respect of the "Maof" market operations	309	-	-	-	309
Total assets	**20,697**	**16,395**	**775**	**-**	**37,867**
Liabilities					
Deposits from the public in respect of securities borrowed	1,260	-	-	-	1,260
CLN deposits	-	-	193	-	193
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	93	-	93
Other Interest Rate Contracts	-	1,299	-	-	1,299
Foreign Currency Contracts	7	972	121	-	1,100
Shares Contracts	643	76	-	-	719
Commodity and other Contracts	3	35	-	-	38
Total liabilities in respect of derivative instruments	653	2,382	214	-	3,249
Other	-	33	-	-	33
Commitments in respect of the "Maof" market operations	309	-	-	-	309
Short sales of securities	475	-	-	-	475
Total liabilities	**2,697**	**2,415**	**407**	**-**	**5,519**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	December 31, 2019				
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2019
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	580	580	(82)
Not for trading shares	-	-	14	14	(31)

	December 31, 2018				
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2018
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	661	661	(152)
Available-for-sale shares	-	-	58	58	(6)

F. Changes in items measured at fair value on a recurring basis included in item 3 – consolidated

	Fair value as at beginning of the year	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of the year	Unrealized gains (losses) in respect of held instruments as at end of the year
	in NIS millions							
	For the year ended December 31, 2019							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	(1)38	-	6	-	-	75	(1)31
Other Interest Rate Contracts	293	(1)410	-	(435)	(113)	45	200	(1)233
Foreign Currency Contracts	224	(1)63	(111)	78	9	(10)	253	(1)131
Commodity and other Contracts	13	(1)24	-	(14)	-	-	23	(1)23
Total	**561**	**535**	**(111)**	**(365)**	**(104)**	**35**	**551**	**418**
Liabilities								
CLN Deposits	(193)	(2)(4)	-	53	-	-	(144)	(2)(3)
	For the year ended December 31, 2018							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	18	(1)(9)	-	22	-	-	31	(1)25
Other Interest Rate Contracts	134	(1)(42)	-	200	-	1	293	(1)(36)
Foreign Currency Contracts	170	(1)170	(112)	(8)	-	4	224	(1)210
Commodity and other Contracts	-	(1)21	-	(8)	-	-	13	(1)13
Total	**322**	**140**	**(112)**	**206**	**-**	**5**	**561**	**212**
Liabilities								
CLN Deposits	(284)	(2)(2)	-	93	-	-	(193)	(2)(2)

Footnotes:
(1) Included in the statement of profit and loss in the item "Non-interest financing income".
(2) Included in the statement of profit and loss in the item "Interest income and expenses".

34. Balances and Fair Value Estimates of Financial Instruments (continued)

G. Transfers between hierarchy levels of fair value

Transfers to or from level 3 were made in 2018 and 2019, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Fair value as at December 31, 2019	Valuation Techniques	Unobservable inputs					Range (Weighted Average)
	In NIS millions							In %
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	580	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	14	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	Discounted cash flow	Inflationary expectations	From	-2.98%	to	2.16%	(0.92%)
			Counterparty credit risk (CVA)	From	0.00%	to	4.14%	(0.41%)
Other Interest Rate Contracts	200	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	4.98%	(0.02%)
Foreign Currency Contracts	253	Discounted cash flow	Inflationary expectations	From	- 2.98%	to	2.16%	(1.25%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	3.26%	(0.25%)
Commodities and other contracts	23	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	144	Discounted cash flow	Credit risk of the underlying asset					

	Fair value as at December 31, 2018	Valuation Techniques	Unobservable inputs					Range (Weighted Average)
	In NIS millions							In %
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	661	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Available-for-sale shares	58	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	Discounted cash flow	The interest curve in the CPI linked segment	From	-1.32%	to	2.08%	(-0.03%)
			Counterparty credit risk (CVA)	From	0.00%	to	4.88%	(1.49%)
Other Interest Rate Contracts	293	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	1.17%	(0.02%)
Foreign Currency Contracts	224	Discounted cash flow	The interest curve in the CPI linked segment	From	-1.59%	to	1.47%	(-0.22%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	17.56%	(0.38%)
Commodities and other contracts	13	Rating model	Counterparty credit risk (CVA)	From	0.10%	to	0.20%	(0.10%)
Liabilities								
CLN Deposits	193	Discounted cash flow	Credit risk of the underlying asset					

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In as much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries

A. Balances

	December 31, 2019													
	Interested parties[1]										Related parties			
	Shareholders										Held by the Bank[1]			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Affiliated companies[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	4	25
Securities[12]	-	-	-	-	-	-	3	3	-	-	-	-	468	468
Credit to the public	-	-	-	-	1	1	57	81	115	118	464	478	131	186
Provision for credit losses	-	-	-	-	-	-	-	(1)	(1)	(1)	(2)	(2)	(2)	(2)
Credit to the public, net	-	-	-	-	1	1	57	80	114	117	462	476	129	184
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	171	171	-	-
Other assets	-	-	-	-	-	-	-	1	-	-	21	21	13	14
Liabilities:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from the public	-	-	10	106	7	7	2,117	2,277	-	-	45	61	251	404
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	599	722
Subordinated debt notes	-	-	19	20	-	-	123	123	-	-	-	-	-	-
Other liabilities	-	-	-	-	21	21	22	28	-	-	15	20	25	50
Shares (included in equity)[13]	-	-	3,728	3,728	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	1	1	4	5	41	42	-	-	98	98	437	444

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

A. Balances (continued)

	December 31, 2018													
	Interested parties[1]										Related parties			
	Shareholders										Held by the Bank[1]			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Affiliated companies[8]		Others[9]	
	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	10	15
Securities	-	-	-	-	-	-	18	20	-	-	-	-	580	580
Credit to the public	-	-	253	264	2	2	207	[18]209	50	105	380	393	224	263
Provision for credit losses	-	-	(3)	(3)	-	-	(1)	(2)	(1)	(1)	(2)	(2)	(2)	(2)
Credit to the public, net	-	-	250	261	2	2	206	[18]207	49	104	378	391	222	261
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	135	135	-	-
Other assets	-	-	-	-	-	-	1	[18]4	-	-	17	18	7	10
Liabilities:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from the public	-	-	6	38	4	4	1,222	[18]1,560	-	-	19	77	267	450
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	904	908
Subordinated debt notes	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Other liabilities	-	-	-	-	31	31	5	[18]14	-	-	15	15	53	65
Shares (included in equity)[13]	-	-	2,844	2,844	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	11	11	6	7	[19]77	[19]194	-	-	81	81	[19]347	[19]356

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

B. Summarized results of transactions with related and interested parties

	Interested parties[1]				Related parties[1]	
	Shareholders				Held by the Bank	
	Controlling Shareholders[2]	Other shareholders[3]	Officers[4]	Others[6][7]	[8]Affiliated companies	Others[9]
	in NIS millions					
	For the year ended December 31, 2019					
Interest income (expenses), net (See item D)	-	4	-	(10)	8	1
credit loss expenses	-	-	-	-	(1)	(1)
Non-interest income (expenses)	-	-	-	[15](44)	12	77
Operating and other expenses (See item C)	-	-	(40)	(14)	(13)	(35)
Total	**-**	**4**	**(40)**	**(68)**	**6**	**42**
	For the year ended December 31, 2018					
Interest income (expenses), net (See item D)	-	4	-	(3)	[20]8	1
credit loss income (expenses)	-	(1)	-	1	-	-
Non-interest income (expenses)	-	-	-	[15](176)	7	103
Operating and other expenses (See item C)	-	-	(38)	(6)	(11)	(36)
Total	**-**	**3**	**(38)**	**(184)**	**4**	**68**
	For the year ended December 31, 2017					
Interest income (expenses), net (See item D)	-	-	-	(2)	2	-
credit loss income	-	-	-	-	1	2
Non-interest income	-	-	-	[15]80	8	81
Operating and other expenses (See item C)	-	-	(34)	(6)	(8)	(33)
Total	**-**	**-**	**(34)**	**72**	**3**	**50**

For notes to the tables see after item D.

C. Remuneration and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2019		2018		2017	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf[17]	33	16	33	16	30	13
Directors who are not employed by the Bank or on its behalf	7	9	5	12	5	12
Total	**40**	**25**	**38**	**28**	**35**	**25**

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

D. Interest income, net, in transactions of the Bank and its consolidated subsidiaries with related and interested parties[18]

	Consolidated			Of which from Affiliated Companies		
	2019	2018	2017	2019	2018	2017
	in NIS millions					
A. On assets						
Credit to the public	21	[20]25	9	8	[20]8	2
Total	**21**	**25**	**9**	**8**	**8**	**2**
B. On liabilities						
Deposits from the public	(11)	(11)	(6)	-	-	-
Deposits from the banks	(4)	(4)	(3)	-	-	-
Subordinated capital notes	(3)	-	-	-	-	-
Total	**(18)**	**(15)**	**(9)**	**-**	**-**	**-**
Total Interest income, net	**3**	**10**	**-**	**8**	**8**	**2**

Footnotes: relating to Section 35 A,B,C & D:

(1) Intrestee party, related party - as defined in item 80 d of the public Reporting Directives.
(2) Controlling shareholder and their relatives – in accordance with item 80 d (1) of the public Reporting Directives.
(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO in accordance with item 80 d (2) of the public Reporting Directive.
(4) Officers - in accordance with item 80 d (3) of the public Reporting Directives.
(5) As regards the engagement terms see item O below
(6) in accordance with item 80 d (4) of the public Reporting Directives.
(7) In respect of corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.
(8) Affiliated Companies- in accordance with item 80 d (7) of the public Reporting Directives.
(9) in accordance with item 80 d (5) of the public Reporting Directives.
(10) The balance at balance sheet date.
(11) The highest balance during the year on the basis of month-end balances.
(12) Details of these item are included also in Securities - Note 12, Investments in Investee Companies - Note 15 and guarantees Note 26.
(13) Holdings of interested parties and of related parties in the equity of the banking corporation.
(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.
(15) stemming mainly from derivative financial instruments activity.
(16) The amounts of the remuneration do not include payroll tax.
(17) Including the officiating Chairman of the Board (see item F below)
(18) Reclassified- improvement of data.
(19) Reclassified- improvement of data.
(20) Reclassified – improvement of data of a subsidiary company.

E. (1) On December 3, 2013 the Bank became a bank with no core controlling interest.

(2) During 2017-2019, a number of entities managing customer funds became interested parties in the Bank, following the policy of the Bank of Israel in the matter of the granting of a bank holding permit to entities managing customer funds. It is noted that in accordance with the Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties", entities which had obtained a holding permit in accordance with the said policy, who hold means of control of the Bank of a rate that does not exceed 7.5%, have been removed from the definition of "related party", and accordingly, transactions of a banking corporation with such entities does not require approval in accordance with the said Directive.

F. **Remuneration for the officiating Chairman of the Board, the officiating President & CEO, the former President & CEO and the former Chairman of the Board**

Remuneration for the officiating Chairman of the Board. The officiating Chairman of the Board of Directors took office as Chairman on December 3, 2018.

The Board of Directors decided on February 26, 2019, to accept the recommendation of the Remuneration Committee of February 12, 2019, and approve the terms of office of the Chairman, beginning with the date on which he takes office as Chairman of the Board of the Bank, and subject to the provisions of the law/regulation permitting such terms of office as stated:

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

1. Period of office - The terms of office apply as from December 3, 2018 and until the end of his period of office as Chairman of the Board (the Chairman ends his second period of office as Director on December 11, 2020, and is entitled to be appointed to an additional period of office until December 11, 2023).
2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and in accordance with the Bank's needs. The Chairman may not enter into any additional paid engagement, unless he receives in advance the consent of the Board of Directors.
3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received in accordance with his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled in accordance with his terms of office.
4. The consideration – In respect of his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 2,425 thousand, linked to the CPI, with the addition of VAT under the law ("the annual consideration").
5. Deposits with severance pay and provident funds - In addition to the annual consideration, as stated, the Bank shall pay to the Chairman additional amounts, with the addition of VAT under the law, in lieu of severance pay, provident contributions and loss of work ability compensation, against the deposit thereof by the Chairman in Funds, so that the total of the comprehensive annual remuneration payable to the Chairman, including deposits with severance pay and provident funds, would amount to NIS 2,796 thousand (linked to the CPI).
6. Additional terms – The Chairman shall be entitled to an appropriate motor vehicle or to reimbursement of expenses in respect of use of his private vehicle and/or to telephone expenses and/or to benefits and other terms respecting his duties as Chairman of the Board, all as is the accepted practice at the Bank, and provided that the total annual cost to the Bank in respect of the terms of office shall not exceed the annual consideration (not including deposits with severance compensation and provident funds).
7. Expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties, in accordance with the accepted practice at the Bank.
8. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
9. Additional duties - The Chairman is committed to a non-competition and a "cooling-off" period of six months since the date of termination of office and to the maintaining of confidentiality for an unlimited period.

On April 3, 2019, the general meeting of the Bank's shareholders approved the aforesaid terms of office and the revision of the remuneration policy for officers accordingly. This, subject to the provisions of the law/regulation permitting such terms of office as stated.

The terms determined in the decision of the General Meeting of Shareholders regarding the entry into effect of the terms of office and employment, as stated above, were fulfilled on July 29, 2019, including the approval by the Supervisor of Banks and the terms stated by her (hereinafter: "date of entry into effect of the terms of office").

Until date of entry into effect of the terms of office, the Chairman of the Board continued to receive remuneration as a regular Director, in accordance with the Companies Regulations (Rules regarding remuneration and reimbursement of expenses to an external Director), 2000, and with the Bank's remuneration policy. Following the entry into effect of the terms of office, the Chairman of the Board received the remuneration to which he is entitled since date of the beginning of his office, net of the amounts that had been received by him as Director's remuneration, as stated.

Updating of the terms of office of the acting Chairman of the Board. Within the framework of the discussions regarding the remuneration policy for officers, and within the framework of the examination of all aspects relating to remuneration at the Bank, while making a comparative examination of the practice existing in the banking sector, the Bank's Board of Directors, following the approval of the Remuneration Committee, approved on February 10, 2020, the updating of the terms of office of the Chairman of the Board, as follows:

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(1) In respect of the undertaking by the Chairman for a non-competition period, as stated above, including his undertaking not to act during the non-competition period as Director of or provide services or consultation to a banking or financial institution, which is a significant competitor of the Bank, the Chairman of the Board would be entitled to a non-competition payment in an amount equal to one half of the total annual remuneration applicable to the office of the Chairman. The said payment in respect of non-competition would be paid at the end of the non-competition period, subject to compliance by the Chairman with his undertaking for a non-competition period.

(2) To the extent that the permitted maximum level under the Remuneration Act, including Section 2(b) to the Act, with the averaging of the awards granted to employees of the lowest remuneration level, shall increase in relation to the maximum level applying at date of approval for the first time of the terms of office of the Chairman by the general meeting of shareholders, which amounted to approx. NIS 3,010 thousands (which does not include payments and provisions for pension and severance pay in accordance with the Law) (hereinafter: "the existing maximum level") – the amount of the annual remuneration and the amount of deposits with severance pay and provident funds as stated in the terms of office of the Chairman, shall increase pro-rata with the rate of increase of the existing maximum level.

The updating of the terms of office of the acting Chairman of the Board will be submitted for approval of the general meeting of shareholders convened for March 18, 2020.

Terms of office and employment of the President & CEO acting in the interim period. In accordance with the provisions of Regulation 1B4 of the Companies Regulations (Relief regarding transactions with interested parties), 2000, the Remuneration Committee and the Board of Directors approved the terms of office and employment of the acting President & CEO, since the beginning of his appointment (December 2, 2019; hereinafter: "the beginning date") and until date on which the Bank's general meeting of shareholders which is convened for March 18, 2020, the Agenda of which includes a proposed resolution to approve the terms of office and employment of the acting President & CEO (hereinafter: "the interim period"), stating that the terms of office and employment during the interim period are not more beneficial in comparison with the terms of office and employment of the former President & CEO.

Terms of office and engagement of the former President & CEO. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the former President & CEO, for a period of five years as from October 12, 2016. The said terms of office and employment, replaced the terms of office and employment as approved by the General Meeting of Shareholders held on January 17, 2014 (hereunder: "the original agreement").

The former President & CEO was entitled to an advance notice period of six months. In the event of her employment to be terminated after five years and not extended, the former President & CEO would be entitled to payment of the advance notice cost. The former President & CEO was employed in a fulltime position and was not permitted to engage in any other gainful occupation, unless the prior consent of the Board of Directors is obtained.

The engagement terms have been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive 301A. In view of the restrictions determined by the Remuneration Act, the approved remuneration terms include a reduction in the scope of remuneration applying to the President & CEO.

In consideration for the fulfillment of her duties, the former President & CEO was entitled to a monthly salary of NIS 180,000, gross (Non-linked). In each calendar year during her employment period, the former President & CEO was entitled to an additional monthly salary (13th month salary) including also social allowances in respect thereof.

The former President & CEO was entitled to paid vacation days (may not be accumulated), paid sick leave, recreation pay, a suitable motor vehicle, social benefits (pension arrangement – executives' insurance, compensation fund and/or pension fund, including provident contributions; further education fund; loss of work ability insurance), reimbursement of certain expenses and additional benefits.

The Remuneration Committee and the Board of Directors, at their discretion, were permitted to grant the former President & CEO an annual award in an amount not exceeding three monthly salaries.

Severance pay – at the end of her period of office, for whatever reason, the President & CEO would be entitled to severance pay on the basis of her last monthly salary, or to the funds and rights accumulated to her credit in respect of the pension arrangement, the higher of the two. Furthermore, she would also be entitled to an adaptation award amounting to six monthly salaries with the addition of the social and other benefits related thereto.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

The annual remuneration of the former President & CEO (excluding social benefits and related benefits) did not exceed the maximum amount permitted by Section 2(b) of the Remuneration Act. Following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration were also updated. The engagement terms also state that to the extent that the maximum amount permissible by the Remuneration Act allows, the fixed remuneration component of the President & CEO shall be increased by an additional fixed remuneration component, not to exceed one additional monthly salary.

Nothing in the terms of office and employment that were approved on November 8, 2016 shall be treated as impairing the rights accrued by the former President & CEO through October 12, 2016, including variable remuneration in respect to 2016 and the compensation for terminating the employee-employer relationship (the right to receive severance pay, within the framework of terminating the employee-employer relationship, on the initiative of the President & CEO or on the initiative of the Bank, in addition to the ongoing deposits in respect to severance pay made to her pension arrangement funds).

Remuneration in respect of the year 2018. The Remuneration Committee has confirmed that in accordance with the "restricted ratio" stated in the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016, (the Remuneration Act) - multiplication by 35 of the expense in respect of the lowest remuneration paid to a bank employee for the year 2018, including employees of contractors – the maximum amount of the potential remuneration payable to the President & CEO in respect of the year 2018, totals NIS 3,009,790 (not including severance pay and provident fund contributions under the law). Accordingly, the President & CEO is entitled to an additional fixed remuneration component in the amount equal to one monthly salary (with the addition of severance pay and provident fund contributions under the law) totaling NIS 206,700.

The engagement agreement with the former Chairman of the Board of Directors. The former Chairman of the Board officiated in this role as from January 3, 2010 and until December 2, 2018. The terms of office and employment of the former Chairman of the Board are described in Note 35 F to the financial statements as of December 31, 2018.

G. **Awards to the former President & CEO.** In accordance with the terms of the original agreement, the former President & CEO, among other things, was entitled to an annual award, a current award and to special awards, as detailed below:

(1) **Annual award.** During the term of her engagement, the President & CEO was entitled to an annual award in respect of each award year, which was restricted to a maximum amount of NIS 2.2 million, linked to the CPI in respect of December 2013.

Minimum requirements as regards entitlement to the annual award. Entitlement to the annual award in respect of a particular award year was conditional upon the existence together of all the following minimum terms:

- The rate of return on capital in the award year shall not fall below the higher of 7% or the weighted average rate of return on capital in the award year of the four major banks, less 2%;
- The total capital adequacy ratio and the core capital ratio of the Bank, according to the annual financial statements for the award year, shall not fall below the minimum ratios as determined by instructions of the Supervisor of Banks;
- At least a grade "2" marking in the qualitative index for the award year has been granted to the former President & CEO, as detailed below.

Computation of the annual award. The annual award was computed on the basis of five indices, having identical weight, which are based upon the Bank`s performance (hereinafter: "the quantitative indices" - Return on capital; Efficiency ratio; Commissions and other income; Core capital ratio) and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors (hereinafter: "the qualitative index"). The Remuneration Committee and the Board of Directors were entitled to decide that with respect to a particular award year, the award shall be based solely on the quantitative indices.

(2) **Current award.** The former President & CEO was entitled to a current award in respect of each award year, in an amount of NIS 900 thousand, linked to the CPI, subject to the entitlement terms, as detailed below.

Entitlement terms to the current award. The entitlement to a current award in respect of a particular award year is conditional upon the existence together of all entitlement terms, as detailed below:

- The core capital adequacy ratio, in accordance with the annual consolidated financial statements, is not lower than the ratio determined in the work plan for the award year.
- The actual efficiency ratio, as computed on the basis of the Bank`s standalone financial statements for the award year, less special profits or losses, is not higher than the efficiency ratio to be determined by the Board of Directors at the beginning of the award year, in accordance with the Bank's work plan.
- The grade granted to the former President & CEO is at least grade "2" of the qualitative index for the award year.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(3) Special awards

3.1 **Award for special profits or losses.** The Remuneration Committee and the Board of Directors were entitled to grant the former President & CEO a special award, either positive or negative, in respect of special profits or losses. This award was computed as the difference between the annual award for the award year and the annual award which would have resulted had the special profits or losses not been eliminated in the computation of the quantitative indices, as stated above, with the addition of 20% of the said difference, provided that the resultant amount does not exceed NIS 700 thousand, linked to the CPI. The amount of the negative award is not to exceed the level of entitlement to the annual award.

3.2 **Special contribution award.** In exceptionally beneficial circumstances regarding an exceptional business event and/or special contribution, which are to be defined in advance by the Board of Directors according to measurable criteria, the Remuneration Committee and the Board of Directors were allowed to grant the former President & CEO a special award, in an amount not exceeding NIS 700 thousand, linked to the CPI. The award in respect of a special contribution is subject to any approval or disclosure required by law. The award in respect of a special contribution shall not be awarded more than once in every three years.

3.3 **Award in special circumstances.** The Remuneration Committee and the Board of Directors were allowed to grant the former President & CEO an annual award in a monetary amount not exceeding the amount of two monthly salaries, in the event that the minimum conditions for the annual award had not materialized, on condition that the following cumulative terms exist:

- The Remuneration Committee and the Board of Directors have found that in that year, special circumstances had exited in the Bank itself or in the banking industry in Israel or in the macro-economic situation;
- The total capital adequacy ratio and the core capital ratio, in accordance with the annual consolidated financial statement for the award year, were not lower than the minimum ratios determined by the instructions of the Supervisor of Banks.

(4) On February 2, 2015, the Bank's Board of Directors received the recommendation of the audit committee and approved the targets for the purpose of computing the annual award to the President & CEO for the years 2015-2016.

(5) **The annual award for 2016.** The entitlement to annual awards did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a current award for 2016, in an amount of NIS 703 thousand (the proportionate share of the annual award of NIS 900 thousand, calculated through October 12, 2017; see item (2) above); a special circumstances award of NIS 281 thousand (the proportionate share of the annual award of NIS 360 thousand, calculated through October 12, 2017; see section 3.3 above); and a special contribution award, which can be distributed once every three years, of NIS 700 thousand, (see item 3.2 above).

The approved awards total NIS 1,684 thousand. The Remuneration Committee and the Board of Directors have approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC's expense in respect to the arrangement in lieu of criminal proceedings; and the costs in respect to the 2016 retirement plan. Elimination of the aforesaid special profits and losses has not affected the total amount of the awards.

The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the previous employment agreement in respect to 2016.

(6) **The annual award for 2018.** The Remuneration Committee and the Board of Directors approved an annual award to the President & CEO in the amount of NIS 313 thousand, equal to 1.74 of a monthly salary. It is noted that the said award was affected by the limitation under the law. Furthermore, in view of the attainment of the return on equity goal, as determined in the original engagement agreement with the President & CEO regarding the entitlement to a deferred award, the entitlement to the second deferred installment (out of three deferred installments) had been realized regarding the awards in respect of special contribution, the current award and the special circumstances award, as approved by the Board of Directors in December 2016 and March 2017 in respect of the year 2016. The amount of the deferred installment payable to the President & CEO proximate to the date of publication of the financial statements for 2018, totals NIS 441 thousand, and it includes a component of linkage to the relevant share data as of that date, as determined in the original engagement agreement with the President & CEO.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(7) **The annual award in respect of 2019.** The Remuneration Committee and the Board of Directors approved the payment to her of an annual award in respect of the year 2019 of NIS 540 thousand, comprising three monthly salaries. This, in accordance with the remuneration policy and the terms of office and employment of the President & CEO, following findings showing existence of the factors justifying the granting of an annual award, as stated. The amount of the deferred installment payable to the former President & CEO proximate to the date of publication of the financial statements for 2019, totals NIS 559 thousand (as of December 31, 2019) and it includes a component of linkage to the relevant share data as of that date, as determined in the original engagement agreement with the President & CEO.

H. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2019, amounted to NIS 6,930 million (as at December 31, 2018 – NIS 3,588 million).

I. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 26 C 4 and Note 26 C 5.

J. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 10 items a and b.

K. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, see Note 26 C 8, items N and O.

L. **Remuneration of expert directors.** Following approval by the Remuneration Committee, the Board of Directors approved on May 16, 2018, the payment of annual remuneration and remuneration for participation in meetings to external directors and other directors officiating and who would officiate at the Bank (excluding the Chairman of then Board), and who are expert directors, as defined in the Remuneration Regulations, in an amount that does not exceed the "maximum amount for an external expert director" stated in the fourth addendum to the Companies Regulations (Rules regarding remuneration and expenses payable to an external director), 2000, in accordance with the grade of the Bank (hereinafter: "the updated remuneration"). A director who is not an expert director shall continue to receive annual remuneration and remuneration for participation in meetings, as stated in Note 35 L to the financial statements as of December 31, 2017.

The said updated remuneration shall be paid to an expert director, as stated, starting with the date of beginning of office of a new external director at the Bank, or the date of renewal of office of an officiating external director, the earlier of the two.

The said approval was granted in accordance with Regulation 1A of the Relief Regulations (Relief regarding transactions with interested parties), 2000.

M. **Terms of transactions with interested and related parties.** All business with interested and related parties has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

N. For details regarding the remuneration policy for officers of the Bank, see Note 23 D and E. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2017-2019), see Note 23 G.

36. Credit Card Activity

A. Existing arrangements between the credit card companies and between such companies and the banks

1. Arrangements between credit card companies – VISA Cards. At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Competition Tribunal for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Competition Commissioner (hereinafter: "the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Competition Court. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement - reduction of the issuer commission rate. The Competition Tribunal approved on March 7, 2012 a new compromise arrangement, to which had been attached an amended cross clearing arrangement. The compromise agreement determines, among other things, that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement and that the reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement.

   The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission decreased and amounts as of December 31, 2018 to an average rate that did not exceed 0.7%.

   Local clearing exemption terms. On April 25, 2018, the Competition Commissioner published his decision to exempt, under certain terms, the cross clearing arrangement between the credit card companies. The cross clearing arrangement between the credit card companies was approved in March 2012 by the Competition Tribunal within the framework of a motion to approve a restrictive arrangement. The Tribunal adopted a compromise agreement that was drawn up at the time between the three credit card companies and the Commissioner ("the Amended Clearing Arrangement").

   Apart from prescribing the rates of the cross-commission, the amended arrangement also prescribed additional provisions that would apply to the parties to the Arrangement. Inter alia, the parties undertook to submit a request to the Commissioner for an exemption in relation to the agreement in principle signed between the credit card companies and the banks on May 9, 2007 ("the Operating Arrangement"), which will set out the whole array of technical, operational and other details that are obligatory for cross clearing. In accordance with the Amended Clearing Arrangement, during the interim period until the grant of the exemption with regard to the Operating Arrangement, the parties will be subject to the terms of the exemption from 2000 (the exemption granted by the Commissioner for the cross clearing of the entities related to VISA), mutatis mutandis. This is in addition to the provisions prescribed in the Amended Clearing Arrangement.

   In accordance with the provisions of the amended arrangement, the parties submitted a request on March 21, 2012 for exemption of the Operating Arrangement. The present exemption was granted until December 31, 2023, subject to the terms set out in the decision.

   Clearing exemption terms. The exemption's provisions apply both to the agreement in principle signed between the bank's and the credit card companies on May 9, 2007 and also to its appendices and to the changes thereto. A part of the exemption provisions apply also to a clearing agent who is not an issuer (or vice versa) who joins the agreement, thereby being considered a credit card company in accordance with the definition stated therein.

   New players becoming parties to the agreement in principle. Credit cards have to join to the agreement on an equal basis and at no cost. The credit card companies are to place at the disposal of a New Player all the information that it requires in order for it to become a party to the agreement and for it to operate thereunder, as well as perform reasonable adjustments, to the extent required so as to enable a New Player to become a party to the agreement and to operate in accordance with its provisions.

   Prohibition on market power being exploited by an issuer or by a clearing agent to the detriment of competitors. An issuer with Wide-Ranging Activity may not discriminate between clearing agents or between customers according to the identity of the clearing agent of the trading house at which the transaction was done, and may not take any action whose intention or likely consequence is such discrimination.

36. Credit Card Activity (continued)

A credit card company that is a clearing agent with Wide-Ranging Activity may not discriminate between issuer's and may not take any action whose intention or likely consequence is discrimination between issuers. The provision prescribes that differences in the terms of engagement resulting from differences in the payments that the clearing agent is required to make to the issuer by law for different types of transactions will not be deemed to be discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity or an issuer with Wide-Ranging Activity may not link the clearing of transactions using debit cards at a trading house to an engagement with that trading house within the framework of its activity as an issuer.

Prohibition on market power being utilized against a trading house. A prohibition on a credit card company being a party to an accord whose intention or likely consequence is to link the clearing of a debit card that is issued by a party to the agreement to the clearing of a debit card that is issued by an entity that is not a party to the agreement. In addition, a credit card company may not link different types of transactions that are conducted using debit cards that it clears.

Prohibiting a credit card company that is a clearing agent with Wide-Ranging Activity from being a party to accords with a trading house that prevent the trading house or that restrict the trading house from granting discounts to its customers, which depend on the payment means used by the customer.

Daily reckoning – prohibition on delaying the transfer of the payment from the issuer to the clearing agent. With effect from July 1, 2021, the transfer of funds between an issuer and a clearing agent in respect single-payment transactions is to be performed no later than one day following the transmission date of the transaction by the trading house.

The changes in the exemption decision. The main change in the new decision is the provision that requires daily clearing. In addition, the new terms contain also relief, which includes removal of the sweeping prohibition on exclusive agreements with a trading house (and on the granting of designated discounts).

The granting of the exemption is conditional upon the transition to the daily clearing of deferred debit transactions. This condition shall become effective on July 1, 2021, and would apply to a single payment transaction. In the case of such transactions, the issuer would be required to transfer the consideration to the clearing agent no later than one day following the date of broadcast of the transaction by the trading house. This condition does not apply to installment transactions.

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five stages during the coming years.

The cross commission level under the new outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

The reduction in the issuer's fee to a level of 0.5% will be implemented in stages, as follows:

- from January 1, 2019, through December 31, 2019, the issuer's fee stood at an average rate that shall not exceed 0.6%;
- from January 1, 2020, through December 31, 2020, the issuer's fee will stand at an average rate that shall not exceed 0.575%;
- from January 1, 2021, through December 31, 2021, the issuer's fee will stand at an average rate that shall not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee will stand at an average rate that shall not exceed 0.525%;
- from January 1, 2023, the issuer's fee will stand at an average rate that shall not exceed 0.5%.

In addition, an outline was established with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date, to a rate of 0.25%, in two phases, during the coming years. The aforementioned reduction will be carried out in stages, as follows:

- from January 1, 2021 through December 31, 2022, the commission will be at an average rate of not more than 0.275%;
- from January 1, 2023, the commission will be at an average rate of not more than 0.25%.

On November 25, 2018, these rates were recognized in the Banking Order (Customer service) (Supervision over cross-clearing service for charge card transactions and for immediate debit transactions), 2018.

36. Credit Card Activity (continued)

It should be noted that the reducing the rate of the cross commission effects various parameters, including: the scope of the fees collected from trading houses, the scope of the royalties paid to the banks with which the company has entered into a joint-issuing agreement, various operational fees, the scope of the clearing activity, the effects of the changes in the credit card sector as a result of the "Strum Law" etc. Difficulties exist in assessing each of these parameters on its own and in assessing their aggregate impact, particularly in light of the fact that their impact is felt gradually over time. Consequently, ICC is of the opinion that it is not possible to assess the scope of the impact of the reduction in the cross commission rate on its business results. Nevertheless, the Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated.

Petition regarding the rate of the cross commission. On December 9, 2018, a petition was filed with the Supreme Court sitting as the High Court of Justice, in which relief was sought through the revocation of the Banking Order (Customer Service) (Supervision of Cross Clearing Service of Debit Card Transactions and of Immediate Charge Transactions), 2018. According to the petitioners, the Order should be revoked, and it should be prescribed that the credit card companies be forbidden from generating profit from the cross commission, which is meant to cover only the issuer's costs. Hearing of the motion is fixed for March 26, 2020.

2. **Exemption for a restrictive agreement for the clearing of Isracard cards.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel.

   On May 16, 2018, ICC received an exemption for a restrictive agreement for clearing Isracard cards, further to earlier exemptions granted in this matter. This exemption is granted following the extension of the agreement between ICC and Isracard with regard to clearing "Isracard" branded cards for a further two years, i.e. through May 15, 2020. In general, the exemption is granted for the period of the agreement, but should the parties extend the agreement without making any substantive changes thereto, the exemption will be valid through December 31, 2023.

3. **A joint issuance agreement between ICC and owner banks.** ICC signed on September 30, 2013 with the Bank and with the First International Bank Group, an agreement for the joint issue of VISA and MasterCard credit cards, determining also operating arrangement and the granting of services by ICC in respect of credit cards to be issued by it and distributed by the said banks to their customers. This agreement replaces earlier agreements between the said parties. The issuance agreements were valid for 5-year periods and are extendable under certain circumstances determined in the agreements. ICC and the owner banks are conducting negotiations for renewal of the issuance agreements.

   Extension of agreement – The First International Bank. On May 23, 2019, ICC and Diners signed an agreement for the updating and extension of the validity of agreements for the joint issuance with the First International Bank. The agreement states, among other things, a compensation mechanism based on the volume of cards being issued. The provisions of the agreement would enter into effect upon a detailed agreement between the parties taking effect, which as of date of this report has not as yet been formed. Until this agreement takes effect, the parties operate in accordance with the provisions of the existing agreement.

   Extension of agreement - Discount Bank. On June 13, 2019, ICC and the Bank signed an agreement for the joint issuance of brand name charge cards of "VISA" and "MasterCard", to be operated by ICC. At the same date, Diners signed an agreement for the joint issuance of brand name charge cards of "Diners", to be operated by it. The agreements include, inter alia, mechanisms for the distribution of income, which take effect retroactively as from January 1, 2019, as well as a compensation mechanism for the Bank in respect of attainment of goals. The validity of these agreements is in effect until December 31, 2022. Under certain circumstances of a reduction in the rate of holdings of the Bank in the company, the Bank would be entitled to notify the company of the termination of the agreement, and the agreement will be terminated at the end of six month from the date of the Bank's notice. On January 29, 2020, ICC, Diners and MDB signed agreements for the joint issuance of charge cards. These agreements are valid until December 31, 2022.

4. **Issuance agreements with banks participating in the arrangement.** ICC is engaged with most banks in Israel by agreements for the joint issuance and operation of the issue of charge cards. In accordance with these agreements, ICC and/or the bank issue charge cards to customers of that bank, the operation of which would be performed by ICC. According to the agreements, a mechanism was determined for the distribution of income between ICC and the banks in respect of the card operation (including: income derived from transaction in Israel and abroad, and service commission charged to card holders). Also determined are the operation fees to which ICC would be entitled in respect of certain operations, such as extending bank credit by means of the card. Under certain of the agreements the bank enjoys an increase in its share of the income based on the volume of the joint operations and/or the quantity of cards issued in accordance with the agreement. Moreover, certain of the agreements include awards dependent on attainment of goals.

36. Credit Card Activity (continued)

The banks were awarded the exclusive discretion regarding the issue of the credit card, its cancellation, suspension, the number of credit cards to be issued (with no commitment for a minimum number of cards), including the amount of the credit facility and the interest rates charged. Among other things, the agreements also state that the banks would be responsible for everything related to credit risk, while ICC on its part would be responsible for risks of misuse of the credit card by the customer (excluding exceptional cases as stated in the agreements). The agreements further regularize the manner of use of information derived from the use of credit cards and the ownership of the said information, as well as the manner of management of the commercial relations with the credit organizations.

The agreements are signed for a period of several years and certain of them contain provisions regarding the extension thereof for an additional period.

B. **Arrangements following the Strum Act.** Following the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017 ("the Strum Act"), The Bank and ICC reached the following arrangements:

1. **Agreement between the Bank and MAX.** The Bank signed a joint issuance agreement on March 29, 2018, with MAX, based on the commercial understandings reached between the parties. In accordance with the agreement, the Bank would issue credit cards together with MAX as from February 2019 (date of entering into effect of the duty stated in the Act to conduct the issuance operation by means of more than one operating company). Inter alia, the agreement regularizes the services to be received by the Bank, the division of responsibility and the manner of settlement between the parties. The agreement is in effect until January 31, 2024, and may be extended for an additional period of two years by a notice in advance by the Bank.
2. **A joint issuance agreement with Bank Hapoalim.** On November 21, 2018, ICC and Bank Hapoalim Ltd. signed an agreement for the joint issuance and operation of charge cards. According to the agreement, the parties will issue credit cards to customers of Bank Hapoalim, which would be operated by ICC. The agreement determines the distribution of income between the parties, as well as their rights and obligations and further arrangements regarding the said operation. The agreement will be in effect as from date of signature thereof and until December 31, 2024. Bank Hapoalim is entitled to extend the period of the agreement by means of a written request delivered to ICC no later than June 30, 2024, while ICC is entitled to inform Bank Hapoalim of its consent within 45 days from date of delivery of the request for extension.
3. **Agreement for joint issuance with Bank Leumi.** On August 12, 2018, ICC, Diners and Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi") signed an agreement for the joint issuance and operation of debit card issuance. In accordance with the agreement, the parties would issue to customers of Leumi debit cards operated by ICC. The agreement determines the division among the parties of income and expenses derived from the joint issuance operations, as well as the rights and duties of the parties and additional arrangements relating to the described operations. The period covered by the agreement would be from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi will be entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties will be permitted to agree to extend the period of the agreement by four additional periods of one year each.

C. **Joint distribution agreement with El-Al Company.** On June 11, 2014, Diners and ICC entered into an agreement for the issue of brand name credit cards to members of the frequent flyer club of El-Al Israel Airlines Ltd. ("EL-AL") (hereinafter: "brand name credit cards").

An agreement of principles was signed on December 11, 2018, in respect of a new engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards for a period of ten years as from September 1, 2019, with a mutual termination right for each of the parties after seven years ("the engagement period"). This agreement replaces the previous agreement. It has been agreed that as from the effective date of the agreement of principles, it would be binding upon the parties for all intents and purposes.

It has been agreed that ICC shall pay EL AL a onetime signature award in a total amount of NIS 75 million, payable upon the agreement of principles taking effect (upon fulfillment of the condition precedent, as detailed below). Furthermore, EL AL would be entitled to the payment by ICC of current royalties (and under certain terms to increased royalties, dependent on reaching determined operational goals), in respect of the use of the brand name credit cards, and which shall be derived from the various income earned on the brand name credit card operations, comprising the distribution of income between the parties with respect to the cross-commission earned on transactions made by the credit cards, with respect to income on the credit extended to card holders, with respect to card fees charged to the holders and with respect to foreign currency conversion income. The agreement of principles determines in addition, instructions regarding the marketing and promotion of sale of the brand name credit cards, including marketing and advertising budgets by ICC all through the period of the engagement.

36. Credit Card Activity (continued)

On date of entry into effect of the agreement of principles, EL AL received an advance payment of NIS 60 million, on account of a part of the above mentioned current royalties, which shall be reimbursed in full during the first seven years of the engagement period, by means of offsetting the amount against the current royalties only.

Moreover, EL AL shall be granted a "phantom" option, which would grant it economic rights in ICC (of a value equal to 8.75% of the increase in value of ICC) or in Diners (of a value equal to 35% of the increase in value of Diners). The option may be exercised only in the event of sale or share issue of any of the above companies, in accordance with the terms stated in the agreement in this respect, and shall be settled in cash.

On September 26, 2019, ICC and Diners signed agreements with Mastercard Europe SA (hereinafter: "Mastercard") on the one part and with EL AL on the other part, as well as on a tripartite agreement with all the parties ("the tripartite agreement"). The tripartite agreement regulates the cooperation with MasterCard in implementing the Fly Card agreement: the issuance of Fly Card credit cards ("Premium" and "Bronze") under the MasterCard brand name and integrated cards under the MasterCard and Diners brand names and other matters. The agreement is in force for a period of ten years as from September 1, 2019, with the option of mutual retirement from the agreement for each one of the parties after seven years.

In accordance with the plan of operation of the agreement, ICC's profitability is expected to be impaired due to expenses relating to operating the club in the first two years of its operation.

D. **Joint distribution agreement with Shufersal Company.** On November 2, 2017, ICC and Diners (hereinafter together: "ICC") and Shufersal Company Ltd. and Supersol Finance, Limited Partnership (hereinafter together – “Shufersal”) signed a memorandum of principles (hereinafter: "the Memorandum of principles") for the issue and operation of off-banking credit cards to customers of Shufersal (hereinafter: "Credit Club" and "the Cards", respectively). The parties introduced the club on January 18, 2018, in accordance with the document of principles.

The Memorandum of principles also states that the parties will act towards the signing of a detailed agreement ("the Agreement") which would regularize all matters existing between the parties with respect to the Credit Club, and this within a period of six months, while until the date of signing of the detailed Agreement, the Memorandum of Principles would bind the parties.

The Agreement would be in effect from date of signature thereof and until December 31, 2027, such period being extended for additional periods of two years each, unless any of the parties announces his wish not to extend the validity of the Agreement for an additional period, by giving a notice twelve months prior to the termination of each period.

Among other things, the Memorandum of Principles regularizes the benefits that would be granted to customers holding the Credit Club cards by the parties to the agreement, the instructions relating to the attraction of customers to the Credit Club, providing marketing and advertising budgets by the parties, distribution of costs, and instructions relating to fees charged to card holders. All liabilities applying by law to the issuer shall apply to ICC. ICC would be the exclusive issuer permitted to offer charge cards and loans to customers of Shufersal.

The Memorandum of Principles also regularizes the possibility that the cards would be registered under the Bank Identification Number (BIN) of Shufersal, if this is requested by Shufersal and subject to obtaining all relevant approvals and licenses.

The Memorandum of Principles determines the distribution of income between the parties with respect to the cross-commission earned on transactions made by use of the cards, in respect of the interest bearing credit balances created through the operation of the Credit Club, and in respect of card fees charged to the holders thereof. Card holders would also be charged by Shufersal with monthly membership fees in respect of their membership of the Credit Club, in accordance with determined terms.

Within the framework of the Memorandum of Principles, ICC has committed with respect to each of the years 2018, 2019 and 2020, that in the event that the total income of Shufersal and Supersol Finance from the activity of the Credit Club, as defined in the Memorandum of Principles for each of those years, would be lower than the amount stated in the Memorandum of Principles (approx. NIS 65 million), then ICC would pay the difference to Shufersal, until the end of the first quarter of each year in respect of the preceding year, and all subject to the terms stated in this respect in the Memorandum of Principles.

The document of principles also prescribes that ICC will pay Shufersal NIS 30 million in connection with the benefits that Shufersal will grant to members of the credit club. It also prescribes that, subject to attaining material goals determined for the operations of the Credit Club, Shufersal would be entitled to two awards of NIS 35 million each, at the end of the fourth and eighth year of the Agreement.

36. Credit Card Activity (continued)

The Agreement also regularizes the payments to be made between the parties following the termination of the Agreement, where, as a general rule, in the event that ICC continues to operate the cards until their expiry date, the terms of the Agreement will continue to apply in respect of the distribution of income between the parties, while in the case that ICC discontinues the operation of the cards and these would instead be operated by Shufersal, Shufersal Finance or by a third party, then ICC would be entitled to receive, during a stated period, royalties based on ICC's share in income from the cards in the year preceding the date of termination of the Agreement, and all in accordance with the terms and rates determined in the Agreement.

E. Diners Club International franchise. Diners is engaged in the operation of "Diners" credit cards. The franchise granted to it by Diners Club International is in effect until December 31, 2019. In September 2019, Diners and Diners Club International ("Diners International") signed an agreement, according to which the Diners franchise would be extended until December 31, 2029. The agreement states that Diners is entitled to an incentive for the years 2019-2020. Also determined are additional incentives subject to attainment of acceptance and volume of operation goals, as well as additional marketing incentives.

F. Acquisition of VISA Europe. On November 2, 2015, VISA Inc. and VISA Europe Ltd. Announced entry into an agreement whereby VISA Inc. will acquire VISA Europe from the principal members who were holding its shares. On June 21, 2016, the immediate cash consideration in the amount of Euro 71 million, was received. According to information received from VISA, an additional future cash consideration of Euro 6 million, which is expected to be received in accordance with the stated terms. In addition, ICC has received restricted preferred shares for periods of 4-12 years, which are convertible into Visa Inc. shares, under terms prescribed in the sale transaction. The consideration for the transaction was divisible among the Bank, ICC and FIBI, all having the status of "Principal Member" in VISA Europe. The division will be conducted in the future in accordance with an agreed division mechanism formed by the parties, which has been approved by the authorized organs of the parties.

The blocked preferred shares were recorded at their fair value at date of acquisition (the market value of the VISA shares to be received upon conversion of the said preferred shares, discounted by a coefficient of 50%, in accordance with the Bank's assessment of the share blockage impact and the effect of certain uncertainties inherent in the conversion mechanism).

G. Acquisition of the minority interest in Diners. In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the “Sold Shares”), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute has arisen between the parties with respect to the entitlement of the Sellers to additional consideration subjected to the conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded.

A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is requested to order ICC to pay to Dor-Alon and Blue Square an amount of NIS 21 million.

H. Extension of the clearing license of ICC and Diners. On March 4, 2020, ICC received letters from the Bank of Israel extending the temporary clearing licenses of the company and Diners until March 31, 2021.

37. Legislation Initiatives

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

38. Breakout of the Corona virus

The continued spread of the corona virus throughout the world and the measures being taken by countries, including Israel, raise the chances of significant global and local economic damage. The economic implications depend on how rapidly the virus spreads, on the length of time until it is brought under control and the severity of the measures to be taken in Israel and worldwide. As part of the credit risk management, the Bank and the principal subsidiaries are tracking developments on this topic and are examining the possible implications for sectors and customers, which may be affected by the situation (including the effect of deteriorating markets). There is a concern regarding the Group's profitability being impaired, however at this stage its scope cannot be estimated.
Also examined are continuity of service aspects in different scenarios.

Corporate Governance, Audit, Additional Details Regarding the Business of the Banking Corporation and Management Thereof

Corporate Governance and additional details – List of tables

Corporate Governance and additional details – List of charts

• CORPORATE GOVERNANCE AND AUDIT

Board of Directors and Management

General. A list of the members of the Board of Directors and a list of the Bank's executive officers and their areas of responsibility appear on page 4 of this report. These lists are correct as at the date hereof.

Report on Directors having Accounting and Financial Expertise

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. Accordingly, the Bank's Board of Directors has determined that three is the minimum number of its Directors having accounting and financial expertise. Subsequent to the dates of the said resolution of the Board of Directors, Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly.
At date of reporting, all of Directors have accounting and financial expertise (10 out of 10) and all the directors who are members of the Audit Committee possess accounting and financial expertise (6 out of 6). List of Directors having accounting and financial expertise, are presented below under "Details regarding members of the Board of Directors". For details regarding the factual background by which they may be regarded as having such expertise, see the Bank's periodic report for 2019 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Details regarding Members of the Board of Directors

Directors name	Date on which the term of office as Director began	Membership in the Board of Directors Committees
Shaul Kobrinsky, Chairman of the Board of Directors(3)(4)(5)	December 11, 2017 (initially appointed as Director on December 11, 2014, and as Chairman of the Board since December 3, 2018)	Chairman of the Credit Committee; Chairman of the Resources Committee; Technologies and Innovation Committee
Iris Avner(2)(3)(4)(5)	March 22, 2018	Audit Committee; Credit Committee; Technologies and Innovation Committee; Risk Management Committee
Aharon Abramovich(1)(2)(4)(5)	October 30, 2017	Chairman of the Remuneration Committee; Audit Committee; Resources Committee; Risk Management Committee
Reuven Adler(4)(5)	August 1, 2018	Audit Committee; Remuneration Committee; Risk Management Committee; Resources Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2019 (initially appointed on February 15, 2016)	Chairperson of the Technologies and Innovation Committee; Credit Committee; Resources Committee
Prof. Shalom Hochman(1)(2)(4)(5)	August 1, 2018	Audit Committee; Remuneration Committee; Credit Committee
Prof. Ben-Zion Zilberfarb(4)(5)	August 1, 2018	Chairman of the Risk Management Committee; Resources Committee; Technologies and Innovation Committee
Miriam (Miri) Katz(2)(3)(4)(5)	February 1, 2020 (initially appointed on February 1, 2017)	Audit Committee; Remuneration Committee; Technologies and Innovation Committee
Baruch Lederman(1)(2)(4)(5)	November 27, 2017 (initially appointed on November 27, 2014)	Chairman of the Audit Committee; Remuneration Committee; Credit Committee; Risk Management Committee
Dr. Yaacov Lifshitz(2)(3)(4)(5)	March 26, 2018	Credit Committee; Technologies and Innovation Committee; Risk Management Committee

Notes:
(1) External Director as defined in the Companies Act.
(2) Independent Director as defined in the Companies Act.
(3) External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives.
(4) Accounting and financial expertise.
(5) Professional qualifications.

For additional details regarding members of the Board of Directors, see the Bank's periodic report for 2019 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Committee for the appointment of Directors in Banking Corporations

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The annual general meeting of shareholders had been asked to elect one Director of external director status, as defined in Directive No. 301 of the Proper Conduct of Banking Business Directives, out of 2 candidates proposed by the Committee for appointment of directors in banking corporations. For details regarding the elected Directors, see "Changes in the Board of Directors" below.

Changes in the Board of Directors

Within the context of amendment to Proper Conduct of Banking Business Directive No. 301, the maximum number of directors in a banking corporation has been reduced from 15 to 10. For further details, see "Legislation and Supervision" below.

Appointment of Directors. On March 12, 2019, Prof. Elhayany terminated his service as a director of the Bank, all as detailed in the immediate report of March 13, 2019 (Ref. No. 2019-01-021634).

The office as an external Director of Mr. Yehuda Levi was terminated on July 14, 2019, all as detailed in an immediate report dated July 14, 2019 (reference no. 2019-01-060255). Mr. Yali Sheffi terminated his tenure as Director on November 10, 2019, all as reported in the Immediate Report dated November 10, 2019 (Ref. No. 2019-01-096063).

The Chairman of the Board, the Board of Directors and the President & CEO thank Prof. Elhayany, Yehuda Levi and Yali Sheffi for their activity and contribution during their period of office at the Bank.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Uri Levin(1)	The President & CEO	December 2, 2019
Assaf Eldar	Executive Vice President, Head of the Operations and Properties Division	January 1, 2020
Joseph Beressi	Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Accounting Division	April 1, 2000
Yuval Gavish	Senior Executive Vice President, Head of the Corporate Division	January 1, 2020(2)
Yafit Gheriani	Executive Vice President, Head of the Retail Banking Division	January 1, 2020(2)
Esther Deutsch	Senior Executive Vice President, Head of the Group Management and Regulation Division	April 1, 2019(4)
Yaakov (Yakki) Zano	Executive Vice President, Head of the Technologies Division	October 2, 2018
Orit Caspi	Executive Vice President, Head of the Human Resources Division	January 1, 2020
Avraham (Avi) Levy	Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division	July 21, 2016(3)
Hagit Meirovitz	Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory Division	April 1, 2019
Barak Nardi	Executive Vice President, Head of the Planning, Strategy and Finance Division	December 15, 2019
Assaf Pasternak	Executive Vice President, Head of the Financial Markets Division	April 1, 2018
Arik Frishman	Executive Vice President; Head of the Digital, Data and Innovation Division	August 1, 2018
Nir Abel	Executive Vice President, The Internal Auditor	May 18, 2011

Notes:
(1) Interested party of the corporation.
(2) Acted as Senior Executive Vice President; Head of the Banking Division as from January 11, 2011 and until December 31, 2019.
(3) Acted as Executive Vice President, Head of the Human Resources and Properties Division as from April 13, 2014 and until December 31, 2019.
(4) Acted as Chief Legal Adviser and Head of the Legal Advisory and Regulation Division since June 1, 2006 and until March 31, 2019.
(5) Acted as Executive Vice President, Head of the Customer Assets Division at the Bank, as from August 28, 2011 and until July 21, 2016.

For additional details regarding members of Management, see the Bank's periodic report for 2019 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Changes in Management

Ms. Esther Deutsch, Senior Executive Vice President, took office on April 1, 2019, as Head of the Group Management and Regulation Division of the Bank, replacing Mr. Yair Avidan, who terminated his office at that date, all as stated in the immediate report dated December 30, 2018 (Ref. Nos. 2018-01-128394).
Ms. Hagit Meirovitz took office on April 1, 2019, as Executive Vice President, Head of the Legal Advisory and Regulation Division at the Bank replacing Ms. Esther Deutsch, who terminated her office on that date. All as stated in the immediate report dated December 30, 2018 (Ref. Nos. 2018-01-128394).
On September 23, 2019 the Bank's Board of Directors decided to appoint Mr. Biron, Executive Vice President, Head of the Planning, Strategy and Finance Division, to the office of President and CEO and also Director of Discount Bancorp Inc. and recommended to the Board of Directors of Bancorp the appointment of Mr. Biron to the office of President and CEO of IDB New York. All as stated in the immediate report dated September 23, 2019 (Ref. No. 2019-01-098398). On September 25, 2019, the Board of Directors of Bancorp. resolved to appoint Mr. Biron to the office of President and Director of IDB New York.
Mr. Barak Nardi, who had served as Deputy General Manager of ICC, assumed office on December 15, 2019, as Executive Vice President, Head of the Planning, Strategy and Finance Division, replacing Mr. Ziv Biron, who retired from this office on December 1, 2019.
On December 31, 2019 Ms. Orit Alster ended her term of office as Executive Vice President, Head of the Corporate Division.
Mr. Yuval Gavish, Senior Executive Vice President, assumed office as Head of the Corporate Division, replacing Ms. Orit Alster, who retired from this office on that date.
Ms. Yafit Gheriani, Executive Vice President, assumed office on January 1, 2020, as Head of the Banking Division, replacing Mr. Yuval Gavish, who retired from this office on that date.
Ms. Orit Caspi assumed office on January 1, 2020, as Executive Vice President, Head of the Human Resources Division, replacing Ms. Yafit Gheriani, who retired from this office on that date.
Mr. Assaf Eldar assumed office on January 1, 2020, as Executive Vice President, Head of the Operations and Properties Division.
Change in the organizational structure. On December 30, 2019, the Bank's Board of Directors approved a change in the organizational structure, by which the Human resources and Properties Division and the Technologies and Operations Division were split into three divisions: the Human Resources Division, the Technologies Division and the Operations and Assets Division. All as detailed in the immediate report dated December 30, 2019 (Ref. No. 2019-01-125671).

The Chairman of the Board, the Board of Directors and the President & CEO thank Yair Avidan and Orit Alster, and wish Esther Deutsch, Hagit Hamdani Meirovitz, Ziv Biron, Yuval Gavish, Yafit Gheriani, Asaf Eldar, Orit Caspi and Barak Nardi success in fulfilling their offices.

Termination of office of the President & CEO

On June 5, 2019, the President & CEO, Ms. Lilach Asher-Topilsky announced her intention to terminate her office, after over five years of service. All as stated in the immediate report dated June 5, 2019 (Ref. No. 2019-01-048138).
On July 15, 2019, the Bank's Board of Directors decided to adopt the recommendations of the Search Committee, headed by the Chairman of the Board of Directors Mr. Shaul Kobrinsky, to appoint Mr. Uri Levin, the CEO of IDB New York, to serve as President & CEO of the Bank. Mr. Levin took office as President & CEO of the Bank on December 2, 2019, in place of Ms. Lilach Asher-Topilsky, who terminated her office on that date, all as stated in the immediate reports dated July 15 and September 23, 2019 (Ref. No. 2019-01-060741 and 2019-01-098398).
The Chairman and members of the Board of Directors wish to thank Ms. Asher-Topilsky and appreciate her significant contribution to the development of the Bank, leading it to impressive achievements.
The Chairman of the Board and Board members wish Mr. Uri Levin success in his office.

Meetings of the Board of Directors and its Committees

In 2019, the Board of Directors held 33 meetings. In addition, 80 meetings of committees of the Board of Directors were held.

The detailed information contained in the immediate reports mentioned above in the item "Board of Directors and Management", is presented herewith by way of reference.

The Internal Audit in the Group in 2019

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.

The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit).

In addition, as from May 18, 2011, Mr. Abel serves also as the Internal Auditor of ICC.

The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.

Letter of appointment. The letter of appointment is presented for approval of the Audit Committee and the Board of Directors once every three years. The letter of appointment was last approved by the Audit Committee in December 2018, and by the Board of Directors in January 2019.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives. The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function). Prior to the work plan being submitted for approval, it is forwarded to the Bank's independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board's Audit Committee and to the Bank's President & CEO for lodging comments and elucidations. The Board of Director's Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank`s internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank's investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank's Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank's Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 86.1 positions (including overheads; not including 6.6 outsourcing positions), of which, 27.1 positions in corporations that engage an independent Internal Auditor (MDB and IDB New York). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Average number of positions in 2019 engaged in internal audit at the Bank and in investee companies in Israel and abroad

	Group employees	Outsourcing employees
The Bank	51.5	1.5
Investee companies in Israel audited by the Bank's internal auditor[(1)]	6.7	0.7
In overseas extensions - IDB New York	0.8	-
Investee companies in Israel where the audit is performed by an independent internal auditor[(2)]	17.2	0.4
Investee companies abroad where the audit is performed by an independent internal audito[(3)]	9.9	4.0
Total	**86.1**	**6.6**

Notes:
(1) Of which, 5.5 positions in ICC.
(2) Of which, the internal auditor. Not including 1.9 positions of costumer complaints.
(3) Auditors in IDB New-York.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.
The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the internal audit function was performed in 2019 by a CPA firm selected by the Audit Committee. This was made in addition to an internal assessment performed by the internal audit, in accordance with the guideline contained in Proper Conduct of Banking Business Directive No. 307. The external assessment as well as the internal assessment and review were discussed by the Audit Committee in February 2020.
Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.
Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.
A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.
The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved. The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.
The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.
In addition, the audit committee discusses specific audit reports regarding the Bank's units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.
The periodic reports were submitted and discussed as follows:
- Report on the activities of the internal audit in the fourth quarter of 2018, submitted on January 28, 2019, and discussed by the Audit Committee on April 16, 2019;
- Annual report on the activities of the internal audit in 2018, submitted on February 27, 2019, and discussed by the Audit Committee on April 16, 2019 and by the Board of Directors on June 13, 2019;
- The report on the activities of the internal audit in the first quarter of 2019 was submitted April 18, 2019, and discussed by the Audit Committee on June 18, 2019;
- The semi-annual report on the activities of the Internal Audit in the first half of 2019 was submitted on August 8, 2019, and discussed by the Audit Committee on September 22, 2019;

- Report on the activities of the internal audit in the third quarter of 2019, submitted on October 27, 2019, and discussed by the Audit Committee on November 26, 2019;
- Report on the activities of the internal audit in the fourth quarter of 2019, submitted on January 20, 2020 and is yet to be discussed by the Audit Committee.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals set out for internal audit at the Bank.

Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

The Internal Auditor's Remuneration

General details			Remuneration* for services							
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
			in NIS thousands							
2019	100%	-	1,210	528	328	207	-	2,273	2,120	-
2018	100%	-	1,186	574	377	213	-	2,350	2,157	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay) and also to an adaptation grant in an amount equal to four monthly salaries. Mr. Abel is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). Mr. Abel was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 F to the financial statements).

Auditor's Remuneration

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000[7], and KPMG Somekh Chaikin, CPA, since 1998.

Remuneration(1)(2)(3) paid to the auditors (in NIS thousand)

	Consolidated		The Bank	
	For the year ended December 31,			
	2018	2017	2018	2017
For Auditing(3):				
To the joint auditors	18,595	17,482	6,927	6,902
For Other Services:				
Audit related services(4):				
To the joint auditors	2,656	2,988	2,267	2,642
Taxation Services(5):				
To the joint auditors	1,266	3,199	854	1,011
Other Services:				
To the joint auditors	3,070	2,767	2,958	2,713
To other auditors	-	-	-	-
Total	**6,992**	**8,954**	**6,079**	**6,366**
Total Auditors' Remuneration	**25,587**	**26,436**	**13,006**	**13,268**

Footnotes:
(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the remuneration of the independent auditors for their audit work and for services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Act, 1999.
(2) Includes remuneration that has been paid and remuneration that has been accrued.
(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).
(4) Includes mainly audit work and special examinations.
(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

7 The firm of Haft & Haft, which merged into the firm of Ziv Haft in 2000, has served as the independent auditors of the Bank since 1935.

Remuneration of Interested Parties and Senior Officers and Transactions with Interested Parties

Remuneration of Interested Parties Senior Officers

Year 2019

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act[3]	Loans granted under regular terms
				in NIS thousands							
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	2,823	-	-	4	-	2,827	2,452	-
Mr. Uri Levin	Former President and CEO of IDB New York	100%	-	3,762	[4]4,911	559	[5]582	-	9,814	[6]229	-
Ms. Lilach Asher Topilsky	Former President and CEO	100%	-	2,370	540	[7](193)	210	[8]135	3,062	2,589	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,955	1,014	480	65	-	3,514	[6]-	-
Mr. Joseph Beressi	Senior Executive Vice President, Chief Accounting Officer and Head of the Accounting Division	100%	-	1,261	551	696	192	-	2,700	2,175	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Corporate Division	100%	-	1,340	771	388	196	-	2,695	2,508	76
Ms.Yafit Gheriani	Executive Vice President, Head of the Retail Banking Division	100%	-	1,226	717	420	184	-	2,547	2,311	-
Ms. Hagit Meirovitz	Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory Division	100%	-	1,136	628	[9] 603	168	-	2,535	2,388	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

(4) Including a performance dependent award as well as an award in respect of the termination of office as President & CEO of IDB New York.

(5) Including the reimbursement of special expenses in respect of the short notice curtailment and termination of office as President & CEO of IDB New York.

(6) The Remuneration of Officers of Financial Corporations Act does not apply to IDB New York

(7) Including reduction in the provision regarding early notice in the amount of NIS 566 thousands

(8) Adjustments in respect of linkage of deferred awards to changes in price of the Bank's shares (applying to awards recognized in the 2016 financial statements).

(9) Includes a provision at the date of appointment for an adaptation grant.

Remuneration of Interested Parties Senior Officers (continued)

Year 2018

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act[3]	Loans granted under regular terms
				in NIS thousands							
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	[4]622	-	-	-	-	622	591	-
Dr. Joseph Bachar	Former Chairman of the Board	100%	[5]-	2,327	-	223	248	-	2,798	2,368	-
Ms. Lilach Asher Topilsky	President and CEO	100%	-	2,534	313	413	113	[6]197	3,570	3,010	-
Mr. Uri Levin	President and CEO of IDB New York	100%	-	3,884	2,736	247	470	-	7,337	[7]-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,969	1,496	278	313	-	4,056	[7]-	-
Mr. Dan Trister	Executive Vice President and Head of Treasury Division of IDB New York	100%	-	1,438	1,151	124	247	-	2,960	[7]-	-
Mr. James LoGatto	Executive Vice President and Head of U.S. Private Banking of IDB New York	100%	-	1,576	990	221	115	-	2,902	[7]-	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,324	908	318	184	-	2,734	2,553	86
Mr. Assaf Pasternak[8]	Executive Vice President, Head of Financial Markets Division	100%	-	1,018	539	[9]1,050	126	-	2,733	2,201	-
Ms. Orit Alster	Executive Vice President, Head of Corporate Division	100%	-	1,245	777	365	217	-	2,604	2,381	-
Ms. Yafit Gheriani	Executive Vice President, Head of Human Resources and Properties Division	100%	-	1,194	715	464	193	-	2,566	2,286	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

(4) Includes a director's remuneration through to the commencement date of his serving as Chairman of the Board of Directors

(5) On the termination date of his service, Dr. Bachar held a negligible number of Bank shares having a par value of 29,640.

(6) Adjustments in respect of linkage of deferred awards to changes in price of the Bank's shares (applying to awards recognized in the 2016 financial statements).

(7) The Remuneration of Officers of Financial Corporations Act does not apply to IDB New York

(8) The amounts presented in the table also include payments for his work prior to his appointment as a member of Management.

(9) Includes a provision at the date of appointment for an adaptation grant and a topup to the severance pay provision.

Mr. Shaul Kobrinsky serves as Chairman of the Board of Directors since December 3, 2018. For details regarding the terms of office of Mr. Kobrinsky, see Note 35 F to the financial statements. The Agenda of the Bank's general meeting of shareholders, convened for March 18, 2020, contains a proposed resolution for the updating of the terms of office and employment of Mr. Kobrinsky, all as stated in the Immediate Report of February 11, 2020 (Ref. No. 2020-01-013694) the details contained therein are presented herewith by way of reference.

Mr. Uri Levin, Mr. Levin officiates as the Bank's President & CEO since December 2, 2019. The Remuneration Committee and the Board of Directors approved in respect of Mr. Levin terms of office and employment in accordance with those of Ms. Asher-Topilsky, for an interim period since the beginning of his office and until date of the general meeting of shareholders, the Agenda of which contains a proposed resolution for the approval of the terms of office and employment of Mr. Levin. All as stated in the Immediate Report of February 11, 2020 (Ref. No. 2020-01-013694) the details contained therein are presented herewith by way of reference (see also Note 35 F to the financial statements). Mr. Levin acted as President & CEO of IDB New York until December 1, 2019, and had been employed in accordance with the terms of the labor agreement. Mr. Levin was entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of IDB New York. IDB New York provided Mr. Levin with the use of an automobile and annual home leave in Israel.

Ms. Lilach Asher-Topilsky acted as President & CEO of the Bank until December 1, 2019. For details regarding the terms of engagement of Ms. Asher-Topilsky, see Note 35 G and h to the financial statements. For details regarding the bonuses paid to Ms. Asher-Topilsky for 2018-2019, see Note 35 G to the financial statements.

Ms. Lissa Baum. Executive Vice President, Head of the Corporate Division in IDB New York. For additional details, see below "Terms of employment of members of Management of IDB New York".

Mr. Joseph Beressi employed by the Bank as Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Accounting Division. Mr. Beressi is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Yuval Gavish, employed by the Bank as Senior Executive Vice President, Head of the Corporate Division. Mr. Gavish is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Yafit Gheriani, employed by the Bank as Senior Executive Vice President, Head of the Retail Banking Division. Ms. Gheriani is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Hagit Meirovitz, employed by the Bank as Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory Division. Ms. Meirovitz is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Terms of employment of members of the Bank's Management. Members of the Bank's Management mentioned above are employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, they are prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. The salary of the members of the Bank's Management is linked to the CPI, and in the event of the CPI falling, their salary will not change until such time that the rise in the CPI offsets the rate of the fall. Members of the members of the Bank's Management are entitled to thirteenth month salary, vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, the Bank's management are entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer’s pension fund and insurance policy payments will be made in place of severance pay), as well as to an adaptation grant equal to an amount of four salaries.

Terms of employment of members of Management of IDB New York. Members of IDB New York Management mentioned above are employed by IDB New York as an “employee at will.” IDB New York’s Compensation Committee of the Board of Directors annually reviews and approves the compensation of members of the IDB New York management. Members of the IDB New York management are entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank.

For details regarding officers included in the Table for 2018, but not included in the Table for 2019, see the 2018 annual report (pp. 17).

Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000. The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. The cost of remuneration in respect of all the Directors, excluding the former Chairman of the Board and excluding the officiating Chairman of the Board, as well as including the cost of remuneration of the officiating Chairman of the Board in respect of his period of office as Director, amounted in 2019, to NIS 7,121 thousand (2018: NIS 5,564 thousand).
Remuneration policy for Officers of the Bank. For details respecting the remuneration policy for officers of the Bank, see Note 23 D and E to the financial statements. For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.
For details regarding the Remuneration of Officers of Financial Corporations Act, 2016, see the 2016 Annual Report (pp. 406-407).
A new remuneration policy for Officers of the Bank. The Agenda of the Bank's general meeting of shareholders convened for March 18, 2020, contains a proposed resolution approving the remuneration policy in respect of Officers of the Bank. All as stated in the Immediate Report of February 11, 2020 (Ref. No. 2020-01-013694) the details contained therein are presented herewith by way of reference (see also Note 35 F to the financial statements).
Letter of the Supervisor of Banks in the matter of "principles for determining the terms of office of the chairman of the board of a bank having no core controlling interest". The letter, published on August 1, 2019, states that the Supervisor of Banks would not intervene with regards to the terms of office of the Chairman of the Board, determined in accordance with the principles stated in the letter, on condition that these are determined for the period ending at the end of the year 2020. During this period, the Supervisor will examine the definitions of the office and the new terms of office relating to chairmen of boards of directors of banking corporations having no core controlling interest as well as the need to amend the Directive. The letter clarifies that the terms of office of the chairman of the board shall be determined in accordance with principles, which ensure that the duties and authority of the chairman do not deviate from the duties and authority conferred upon him by Law, and that the terms of remuneration do not create "affinity" and/or might impair the independence of the chairman. Furthermore, the letter notes that the need to establish the status of the chairman of the Board as being part of the board of directors and segregate him from the management of the bank, including by means of determining his remuneration in relation to the manner in which the other members of the board of directors are being remunerated, as stated in Proper Conduct of Banking Business Directive No. 301A, is of a double importance in the case of a bank having no core controlling interest.
It is noted that the terms of office that had been approved in respect of the Bank's Chairman of the Board, as described in Note 35 F to the financial statements, comply with the principles determined by the Supervisor of Banks, as stated in her said letter.

Transactions with Interested and Related Parties

For details regarding the terms of office of Mr. Kobrinsky, see above "Remuneration of interested parties and senior officers" and Note 35 F to the financial statements.
For additional details, see Note 35 to the financial statements.

Corporate Governance Code for the Discount Group

The corporate governance code approved by the Bank's Board of Directors in October, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. In December 2017, the Board of Directors approved updates to the document. The updated document is available for review on the Bank's website.
Within the framework of the implementation of the corporate governance program, the Board of Directors approved a policy document and operating procedures with respect to investee companies (see below "Group Management"). In addition, the Bank's Board of Directors approved a procedure for the approval of transactions with interested parties in the Bank.

Corporate Governance Questionnaire

The Securities Authority published on January 14, 2016, an updated version of the Corporate Governance Questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even previously. A corporate governance questionnaire for the year 2019, which was voluntarily published by the Bank in an updated version, is available for review on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Group Management

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group. The Proper Conduct of Banking Business Directive no. 301 includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company. In continuation of the above stated, Proper Conduct of Banking Business Directive No. 306, which took effect on January 1, 2019, establishes the expectations of the Supervisor of Banks for the tightening of supervision over banking extensions abroad. On December 23, 2019, the Supervisor of Banks published amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, which are intended to strengthen the control of banking corporations over their overseas extensions.

In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies ("investee companies policy"), which updates and replaces the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company. The principal companies in the Group have completed the adoption of the policy, with required changes in respect of their nature and scope of operations. As a complementary layer for this document, a procedure was formed at the beginning of 2018, with respect to the duties and responsibilities of the responsible managerial function, which defines the level of involvement required from the member of Management responsible for each company, in accordance with the nature of the company's operations and scope of holdings therein.

The Bank operates a Group Management and Regulation Division, the duties of which are to comprise a central factor in the leading and for the promotion of comprehensive management and utilizing synergies to the utmost, with the assistance of the professional factors with respect to strategic, business, regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, supervision and control fields, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group, and this in accordance with principles approved by the Bank within the framework of the investee companies policy.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" below.

Involvement with and Contribution to the Community

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The extensive voluntary work performed in aid of the community by Discount Bank employees continued in 2019 and was even widened. In this framework, the volunteering employees contribute their time and compassion through a wide range of activities, and grant assistance and support to varied groups of population in Israel, including children, youth, students, military service personnel, distress population, senior citizens, persons with disabilities, the sick and more.

In 2019, activity in the cultural and artistic fields was conducted, through sponsorships and donations to different associations.

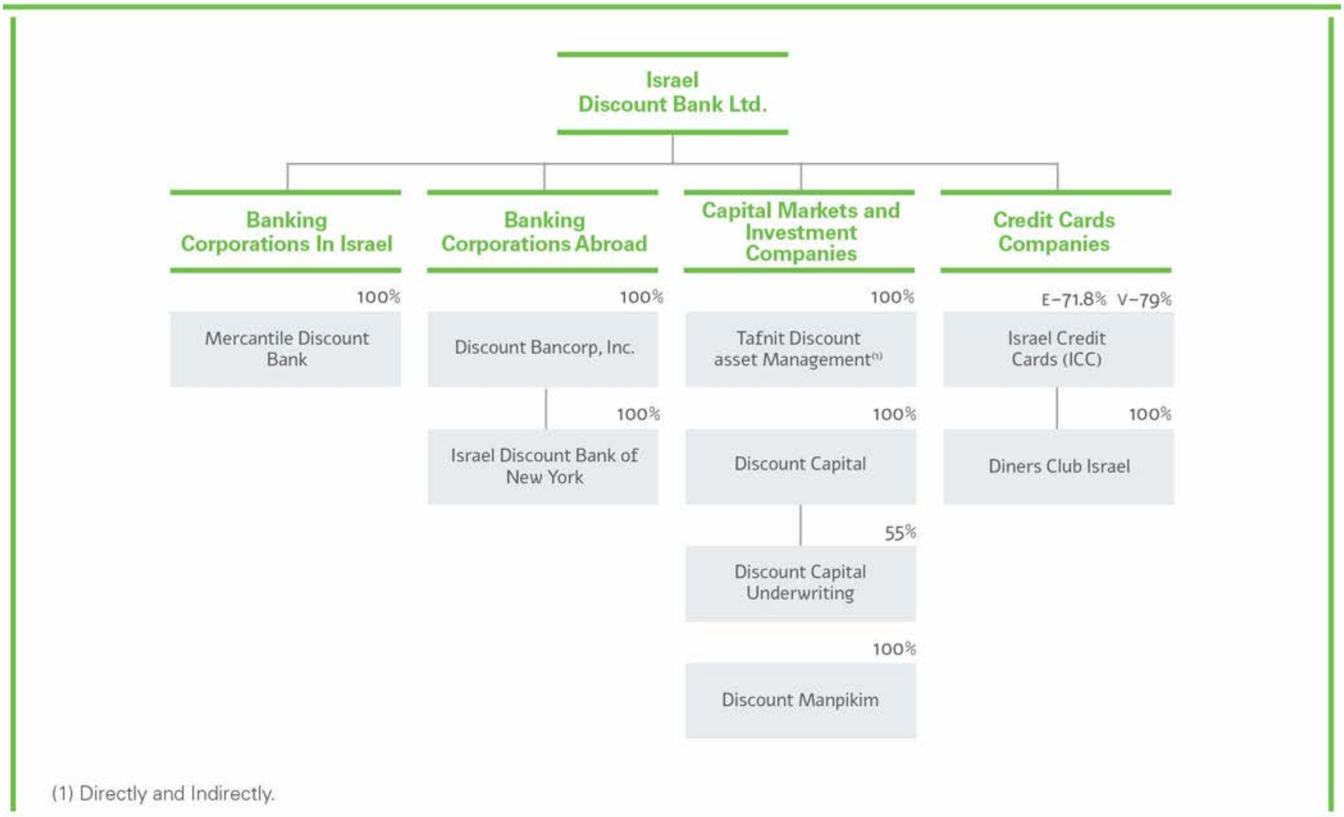
"Sprint for the future" – Discount Bank's flag ship project. As from the year 2005, the Bank acts in cooperation with the "Sprint for the Future" Association, adopting the program "Discount Sprint for the future" focusing on students coming from the socio-geographic periphery. The program's objective is to provide assistance to school children so that they will be able to graduate high school, attaining a full matriculation certificate, enabling them to continue with higher education. The Bank is a party to both the financial support of the Association as well as to promoting and advancing its activities. Representatives of the Bank's management are members of the executive board of the Association. The voluntary work of the Discount Bank employees was expanded in 2019 within the framework of the programs of the Association, inter alia by the adoption of youth villages and schools participating in the project, to joint activities with branches and units of the Bank.

Corporate Responsibility Report - Corporate Social Responsibility Report No. 8. CSR Report No. 8, for 2018, is available for perusal on the Bank's website. The report was drawn up in accordance with the GRI guidelines (Global Reporting Initiative).

"Maala" Rating for 2019. In June 2019, "Maala" published its rating for 2019. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). ICC was rated this year for the second time and has maintained its Platinum rating.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



Control of the Bank – Bank having no Core Controlling Interest

As of December 3, 2013, the Bank became a bank with no core controlling interest.
The Banking Act (Legislation amendments). On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. In accordance with these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions.

Bank Holding Permits to Entities Managing Customer Funds

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.
Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit in accordance with the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

Fixed Assets and Installations

Buildings and Equipment

At the end of 2019, the investment in buildings and equipment amounted to NIS 2,577 million, compared with NIS 2,437 million at the end of 2018, an increase of 6.7%. For details as to the Bank's investments in buildings and equipment, see Note 16 to the financial statements.
Establishment of the Discount Campus. In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. Discount Leasing (71.55%), ICC (18.45%) and MDB (10%) have purchased land of an area of 21 dunam in the "1000 compound" in Rishon LeZion. The scope of building rights relating to the land amounts approx. to 133 thousand square meters, both above ground main and service buildings. In addition, an option for the purchase of trading rights, granted within a contract for the purchase of the land, has been exercised. In consideration of the land a total amount of NIS 135 million was paid. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25 thousand square meters will be constructed by the acquirers for its own purposes and that construction as stated, would be carried out within five years from date of approval of the construction plan and the blueprint for the division of the site. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot.
During 2016-2018 different processes were promoted for the realization of the establishment of the Campus. Wall reinforcement, excavation and piling works were conducted in 2019 and the pouring of the concrete for the first floor of the basement has begun.
At the end of the stage of receiving proposals for providing principal contractor services in respect of the construction project of the Discount Campus, the participants in the project decided to engage Shikun & Binui – Solel Boneh Infrastructure Ltd. as the contractor providing the principal construction contractor work – building construction, systems, aluminum and development. The cost of the engagement is estimated at approx. NIS 0.6 billion.

The Bank estimates that the expenses assessment of the Group Campus Project is expected to reach NIS 1.8 billion. Of this amount, NIS 200 million has already been invested by the Group until December 31, 2019. The balance of the commitment in respect of the project as of December 31, 2019, amounts to NIS 73 million. Construction work begun in 2018 and is expected to continue for three additional years. Subsequent to balance sheet date, the liability increased in an additional amount of NIS 590 million.
The Bank is of the opinion that the impact on capital adequacy of the Group Campus construction project is not expected to be material, as the project is to be partly financed by the sale in the coming years of existing properties.
Forward looking information. The above stated includes, inter alia, assessments made by the Bank regarding the investment in the Project and its impact on capital adequacy, which are considered forward looking information. The above stated reflects the assessment of the Bank's Management, taking into consideration the information existing in its hands at date of preparation of the annual report, inter alia, with respect to the cost of construction of projects of this type, plans of the Project and the feasibility of the sale of existing properties. The above stated may not be realized in the case of changes occurring in the real estate sector in Israel and in case of unforeseen developments in the macro-economic conditions, which are not under the Bank's control.
Focus points for 2019-2020. In accordance with the strategic plan of the Discount Group, the Bank performs operations designed to ensure the efficient and effective utilization of real estate properties, including improved leasehold terms, replacement of rented premises, etc. This activity continues also in 2020 with an emphasis on properties occupied by the Head Office, in view of the planned relocation to the Discount Campus.
As revealed by the data presented below, a downward trend is evident in the amount of real estate space used by the Bank.

Floor area at the disposal of Bank branches

As of	Sq. meters[(1)]	Number of brunches	Average Sq. meters per branch
December 31, 2019	53,457	103	519.0
December 31, 2018	54,130	106	510.7
December 31, 2017	55,429	111	499.4
December 31, 2016	59,503	122	487.7
December 31, 2015	64,000	132	484.9

Footnote:
(1) The data regarding the areas was improved in 2018, including the comparative data.

Distribution of all floor area at the disposal of the Bank

	As of December 31					
	2019	2018	2017	2016	2015	2014
	In Sq. meters					
Freehold	92.8	95.6	98.0	107.5	109.1	112.4
Leasehold	52.7	49.9	49.8	50.3	50.5	54.2
Total	**145.5**	**145.5**	**147.8**	**157.8**	**159.6**	**166.6**

Gain on sale of assets. In 2019 a gain from the sale of properties of approx. NIS 32 million was recorded, net of the tax effect, compared with NIS 34 million in 2018.
ICC's building in Givatayim. The lease – from the Israel Land Authority – of the land (two plots) in Givatayim on which ICC's building stands is for terms that end in 2058 and 2018. On October 28, 2019, a verdict was given with regard to the plot whose lease ended in 2018, on which some of the parking spaces attached to ICC's building complex in Givatayim are located, whereby the Company's claim for the extension of the lease agreement in respect of the aforesaid plot was rejected. On December 12, 2019, ICC lodged an appeal in the Supreme Court against the verdict.
New premises for the Head Office of IDB New York. In July 2019, IDB New York signed a twenty year lease agreement, which includes an option for termination after fifteen years, for a property in Manhattan to which the head office of the bank will be relocated. The annual rental fees (excluding taxes, insurance, and other related expenses) amount to US$8.4 million. The agreement would be recognized as an operating lease in accordance with Standard ASC 842 (at date of initial application of the Standard by IDB New York – January 2021), and the property is expected to be stated at a total value of US$128 million. Moving to the new property is planned for March 2021.

Accessibility for Handicapped Persons

In accordance with the Equal Rights for Handicapped Persons Act, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications in accordance with the new regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. In addition, accessibility modifications have been made at the Internet websites and on the cellular applications, training sessions are held to the Bank's employees on the accessibility subject as well as reviews and periodic tests in accordance with requirements of the law and regulations.

Information and Computer Systems

General

The information and control systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. The Bank's data processing system is a central computer system composed of IBM Main Frame computers, servers of different types, communication components and work stations deployed at the branches and at Head Office units.

Some 12,000 work stations (PC's) and approx. 3,000 servers are installed at the branches and at head office units, which are being used to both internal and external customers.

Direct banking services are provided by the Bank through a variety of lanes: Internet, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.

The Group's customer base in Israel (the customers of the Bank and of MDB) are served by 366 kiosks ("Discount Mashovs") for information and self-service operations and 409 ATMs ("Discount ATMs") for cash withdrawals and self-service operations, which provide a broad range of services.

Most of the various computer systems serve both the Bank and MDB.

Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems, within the framework of the "Ophek" project, are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, in accordance with preferences of the budget and strategic plans.

For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.

Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, HDC, Checkpoint, NetApp and CISCO. These companies have engagements with the Bank through their representatives in Israel.

Locations of the Operation

The technological layout is doubly installed in two different locations distant from one another, in various cities in the Greater Tel Aviv area. The fact that the two systems are located at a distance from one another adds to the survivability of the Bank's technological layout. The Bank's two computer sites are connected by optical fibers in a number of different routes. The Bank has the ability to maintain the required business operations in each of the locations independently. These sites also house the disc systems of the companies IBM, Netapp, Kaminario and Oracle, cassette robots, central printers and additional peripheral equipment required for the Bank's operation. Needless to say that this equipment is also backed-up at the two sites. The branches and the head office units are connected to the computer center by two communication lines. The two lines are simultaneously active, each line providing an adequate bandwidth for each website. In the event of failure, one line provides back-up for the active applications on the other line, and vice versa.

Principle Projects Conducted in 2020

1. Main computer facility –the existing computer facility has been upgraded and the planning for a new main computer facility began;
2. CRM and customer interaction – A cloud business CRM system has been launched and distributed to all the Bank's business centers. Additional capabilities had been added to the system in the course of the year, such as: a new customer situation report and document management. With respect to the retail CRM, the distribution of credit request and e-mail and fax processes have been completed. The system is now in operation also at the consultation centers and the digital support center. Also developed were the CRM part in opening an account through the Application, the blocking project, correspondence by WhatsApp (pilot) and a new image for links (pilot);
3. Direct channels – During 2019, a wide variety of developments in the direct channels were promoted, including: Development and distribution of a new private customer website, adding capabilities to the foreign trade websites and Cash Management, introduction of a new Application for business customers and a new service for the correspondence between a customer using WhatsApp and the banker using the CRM (a pilot service for a limited number of customers), and the opening of an account by use of the Application for private customers. Different versions were introduced during the year at monthly frequencies improving business capabilities and user experience on the Applications and the website;
4. Credit system – Development of a new credit system has been completed and its deployment has begun. The system enables the availability of information and effective management ability of the credit portfolio, real-time information management, more efficient and simpler credit underwriting processes (both retail and corporate), risk reduction and elimination of potential gaps in this field;
5. Cyber and data protection – Discount's Cyber Protection (DCP) concept is implemented through a range of projects, with emphasis on exercising advanced capability to hunt down cyber threats and the handling of fraud on E-Banking channels (On-Line Banking firstly), on enhancing the ability to cope with extreme cyber events and on thwarting attacks against the Bank;
6. Projects designed for compliance with regulatory requirements, such as the establishment of the credit pool at the Bank of Israel and the execution of the Strum Act project.

Principle Projects for 2020

1. Core projects – Continued deployment of a new credit system and development of new models;
2. CRM and customer interaction – The continuing distribution of business CRM to the remaining Divisions, development of CRM Light, a shred schedule, the process of attracting a new business customer, correspondence with the banker through the business website, approach management and improvement of processes on the mobile phone. With respect to the retail CRM, the lead process development, combining approaches, process improvement, support of investment and mortgage centers and the merger of service, the CRM daily handling, history mechanism and a significant version upgrading are to be completed;
3. Digital channels – The introduction of a mortgage website on the marketing website and the expansion of capabilities on the business website and in the cash management world are planned for the Internet channel. The introduction of an on-line consultation service for the securities world is planned for the mobile phone channel for private customers; versions would be introduced on a monthly basis during the year offering new business capabilities and improvement of customer experience;
4. Infrastructure projects – Preparations for the move to the new Discount Campus, including new and advanced computer infrastructures;
5. Cyber and data protection –Further development of the proactive protection capability, upgrading and replacement of the defense layout against advanced attacks, the integration of capabilities for Big Data analysis and orchestration and automation capabilities with the aim of reducing the containment time of cyber events, while increasing effectiveness of the response provided by the information system;
6. Projects designed to comply with the regulatory provisions – the Fair Credit Act and treatment of the Cash Act.

The Bank's investment budget for 2019 in respect of information systems and computerization, including for information system development projects, amounts to NIS 325 million (NIS 311 million in 2018).

The contents of the above section constitute a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carry out the Bank's plans at date of publication of the reports.

ICC

On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of IT services to the company, within the framework of a multiyear project to replace the company's core system infrastructure. The objective of the project is to improve the business continuity in the core activities, paying attention to the lifecycle termination date of the existing technological infrastructure, and its replacement with an advanced infrastructure with a long-term horizon. The scope of the entire project, including the internal inputs to be invested therein, is estimated to amount to approx. NIS 150 million, which will be paid over the four years of the project.

IDB New York

The core systems of IDB New York are at present provided through outsourcing by FiServ Company. The Board of Directors of IDB New York decided to approve the managements' recommendation of the replacement of the existing core systems by new core systems, to be provided through outsourcing by Jack Henry & Associates Company. The volume of the engagement is estimated at approx. US$25.4 million, over a period of seven years.

At this stage, IDB New York is negotiating the engagement with Jack Henry & Associates, with a view of completing the conversion process to the new system within two years from date of signing the agreement. Concurrently, in September 2019 IDB New York signed a service agreement with the present supplier, FiServe Company, in order to secure appropriate support for the existing systems until completion of the conversion process.

Intangible Assets

Trademarks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc. In December 2018, the Bank registered the trademarks "PayBox", "PayBox App" as well as the logo.

ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trademarks in Israel, including "ICC", "Cal" "Cal Choice".

Furthermore, the Bank's subsidiary companies own trademarks, related brand names and slogans registered for the purpose of their business and marketing operations.

Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trademarks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.

The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. The franchise is extended from time to time, and recently until December 31, 2029. See Note 36 E above.

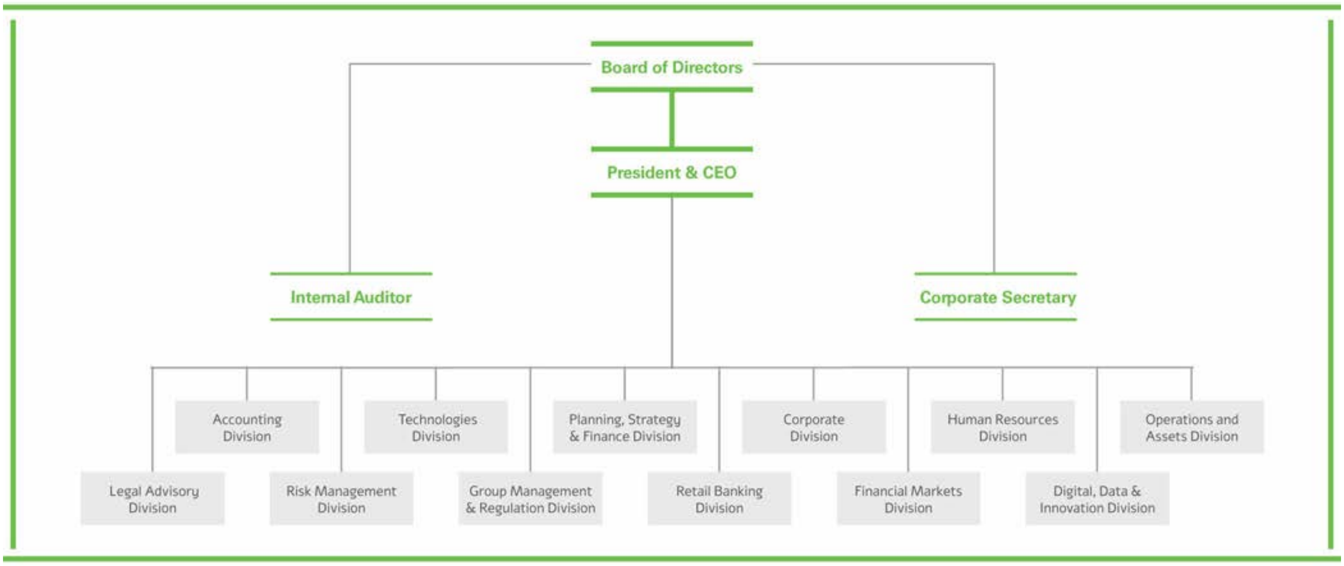
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.

Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.

Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees.

The Human Capital

Organizational Structure Chart



Management of the Human Resource - General

Principal Activities in 2019

Continuing the "Discount spirit" measure. Completion of the intra-organizational assimilation process of the values and Code of Ethics that have been formed.

Preparations for transformation in traditional banking and for the challenges of the future. For details, see below.

Challenges for 2020

Preparations for transformation in traditional banking and for the challenges of the future.

Effective management of the labor force and its cost. The central challenge for 2020 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plans of 2014, 2016 and 2018 on the one hand, and the utilization of the natural retirement potential on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.

Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.

Assisting the efficiency move at the branches. Assisting moves for the downsizing, merger or shutting down of branches, from the different human resources aspects, including the providing of a supporting and respecting cover for employees and managers expected to experience the change.

Labor Force and Salary Expenses

There were 4,905 employees in full-time positions in the Bank in Israel at the end of 2019, compared with 4,968 at the end of 2018, a decrease of 1.3%. The average monthly number of employees, based on full-time positions, in the Bank dropped in 2019 and amounted to 4,951, as compared to 5,157 in 2018, a decrease of 4.0%.

There were 8,509 full-time positions in the Group in Israel and abroad at the end of 2019, compared with 8,550 at the end of 2018, a decrease of 0.5%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2019, was 8,542, compared with 8,668 at the end of 2018, a decrease of 1.5%. It should be noted that 37 positions had been added as of December 31, 2019, due to the Municipal Bank merger.

Labor force data of the Group and the Bank

	Employees					Positions[(1)]									
	As of December 31					As of December 31					Monthly average in				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
The Bank in Israel	[(3)]5,447	5,489	5,666	5,702	6,034	4,905	4,968	5,192	5,126	5,530	4,951	5,157	5,265	5,413	5,510
Domestic subsidiaries	3,467	[(2)]3,477	3,221	3,214	3,178	3,040	3,055	2,895	2,946	3,037	3,031	3,003	2,896	2,930	3,019
Group total in Israel	**8,914**	**8,966**	**8,887**	**8,916**	**9,212**	**7,945**	**8,023**	**8,087**	**8,072**	**8,567**	**7,982**	**8,160**	**8,161**	**8,343**	**8,529**
Overseas branches	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21
Overseas subsidiaries	558	522	487	485	498	564	527	491	486	501	560	508	480	499	758
Group total overseas	**558**	**522**	**487**	**485**	**498**	**564**	**527**	**491**	**486**	**501**	**560**	**508**	**480**	**499**	**779**
Group total overseas and Israel	**9,472**	**9,488**	**9,374**	**9,401**	**9,710**	**8,509**	**8,550**	**8,578**	**8,558**	**9,068**	**8,542**	**8,668**	**8,641**	**8,842**	**9,308**

Footnotes:
(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.
(2) Improvement in computing of the data.
(3) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries".

Cost per position, in NIS thousands, on the basis of costs reported in practice

	2019	2018	2017	2019 compared to 2018	2018 compared to 2017
The annual average direct cost[(1)] per employee position in the Bank in Israel	277	267	261	3.7	2.3
The total annual average cost[(1)] per employee position in the Bank in Israel	403	391	379	3.1	3.2
The average annual overall payroll cost[(1)] per employee of the Group in Israel and abroad	391	391	371	-	5.4

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2019 by a rate of 3.7% (see Table above). With elimination of awards and reversal of excess provisions, the average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2019 by a rate of 0.8% (see Table below).
The total average annual cost of an employee position at the Bank in Israel, increased in 2019 by a rate of 3.1% (see Table above). Eliminating the effect awards and reversal of excess provisions, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 0.8%, compared with 2018 (see Table below).
It should be noted that, in the above and below tables, the cost per position does not include salary expenses, which, in accordance with the Public Reporting Directives, have been classified as "Other expenses" (see Note 1 C 6 (3) to the financial statements).

Cost per position, in NIS thousands, eliminating certain components

	2019	2018	2017	2019 compared to 2018	2018 compared to 2017
The annual average direct cost[(1)] per employee position in the Bank in Israel - Disregarding awards and reversal of excess provisions[(2)]	249	247	239	0.8	3.3
The total annual average cost[(1)] per employee position in the Bank in Israel - Disregarding awards and reversal of excess provisions[(2)]	368	365	354	0.8	3.1
The average annual overall payroll cost[(1)] per employee of the Group in Israel and abroad - Disregarding awards and reversal of excess provisions[(2)]	358	353	344	1.4	2.6

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.
(2) See the effects of certain components on salaries and related expenses , p. 26.

Total income per position In NIS thousands

	2019	2018	2017	2019 compared to 2018	2018 compared to 2017
Total income at the Bank to an average employee position at the Bank	1,044	941	846	10.9	11.2
Total income, consolidated to an average employee position at the Group in Israel and abroad	1,131	1,041	964	8.6	8.0

Human Resources according to Segments of Operation

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	For the year ended December 31, 2019									
Average number of positions in the segment	4,202	190	2,095	422	808	86	179	7,982	560	8,542
	For the year ended December 31, 2018									
Average number of positions in the segment	(1) 4,307	(1) 191	(1) 2,138	(1) 443	(1) 773	(1) 82	(1) 226	8,160	508	8,668

Footnote:
(1) The data for the year ended December 31, 2018, have been reclassified following changes in the allocation of expenses to the different segments in the bank and in the subsidiary.

Labor Relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated November 30, 2016, the validity of the Charter was extended until December 31, 2021.

Principal Categories with respect to Employment Conditions

The Bank's employees are classified into three main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements. The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period. It is noted that in the agreement dated November 30, 2016, the trial period applying to employees assigned from the status of temporary employees to the status of tenured employees was abolished, as from date of signature of the agreement, and such employees are assigned to the status of tenured employees with no need for a trial period.

Temporary employees. The engagement terms of temporary employees are mainly regulated in a number of special collective labor agreements, which specify their terms of employment. The temporary periods for temporary employees is being altered in accordance with their jobs: seven years for IT staff, five years for bank tellers and employees in direct banking jobs and four years for all other temporary employees. In addition, the agreement signed between the Bank's Management and the representative committee of employees in September2016 allows for the continued employment at a temporary status, for an indefinite period, of 250 IT staff who have already been employed for seven years on a temporary basis. Some 218 employees are engaged by the Bank as "computer temporaries".

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, and the provisions of the labor charter and the collective agreements, which apply to "tenured" employees, do not apply to them. Employees engaged under a personal contract include members of the Bank's management, a defined and agreed list of office holders and an additional quota for appointees in accordance with the Bank's Management decision. As of December 31, 2019, the Bank employed 201 personnel (including members of management) under personal employment agreements (December 31, 2018: 127 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

Summary of employment data in the Bank in the various categories and the changes therein

	As of December 31,					Change			
Employees	2019	2018	2017	2016	2015	2019 compared to 2018	2018 compared to 2017	2017 compared to 2016	2016 compared to 2015
Tenured employees under personal contracts and members of management	3,642	3,681	3,853	3,917	4,149	(39)	(172)	(64)	(232)
Temporary employees	1,133	1,215	1,285	1,304	1,386	(82)	(70)	(19)	(82)
Software house	(1)507	447	364	308	314	60	83	56	(6)
Total	**5,282**	**5,343**	**5,502**	**5,529**	**5,849**	**(61)**	**(159)**	**(27)**	**(320)**
Additional – employees on unpaid leave and maternity leave	165	146	164	173	185				
Total	**5,447**	**5,489**	**5,666**	**5,702**	**6,034**	**(42)**	**(177)**	**(36)**	**(332)**
Positions									
Tenured employees under personal contracts and members of management	3,709	3,739	3,905	3,963	4,228	(30)	(166)	(58)	(265)
Temporary employees	1,162	1,206	1,263	1,283	1,389	(45)	(57)	(20)	(106)
Software house	395	378	345	288	325	17	33	57	(37)
Total	**5,266**	**5,323**	**5,513**	**5,534**	**5,942**	**(57)**	**(190)**	**(21)**	**(408)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	153	154	139	179	206				
Of which positions of software house employees of which has been capitalized to fixed assets	208	201	182	229	206				
Total positions before of which has been capitalized to fixed assets	**4,905**	**4,968**	**5,192**	**5,126**	**5,530**				

Footnote:

(1) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries".

A new wage agreement

The Board of Directors approved on January 9, 2019 the agreements reached between the Bank's Management and the National Representative Committee of Discount Bank Employees, the essence of which are as follows:

- The wage agreement would be in effect for a period of three years until December 31, 2021.
- In each of the three years of the agreement, an average differential, shekel, salary increase will be granted of NIS 450 for clerks and NIS 600 for managers would be given. The addition will be differential based on performance evaluation.
- The wage update, as stated, shall be made in July of each year during the period of the agreement.
- The maximum wage level for all second generation employees would be updated.
- The convalescence pay for second generation clerks would be updated.
- The provident fund contributions would be increased from 6.5% to 7.5% and the provision for severance pay to 8.33%, subject to the finality of the provision (Section 14 of the Severance Pay Act).
- The minimum monthly wage for severance pay purposes would be updated to NIS 6,500 in two stages in the years 2019 and 2020.
- Cancelation of the salary components of a daily newspaper and the refund of medical expenses and updating the traffic fees component

In addition, the employees would be entitled in the years 2019-2021 to a return based award, based on a graded award mechanism determined in the previous wage agreement, which relates the annual award to employees to the rate of return on equity.

Industrial calm will be maintained at the Bank through December 31, 2021 in relation to the topics covered by the agreement. The agreement was signed on February 21, 2019.

The Bank estimates that the new wage agreement shall not have a material impact on the Bank's profits for the years 2018-2021, and that it agrees with the Bank's multi-annual strategic plan.

Remuneration Plan for Members of the Bank’s Management

The Bank approved an awards plan for Officers for 2017-2019, which reflect the challenges and goals derived from the strategic plan approved on August 20, 2014 (See Note 23 G to the financial statements). For details regarding the awards actually paid to Members of the Bank’s Management in the years 2018-2019, see Note 23 F and G, and Note 35 G, respectively.

Labor Relations of the Principal Subsidiaries

ICC. On June 11, 2019, a special collective agreement was signed by ICC, the New Federation of Labor and the national committee of ICC employees, which is effective from January 1, 2019 through December 31, 2022. The agreement prescribes that, in each of the years 2019-2022, a wage increment at an average rate of 3.1% will be granted. In addition, employees with the status of “permanent staff” will be granted a long-service increment at a rate of 0.5% for each of the aforesaid years. The agreement governs certain economic benefits to which the ICC employees will be entitled, as well as various aspects related to the company’s employment arrangements. In the agreement, the parties have undertaken to maintain industrial calm at the company through December 31, 2022 in all matters relating to the topics covered by the agreement.

MDB. Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor statute" and complementary collective agreements.

The Management of MDB and the national committee of employees of this bank signed in December 2018, a wage agreement for the years 2019-2023, which includes new and significant items. The essence of the agreement includes: detachment of the wage, work terms, and related benefits of MDB from those prevailing at Bank Leumi during the agreement period; in respect of the said detachment, the employees are to receive a onetime award amounting to 2.5 monthly salaries; a wage increment at the rate of 3.1% per year (excluding a seniority increment of 0.8%), for each of the years covered by the agreement; a gradual updating of the minimum monthly wage used for computing severance pay.

Merger of Municipal Bank. On the day of the merger, the rights of Municipal Bank’s employees to receive severance pay was anchored in two labor agreements, as follows:

- A special collective labor agreement dated July 30, 2018, which was signed between Municipal Bank and the employees’ representatives and the Histadrut – the New General Labor Federation;
- A memorandum of understanding signed on July 22, 2019 between MDB and Municipal Bank.

In accordance with the aforementioned agreements, Municipal Bank’s employees will be entitled to receive enlarged severance pay from the merger date through December 31, 2021, under the terms prescribed in the agreements.

Remuneration Policy in a Banking Corporation

Instructions in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation as updated from time to time (hereunder: "The Directive"). In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, following the recommendation of the Remuneration Committee the remuneration committee, as well as determine principles for a Group remuneration policy, which comply with the requirements stated in the Directive is in addition to the provisions of the Companies Act, 1999, and the provisions of the Remuneration of Officers of Financial Corporations Act (special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (see above).

Remuneration policy for Officers of the Bank. See Note 23 D above.

Employees remuneration policy. In March 2020 the Bank approved an updated remuneration policy for all employees of the Bank has been approved, including in respect of key employees, as well as the principals of group remuneration policy.

For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

Development of Human Resources

Preparations for transformation in traditional banking and for the challenges of the future

As part of the preparations made by the Bank for the changing world of work and following the accelerated integration of the digital in the organization, several moves have been made by the Bank with respect to the development of managers for leading and leadership in the digital world:

- A conference for senior managers of the Bank was held in the first quarter – "The way We Lead" – in which were discussed leadership challenges in the changing world: leadership ability in an era of uncertainty, multi-generation management and creation of clarity and a way in a changing environment. Discussed within the framework of this conference were the principal relevant qualifications for success in the digital era, among which are the ability for learning, inquisitiveness and flexibility.
- Following this conference, the Bank has started integration operations, including the continuing learning of the relevant qualifications for the digital era:
  - Establishment of a WhatsApp group for middle-grade and senior managers by which learning content is being delivered on a weekly basis, as well as lectures for managers.
  - A digital preparation room has been established – an experience integrative simulation for the realization of facing the qualifications required in the digital era and providing tools for development.
  - To the annual learning program was added training that provides acquisition and improvement of more general skills and qualifications supporting the exercise of duties ("choosing more development"). Likewise, enrichment lectures were held for the purpose of encouraging and strengthening the inquisitiveness for learning.
  - A training session for middle-grade managers was held in the last quarter designed for the strengthening of significant qualifications both for the present time and for the future vision of the "manager as developer of his staff".
  - A development program for branch managers was held – "Long distance leadership", in which all branch managers of the Bank participated. The program is designed to develop leadership qualifications and skills for branch managers, adapted for leadership challenges facing the Bank at the present time and in the future, the strengthening and development of the duty concept of the branch manager as a leader of his staff, and the leveraging of the manager population acting in unison facing the challenges of the Bank.
  - The holding of three training sessions regarding the I.TEAM program – a program designed for leading team heads and project managers of the of the Technology and Operations Division, intended to improve initiative of members of this group as well as maintaining and strengthening the bond between the organization and this population. The program conducted according to the agile methodology, has won success and was awarded commendation in the human resources excellence competition for 2019, held by the Israeli Human Resources Association. The participating groups had conducted significant initiatives and the program has led to the development of all managerial middle-grades within the Division, through their integration as accompanying managers at critical junctions along the program.

Principal Activities in 2019

Development of human resources at the Bank derived from the strategic focuses from the focuses of the annual work plans and from the Bank's organizational culture. Thus reinforcing the Bank's ability to address successfully its business and organizational challenges. Accordingly, the development of the human resources in 2019, focused on the following issues:

The Discount Spirit. The Discount Spirit comprises Vision, Values, Principles of Conduct and the Code of Ethics. The integration of the Code of Ethics continued in the course of 2019, in order to encourage discussion regarding ethical events and raise the awareness of what is considered to be violation of the Code of Ethics. For this purpose, the Bank conducted an experiential learning course by means of an investigation video offering prizes to participants providing correct answers.

Combined. The third stage of the strategic project "Combined" began in 2019, within the framework of which were integrated the fixing of a meeting with a customer, integration of the credit system in the CRM, continuing the integration of the digital, integration of the new operating method regarding small businesses. Furthermore, the integration of the operating concept by means of CRM began at the Corporate Division and at the commercial wing – in the business centers.

Managers development programs. A development program for branch managers – "Long distance leadership" was conducted in 2019, in participation of all branch managers of the Bank. The aim of the program was the development of leadership abilities and skills for branch managers, adapted for the leadership challenges facing the Bank at the present time and in the future, strengthening and developing the concept of the role of the branch manager as leader of his staff and the leveraging of the manager community acting in unison against the challenges of the Bank.

Also conducted was the I.TEAM program – a program designed for leading team leaders and project managers of the of the Technology and Operations Division, intended to improve initiative of members of this group as well as maintaining and strengthening the bond with the organization. The program was conducted according to the agile methodology. In the three training cycles held in the course of the year, the participants conducted significant initiatives and the program has led to the development of all managerial middle-grades within the Division, through their integration as accompanying managers at critical junctions along the program. Some thirty middle-grade managers participated in training sessions held during the last quarter for the strengthening of significant abilities, both at the present time and with the future vision of "the manager as developer of his staff". In addition, a training session for the strengthening of managerial abilities was conducted for forty-five team leaders. Furthermore, some eighty managers obtained consultation and personal assistance with respect to the challenges presented by their office or in the framework of team development or regarding other organizational changes.

Key personnel and positions

In respect of 48 employees identified as key personnel, the Bank structured and applied risk reduction programs. Approx. 85% of these programs were completed in 2019. Also completed was the effort to identify additional key personnel in the Technologies Division, within the framework of which two additional key employees had been identified and a detailed program for risk reduction was structured in their respect.

Performance assessment and feedback

A performance evaluation process was conducted in the second quarter, which was changed and adjusted in accordance with trends prevailing in the performance evaluation field. The process, being target directed, focused on the values of the Discount Spirit and on the discourse of the manager and his subordinates regarding development outlook and future development directions. Training sessions towards this process had been conducted for more than 500 managers. The process, including the changes applied therein, has been successfully integrated and 99% of the employees have undergone evaluation.

Professional Guidance

In 2019, a response was provided for the professional needs and support of the Bank's strategic projects. The formation of a learning infrastructure continued in the head office divisions, which included a pilot program in the financial markets division. Learning has been intensified with respect to mortgage consultants and credit coordinators as well as for service banking officers at the branches. An entry course for position as a call banking officer has been rewritten and improved. The "choosing further development" program has been launched offering the Head Office staff to improve general skills, such as positive psychology, time management, effective presentation, influence with no authority, effective communication etc.

The "choosing further learning" project has been continued and enlarged, containing lectures in the field of banking by means of short learning meetings that include organizational aspects as well as wider aspects.
The number of frontal training days in 2019 reached 23,413 compared with 28,737 training days in 2018, a decrease of approx. 1.8%. The decrease is due, among other reasons, to increased efficiency in the number of frontal study days (a reduction in frontal training days in various training formats), integrating study by means of study kits and assimilation at the employee's workstation. In addition, the Bank held computer network training, amounting in 2019 to 45,355 interactions of self-study, compared with 43,611 interactions in 2018, an increase of 4%. A significant part of the computer network learning was dedicated to the regulation in different areas.

Organizational Culture

In 2019, the focus was placed on the design of a change supporting organizational culture, with an emphasis on readiness for the digital era, performance and service, and all in congruence with the "Discount Spirit".
Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.
With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2019, including: Senior Forum - a quarterly meeting; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.
A "FaceBank" Portal. FaceBank enables access to employees, participation in know-how, a wide dialogue and contents that assist in the integration of information in a convenient manner and advanced user experience. The portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.
WhatsApp Manager. A designated WhatsApp group was opened in 2019 for the forum of 400 managers at the Bank, within the framework of which information is being delivered once a week, such as: film-strips, tools, articles, researches, inspirational content, etc. The elected content relates to the thirteen skills required for the readiness to the digital era, as defined by the Bank at the beginning of 2019, offering an opportunity for discussion at the different units and for development of the human capital.
Communication with the Senior Forum. The Bank has a designated channel for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis.
In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:
- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices.

Improvement of Service

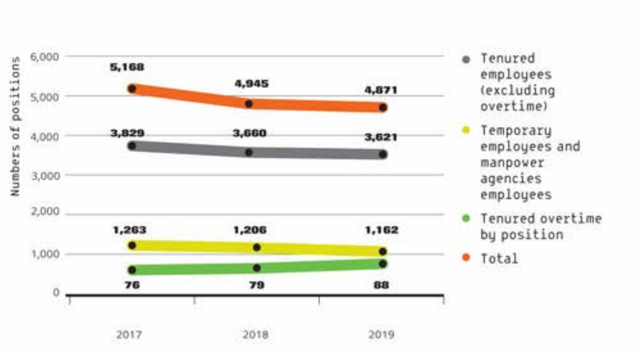
The service concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale. The Bank endeavors to create a personal service experience for its customers, causing them to continue selecting it at every new opportunity.
In 2019, the customer's service experience was measured in a variety of channels – at the branch, with TeleBank and at investment centers. The measurement was based mainly on an index of customer satisfaction with their last service experience at the unit (80%). In addition, branches were measured as to their compliance with the SLA determined for response to customer inquiries (10%) and compliance with the SLA for telephone call response (10%).
The surveys cover a variety of parameters from different service aspects and these can be viewed as indices that reflect the customer experience, such as: professionalism, personal attention, availability, initiative, and the customers' recommendation regarding the unit and the Bank, resulting from their satisfaction with the service provided to them.
The measurement data is conveyed on a current basis to managers of the business units at the branches, the investment centers and at TeleBank, and comprise an infrastructure for drawing of conclusions and analyzing the strengths and weakness of providing the service.
In situations where it is apparent that immediate involvement is required, the unit manager contacts the customer in order to provide a personal response.
With the aim of providing managers with the tools to improve, new analysis reports have been developed, which provide for a view of the branch's status in the service field and on parameters on which it is advisable to focus improvement efforts.

Internal services survey. The survey was published in November 2019, for the sixth time at Discount Bank, in a cross-organization format. The results of the survey constitute a "base line" for a continuous process of measurement and improvement. The survey had measured 440 services provided by the different divisions to those receiving service from the Bank and from the subsidiary companies. The rate of respondents reached approx. 84.5%.
The results and findings are presented to all heads of divisions and departments at designated meetings; Each service manager receives a detailed report of the findings and an analysis of the results; improvement targets are defined for each head of department at a KPI level; units receive professional guidance both from divisional reference functionaries and from the customer experience unit. In addition, a convention is held in honor of outstanding service managers and for the outstanding unit managers, as in the case for the outstanding field units, with the participation of the President & CEO as well as members of Management.

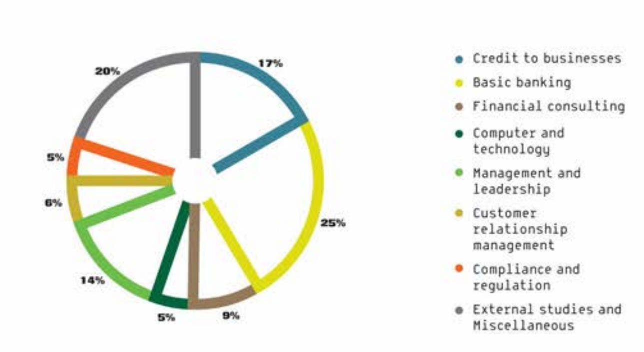
Treating Complaints

The Bank/Customer Relations Group of the Supervisor of Banks published in September 2019 data regarding complaints that had been filed against banks in Israel in the year 2018. This review had been made in a different fashion to those of prior years with changes made to a part of the indices published by the Supervisor of Banks. The ratio of justified complaints to the total complaints examined by the Supervisor of Banks amounted to 8%.
According to the data produced by the Bank, the ratio of justified complaints attributed to the Bank amounted to 5.6%, as compared to 17.5% in 2017.
No data has yet been received from the Bank of Israel in respect of 2019.
The annual report to the public regarding the treatment of complaints by the Bank in 2018, may be viewed on the Bank's website. The annual report in respect of 2019, shall be available to the public on the Bank's website at the end of March 2020.

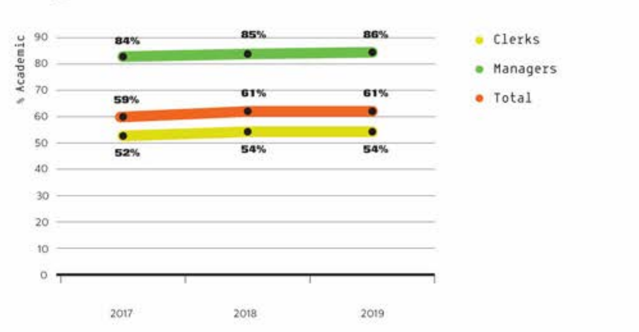
Number of positions at the Bank



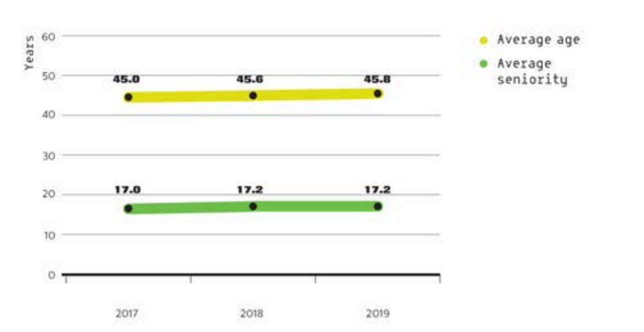
Training days at the Bank



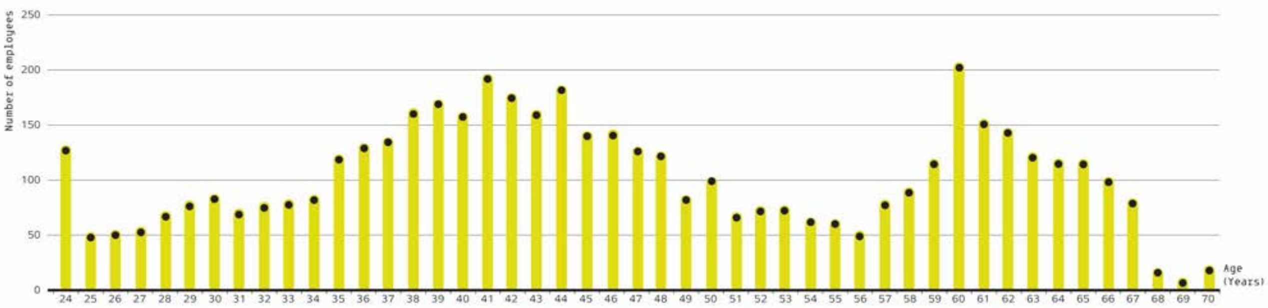
The rate of university graduates according to grade at the Bank



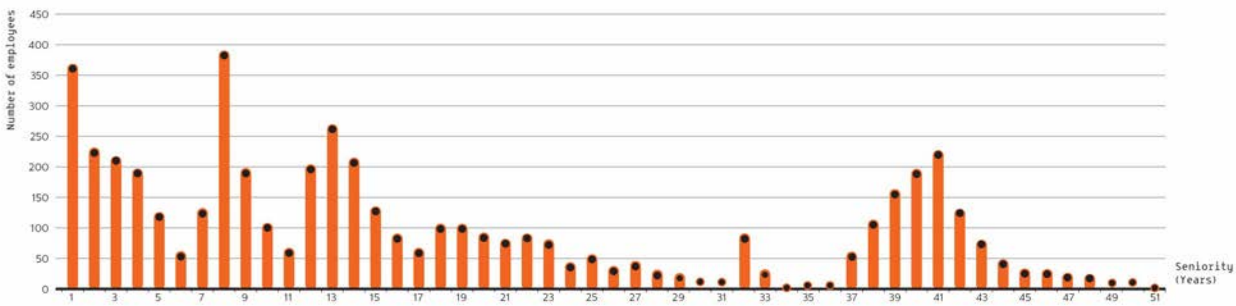
Average seniority and average age at the Bank



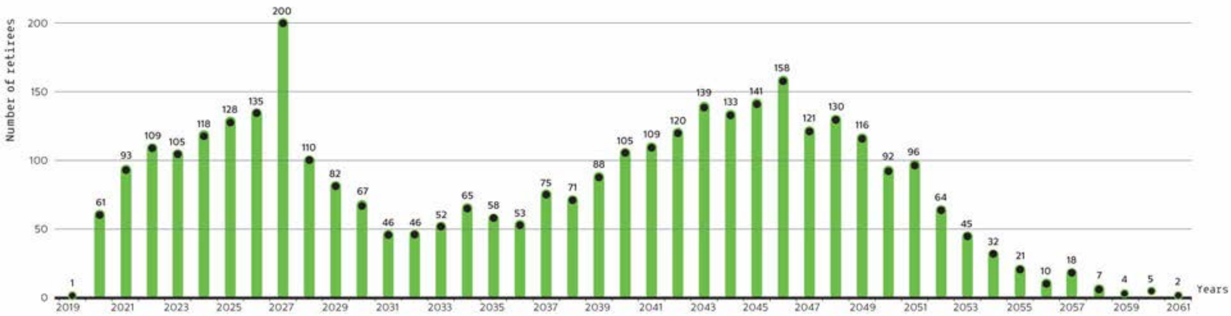
Distribution of tenured employees by age at the Bank - work force 12/19



Distribution of tenured employees by seniority at the Bank - work force 12/19



Natural Retirement by Years at the Bank (tenured employees)



Material Agreements

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest. Accordingly, the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For additional details, see Note 26 C 8 A to the financial statements. For details regarding this matter and the matter of exemption in advance and indemnification of Directors and other Officers of the Bank and the subsidiaries, see Note 26 C 8 to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter.

Acquisition of Municipal Bank. For details, see Note 26 C 19 to the financial statements.

Agreement for the construction of the Discount Campus. For details see above in "Fixed assets and installations".

Rating the Liabilities of the Bank and some of its Subsidiaries

On September 23, 2019, Midroog announced the raising of the internal financial stability evaluation (BCA) and the raising of the rating of the long-term deposits and the senior debt of the Bank to Aaa.il, in view of the continuing improvement of the Bank's financial profile, supported by the continuing improvement in the quality of the assets, as reflected by the risk indices of the credit portfolio alongside the growth potential of the portfolio and the implementation of efficiency measures, which support the ability to produce future profits and to continue in structuring the capital buffer. All as detailed in the immediate report dated July 11, 2019 (Ref. No. 2019-01-098383).

On December 19, 2019, Moody's announced the affirmation of the rating of the Bank at A3/long-term and the change in the rating outlook to "positive". For additional details, see the supplementary immediate report of December 26, 2019 (Ref. No. 2019-01-124471).

On July 11, 2019, the rating agency S&P Ma'alot announced the raising of the local rating of the Bank and of MDB to "AAA" with a stable outlook. At the same time, S&P raised the international rating outlook of the Bank and of IDB New York, which at present is "BBB+", to a positive outlook. The raising of the rating of the Bank reflects the estimates of S&P Ma'alot regarding the reduction in the economic risks facing Israeli banks and the improvement in efficiency and profitability of the Bank. All as detailed in the immediate reports dated July 11, 2019 and December 25, 2019 (Ref. No. 2019-01-059868, 2019-01-059805 and 2019-01-123907).

Rating determined for the Bank and some of its subsidiaries by different rating agencies

Rating given by	Subject of rating	Rating	Rating outlook	Date of rating/ ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	July 11, 2019
	Issuer rating Short-term	il A-1+		December 4, 2019
	Subordinate capital notes(1)	il AA+	Stable	July 11, 2019
	Upper tier 2 capital (Series 1)	il AA-	Stable	July 11, 2019
	Hybrid tier 1 capital (Series "A")	il A	Stable	July 11, 2019
	Subordinated debt notes with a loss absorption mechanism (Series "L")	il AA-	Stable	July 11, 2019
	Bonds (Series M-N)	il AAA	Stable	July 11, 2019
Midroog	Long-term deposits	Aaa.il	Stable	September 23, 2019
	Short-term deposits	P-1.il		September 23, 2019
	Subordinate capital notes(1)	Aa1.il	Stable	September 23, 2019
	Subordinate capital notes (tier 1 capital)	Aa3.il (heb)	Stable	September 23, 2019
	Subordinated debt notes with a loss absorption mechanism (Series "L" and Series "F")	Aa3.il (heb)	Stable	September 23, 2019
	Bonds (Series M-N)	Aa1	Stable	September 23, 2019
The international rating agency S&P	Issuer rating Long-term	BBB+	Stable	November 11, 2019
The international rating agency Moody's	Long-term foreign currency deposits	A3	Positive	December 26, 2019
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	July 11, 2019(2)
	Issuer rating Short-term	A-1		December 24, 2019
	Subordinate capital notes	il AA	Stable	July 11, 2019
	Bonds (Series B)	il AAA	Stable	July 11, 2019
	IDB New York			
Kroll Bond Rating agency	Deposits	A-	Stable	October 24, 2019
The international rating agency S&P	Issuer rating Long-term	BBB+	Positive	November 11, 2019

Footnotes:
(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.
(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A-1	Positive
The international rating agency S&P	AA	Stable
The international rating agency Fitch	A+	Stable

* The data is taken from the website of the Accountant General at the Ministry of Finance.

Activity of the Group according to Regulatory Segments of Operation – Additional Details

Household segment (Domestic operations) - additional details

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 182 branches located all over the country. This in addition to the range of services provided by the direct channels. The customers are classified into a number of customer populations according to groups of age, financial wealth and additional parameters.

Points of Emphasis for the coming year

In 2020, the Bank will focus on customer experience and on the modification of the operating model to market trends and to customer preferences. This, with a view to bring about the vision and strategy of Discount Bank as being the best bank for its customers:

- The continuing improvement of customer experience on the human and digital channels;
- The Bank is to continue and act towards the accessibility of a wide range of services with an advanced experience, a 24/7 availability of the digital platforms (including digital mortgages, opening an account through the application, and more), and would train its customers in adopting the advanced services;
- Enlarging the use of the service for the ordering of a meeting with a Bank officer, as well as cash and consultant services;
- Upgrading the effectiveness of sales by means of customer modified value offers in all channels;
- Development and use of analytical models as a supporting tool for credit granting decisions.

The integration of the strategy at the branches and at the regional offices will continue in 2020.

Service

General. An emphasis was placed in 2019 on upgrading of multi-channel service experience, with the aim of providing a varied, qualitative, fast and accessible service.
Among the services in the different channels may be mentioned:
Personal service TeleBank. A customer telephonic response center – automatic transfer to online banking of customer calls to the branch telephone exchange. The service enables improvement of telephone response time and clears time for branch employees to create added value for customers from the aspect of service, initiative and sales.
Activity on the Bank website and on the mobile application – It is possible to conduct by means of these channels varied banking transactions, such as: depositing funds with a deposit account, obtaining a loan and the transfer of funds between accounts, and to receive diverse information.
Correspondence with a banker by the cellular application - allows the obtaining of information and effecting transactions.
The management of customer communication strategy was integrated in 2019, in accordance with life events of the customer, while focusing on designated products adapted to the household segment.

Consulting Layout

Investment banking. The Bank operate under the private banking segment – 11 investment banking units and extensions spread throughout Israel that provide investment consulting services to customers having investment capital of NIS 1-4 million or customers active on the capital market. The service is provided by expert investment consultants.
Investment consulting services. Consulting services that are provided at the Bank’s branches by licensed investment consultants are intended for customers having investment capital in excess of NIS 100 thousand. Customers receiving consulting that have investment capital in excess of NIS 1 million are also offered the choice of receiving counseling services at the investment centers, as described above.

Pension advisory services. The Bank provides pension advisory services at the Bank's branches and private banking centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.

Portfolio management. Directing customers in need of services to authorized portfolio managers.

Marketing and Distribution

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:

- at the branches - frontal activity through screens located in areas where customers await service;
- by means of the telephone, Telebank, the Bank's application and the Internet, as well as through feedback and direct mailings.

The Bank continues to offer its customers and to those joining it the unique "Family Program", which grants benefits to the family members that join it, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members.

Bank Branches

At the end of 2019, the Bank operated a country wide layout of 103 branches and extensions. This, following the Bank's closing down and merging 5 branches and extensions: S.Y. Agnon Branch in Jerusalem, the Colony Branch in Jerusalem, Wolfson extension, the Tel Aviv North-Dizengoff Branch and the Bavly Branch, also and a branch was opened in Pardess Hanna and the Bat-Yam extension. In addition, at the end of 2019, MDB had activated 75 additional branches. In 2019, two branches of MDB were merged and one branch was opened.

Direct Channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. For additional details, see "Technological improvements and innovation" hereunder.

Service Concept

In 2019, the Bank focused on differentiating service according to customer segments, including the modification of a variety of segment adjusted products.

Conduct of the service is based on the following principles:

- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enables the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements;
- Service initiative - Forecasting customer needs, product adaptation and services;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- Easy and convenient communication with the Bank's customers through emails to the banker;
- Fixing a meeting with a banker;
- Conducting telephonic services surveys and of SMS surveys applying to customers of the Bank who have had interaction with a banker at the branch/ TeleBank/ investment centers (both frontal or by telephone), which enable an examination and analysis of their satisfaction, both with respect to the most recent service obtained from the banker and from the Bank itself.

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.

"Discount Key"

In 2019, the Bank continued the unique marketing effort in the area of financial consumption – "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount's credit cards (Visa CAL, Visa MAX, Diners and MasterCard) enjoy discounts at over 120 marketing chains and from unique benefits, such as free parking in the afternoons and at week-ends, and from the "VIP Discount key" benefit at the Ben Gurion Airport.

Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.

Operational Efficiency in the Branches

The action for the removal of operational activity from the branches continued in 2019 alongside efficiency measures, improvement in procedures and a change in the concept of operation.

The activity was designed to achieve the following targets:

a. Removal from the branch of all operational activity not required for customer service;
b. Simplifying and shortening the remaining processes at the branch;
c. Focusing on the customer and his needs in order to improve the service experience, while focusing on service by means of automatic instruments;
d. Reducing the amount of paperwork and filing at the branch;
e. Efficiency in manpower and costs, inter alia, by means of the merger of branches and reduction in teller services at the branches;
f. Reduction in office space at the branches.

All the Bank's branches have a self-service banking area, where the customer is able to conduct most of their daily banking transactions, including check deposits, cash deposits and drawing services and effecting payments. Approx. 179 automatic machines provide foreign currency drawing services, deposit of cash in ATM services, and the depositing of checks in Information Desks service exist in all of the Bank's branches.

Competition

Competitors. The number of competitors in the household segment is the same as the number of banks operating in the market. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank. Furthermore, competition has arisen in recent years from "off banking" financial entities, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.

Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers, by means of the branch layout;
- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

Retail Segment at MDB

MDB views the retail segment in general, as well as the household segment in particular, as a central target of its business development and is diligently working on broadening its activity in the segment as well as improving the service to its customers.

Mortgage Activity

The Bank views mortgage activity as a strategic activity and as a tool for retaining existing customers and for attracting new customers. At the present time, the Bank operates 67 branches, countrywide, providing mortgage loan services.

The Bank operates two channels in the process of approving a mortgage, as follows:

- The mortgage consultants' channel at branches;
- A call center channel specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with applications from customers interested in a new loan and enabling a conditional approval in principle to be granted (on the basis of set criteria), with the process being continued at a personal meeting with the customer at the branch;
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch;
  - Response to existing customer questions regarding ongoing loans.

Developments in the mortgage market

	December 31,		
	2019	2018	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	67,597	59,597	13.4
Loans from State funds	688	542	26.9

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the year ended December 31,		
	2019	2018	
	In NIS millions		Change in %
From bank funds(1)	8,151	7,290	11.8
From Treasury funds(2)	59	46	28.3
Total of new loans	8,210	7,336	11.9
Recycled loans	650	516	26.0
Total granted(3)	**8,860**	**7,852**	**12.8**

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 130 million in the first nine months of 2019, compared to NIS 112 million as at September 30, 2018 and NIS 136 million in 2018.

(2) Including standing loans in the amount of NIS 12 million, compared to NIS 8 million in 2018 .

(3) At the Bank and M.D.B.

Legislative restrictions and regulations

Banking Act (Customer service) (Amendment No. 31), 2019. An amendment to the Act was published on January 7, 2019, according to which, in case of a customer who had taken a residential loan and then passed away, the banking corporation shall defer the repayment dates of the loan for a period, as requested by whoever is obliged to repay the loan, that shall not exceed twelve months from the date of death.

Draft FAQ File in the matter of Limitations on Issuing Housing Loans – Proper Conduct of Banking Business Directive No. 329. The draft, published on July 16, 2019, proposes to add clarifications as to the manner of calculating the limitations imposed on that part of the loan bearing variable interest rate and regarding the manner of considering the free income of a "relative" with no rights in the property, when computing the ratio of repayment to income.

Guidelines and directives of the Supervisor of Banks designed to restrain the mortgage market. In the years 2010 to 2015, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market. For additional details, see the 2017 Annual Report (pp. 336-338).

Developments in the mortgage market

The volume of sale of residential units decreased in 2018, with a respective decline in the volume of mortgage loans granted. The year 2018 began with a trend similar to that recorded in 2017, but as from the second half of the year, a trend of growth was recorded throughout the system. The performance volume in 2019 for the whole system amounted to NIS 68 billion, compared to NIS 60 billion in 2018, a growth of approx. 13.4%.
The volume of the Group's housing loan portfolio grew in 2018 by a higher increase than the growth in the housing loan portfolio of the banking sector as a whole.
The instructions by the Supervisor of Banks published during 2013-2015 have led to an increase in the average risk assets in the segment's activity.
In addition, the Supervisor has limited the loan component granted at a variable interest rate. Since its entering into effect, the instruction led to a shift from the variable interest option to fixed interest options. Such shift reduces the exposure of borrowers to changes in the monthly repayment amounts in the event of rising interest rates.
The rate of growth in the volume of the mortgage loan portfolio at the Bank in recent years was relatively low in relation to the sectorial growth. A change in this trend occurred during 2016-2017, with a growth of the Bank's mortgage loan portfolio that is higher than that of the industry, this, with a view of increasing the Bank's share in the mortgage market, so that the Bank's market share in this segment would be similar to the Bank's share in the retail operating segment.
The repayments of mortgage loans are, among other things, affected by the unemployment rate in the market and by housing prices. The decrease in the volume of problematic debts continued in 2018 (similarly to 2016 and 2017), compared with the years 2014-2015.

Sectors of operation

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank`s funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.
Multipurpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).
Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Small-scale projects are performed by the Mortgages branch of the Banking Division. Approval of the individual mortgage files is conducted in designated branches. A decline in the volume of these operations has been recorded at the Bank in recent years.
Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.
The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank’s and MDB's telephone services, respectively.

Business strategy

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.
Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations has been approved, which defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.
The Bank operates a rating model, used in the approval of the transaction and its pricing.

Additional details regarding the mortgage portfolio of the Discount Group and the risks inherent therein

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

Competition

The mortgage loan sector was characterized in recent years by mergers of mortgage banks that had been operating as separate entities, with the commercial banks owning them. At present, the five major banks have completed the merger of their subsidiaries operating in the mortgage field. This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.
The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans and making processes more efficient. The Bank is upgrading its systems by means of computerizing of processes, with a view of improving the reaction time to customers' new mortgage loan applications, while conducting a controlled management of the risks. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

Private Banking Segment (Domestic operations) - Additional Details

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter: "private banking customers").
Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
In 2018, the restructuring was completed of the services for wealthy customers in the Investments and Private Banking. As part of the restructuring, customers active on the capital market in amounts of between NIS 1 million and NIS 4 million receive expert consulting services only, at the investment banking units that report to the private banking centers (4 units and 7 extensions spread throughout Israel).
Customers having investment capital in excess of NIS 4 million continue to receive an inclusive package of services at the Israeli private banking centers.

Developments in the Segment

The Bank continued in 2019 the actions for the intensification of activity with private banking customers, and even widened its activity with affluent customers (see below).
The private banking field focused on attracting new customers, by means of four service centers and 6 extensions in Herzliyah, Haifa, Jerusalem, Tel Aviv, Rishon LeZion and in Ashdod, as well as on intensifying the activity with existing customers and further work in aligning customers at branches and private banking centers with the service arrangements appropriate to their needs, in accordance with their profiles.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. In accordance with the service concept, focused meetings were held also in this year with customers of the centers, on financial subjects and current events, with the participation of the Bank's senior Management were conducted.
Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the meticulous implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks. In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.

For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Strategic Emphasis

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international banking department, serving foreign resident private banking customers and new immigrants, and the investments and Private Banking, serving Israeli resident private customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to foreign residents and new immigrant customers with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by investment consultants responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while focusing on nurturing the continuing generation and maintaining a thorough risk management in the process of attracting new customers and servicing the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. For several years, the Bank adopts and implements a strict, risk based, policy with respect to foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts. In addition, the risk management unit at the Banking Division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to Customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them.
Segment customers with passive investments exceeding NIS 4 million, enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants, VIP mortgage consultants, as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
Customers with passive investments of between NIS 1 million and NIS 4 million receive investment and pension advisory services at the private banking – investment banking centers, while banking services are provided at the branch.
The private banking provides service to customers six days per week and the private banking centers in Herzliyah, Tel Aviv and Jerusalem operate from 8 AM to 7 PM (on Fridays from 8 AM to 1 PM), in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.
In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank’s subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment’s customers.
Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.
A product initiation unit acts to create unique products suitable for this segment of customers.
The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Development in the Segment's Markets and Competition

The year 2019 was also typified by continued competition in the private banking field, in the field of prices and commissions and in the level of service to customers. Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth, whether by a direct approach from abroad or through their local extensions.

Discount invest

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.
"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.
The service also includes foreign securities operations on the U.S. Stock Exchanges.
Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 20:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.
Customers having investments in amounts of between NIS 1 million and NIS 4 million, obtain services from four private banking centers, the investment banking segment and seven extensions countrywide, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.
Customers of the investment banking centers, excluding the users of "Discount trade", enjoy varied service lanes at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.
Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.
For details regarding innovative digital services, see below in the “technological and innovative improvements” section.

Small and Minute Businesses Segment (Domestic Operations) - Additional Details

General

The small business segment provides services and diverse financial products to small business customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 182 branches located all over the country, in addition to a variety of direct channels.

Business Strategy, Goals and Points of Emphasis

Since the third quarter of 2019, the Bank applies strategic emphasis to the small businesses field, performing within this framework different moves regarding this segment that would enable assistance of the operation of the business and contribute to the growth of the business, with the aim of comprising a supporting network for Discount customers belonging to this segment.
The small businesses segment shall be characterized by the granting of a comprehensive and professional banking service for business development, which includes focusing on all possible banking operations alongside the development of areas of relevant banking services, and which would also include integration of innovations and the introduction of tools maintaining the differentiating value.

The values on which the new strategy has been structured shall be reflected in the professional training of bank officers, in work routine, measurement and value offers to new customers.
The new operating model for small businesses was put into use in 2019. The model emphasizes the offering of a modified and unique to the Bank's business customers, and attracting new qualitative business customers. Within the framework of the operating model, the Bank has started a new characterization of business customers of the Bank and at the same time business Bank officers and credit coordinators have been assigned to designated teams.

Business Strategy, Goals and Points of Emphasis for 2020

The Bank approved in 2014 a new comprehensive Group strategic plan, which had defined the small business segment as one of the segments in focus, on which the Group would focus in the coming years, as a central growth engine. The new strategy relies on the focusing on the intensification of relations with the existing customers, alongside a growth in the market share of this segment. Activity in 2018 was based on the implementation of the strategic plan, while emphasizing the automatization of credit processes in the small business segment, among customers having a debt of less than NIS 1 million. The focusing by the segment continued in 2018, with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.
The small businesses segment is one of the segments of the Bank's strategic focus in 2019. Goals have been set for controlled growth in this segment, with focus and emphasis on existing and new quality customers, having a reasonable level of risk and having risk-adjusted profitability suitable for the Bank. Among other things, the following goals were set:

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Sale of products fitting to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Expansion of the use of direct channels, with a focus on upgrading the designated website for customers of this segment – "Business +" and a designated application for business customers;
- Integration of the change within the branch network and the movement and concentration of business customers to appointed designated branches, thus maximizing the professional service granted to segment's customers.
- Implementation of a new operating concept for small businesses while combining attractive value offers for this segment;

The integration of the strategy at the branches and at the regional offices will continue in 2020.

Competition

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies, as well as through designated, private, off-banking companies that finance specific activity, such as: the purchase of vehicles, equipment, imports activity, and the provision of lines of credit for working capital purposes. The principal steps that the Bank takes to cope with the competition, include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

Service to Segment Customers

The small business segment provides the full variety of services to the segments' customers. The service is provided at the Bank's branches, including foreign trade services through a head office support unit. Also available to business customers is the possibility of receiving service via an Internet website and a designated application and over the telephone.
Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").

Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to approx. NIS 15 million and indebtedness of up to approx. NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.

Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.

Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.

"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.

SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.

Cooperation with iCount Company. The cooperation with iCount comprises the first business-technological implementation in the banking sector in Israel, which applies an open banking concept to the interface with third party suppliers. A business customer of Discount Bank who is also a customer of iCount, is able to connect his bank account with his accounting system by means of combining the banking data with the accounting data. iCount offers customers of Discount Bank tools for the management of their business, which make their business and financial conduct more efficient.

Application for business customers. A designated Application became available in 2019 for use by business customers, offering them a wide range of services and transactions regarding their current work.

Legislative restrictions, regulations and special constraints applicable to the operations

Amendment to the Banking Rules (Customer Service) (Commissions), 2008. The Amendment was published in the Official Gazette on May 1, 2019. Within the framework of the Amendment, Banks are required to conduct a monthly examination during the course of the financial year, of the accounts of customers classified as a small business/authorized dealer, in comparison with the basic and extended commissions track, and enrolling the customer for a commissions track, in so far as this is preferential for the customer in relation to the commissions paid without enrolling for such track, with this being done by March 1 of the year following the examination. The banking corporation will be required to send the customer a notice regarding it having joined the aforesaid track and regarding the possibility to revoke the joining. The provisions of the Amendment also include: a definition of communication channels that are offered by the banking corporation and an obligation to provide an opportunity to receive the bank's tariff list and to give notice of cancellation of having joined the aforesaid communication channels commissions track; reduction of the commission in respect to the provision of a bank guarantee secured by a specific deposit; adding the possibility of collecting fees in respect to the following special services: pension advice, withdrawal of cash from an ATM by means of a prepaid card not linked to a current account, and withdrawal of cash from an ATM by means of a charge card issued overseas or by an extension of a foreign bank. As a rule, the amendment commences on the day of its publication, with the exception of its exceptions.

The Small Business Segment at Mercantile Discount Bank ("MDB")

The small business segment at the MDB is one of the outstanding segments of this bank and accordingly is a central target in its business development.

From time to time, MDB participates in tenders published by the Ministry of Finance for the provision of bank credit to small businesses, within the framework of special-purpose, state-guaranteed funds, and use this channel as means for the development of activity in this segment.

MDB, in partnership with another institutional body, was selected as one of the winners of a Ministry of Finance tender for the provision of small business loans. The balance of the small business loans that MDB, together with others, provided within this framework amounted to NIS 1,023 million as of December 31, 2019 (2018 – NIS 777 million).

Medium businesses Segment (Domestic operations) - Additional Details

Service to Segment Customers

Customers of the group's Medium businesses segment are medium size business customers (middle market). These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers that operate nationwide: Jerusalem, Tel Aviv, the Sharon Region, Haifa and the Lowlands, as well as through a southern extension in Beer Sheva, which provides service and response to business customers in the Southern Region.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room designed for providing operating services to middle-market and small business segments customers and provides purchase and conversion of foreign currency services and performing hedge transactions.

In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

Application for business customers. A designated Application became available in 2019 for use by business customers, offering them a wide range of services and transactions regarding their current work.

Developments in the Segment's Markets

The main activities of the segment customers are conducted on the local market in the following economic sectors: commerce and services, industry, construction and real estate. Part of the segment's customers also conduct import and export business.

The segment’s customers were affected by the relatively high growth rate, compared to the previous year. Growth was made possible due to the high growth of private consumption.

Goals and Points of Emphasis for 2020

- The medium business segment is one of the Bank's strategic focus segments for 2020. Growth targets have been set for this segment while focusing and placing an emphasis on existing and new, quality customers having a reasonable risk level and satisfactory risk-adjusted profitability for the Bank;
- Expanding the activity with customers operating in economic sectors that are preferred for growth in accordance with the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuing the improvement of professionalism, availability and the processes of credit risk management and amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition;
- The integration of advanced credit risk management models with the aim of improving the pricing of the marginal transaction and adjustment of the financing spread to the nature of the transaction and to the risk to the Bank, while improving the ability to compete for quality customers.

Anticipated Developments in the Coming Year

The Bank estimates that economic growth in 2020 is expected to be around the potential growth rate with the continuation of expansion in exports and in private consumption. However, the Bank estimates that the principal risks threatening the realization of this forecast stem from global events, principally, the slowdown in global economy, the length of time required for the overcoming of the Corona virus and political uncertainty, as well as from domestic events, predominantly, the uncertainty regarding measures which the new Government would adopt and the possibility of escalation of the security situation.

In view of the above, growth is anticipated in bank credit to the commercial sector, both for the financing of working capital and the financing of investments.

Competition

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions. The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

Large businesses Segment (Domestic Operations) - Additional Details

Review of Developments in the Corporate Banking Segment in 2019

In 2019, the local economy expanded at a rate of 3.5%, compared to 3.4% in 2018. Concurrently, business product grew at a rate of 4.0%, compared with 3.7% in 2018.
The factors that affected the development of the business product in 2019 were as follows:

- exports (excluding start-ups and diamonds) grew at a rate of 5.2%, similar to 2018. The aforesaid growth reflected further rapid growth in the export of services, headed by the export of hi-tech services. Industrial exports grew at a rate of 3.1%, a pace slightly higher than that of 2018;
- private consumption continued to constitute a primary growth engine and, with a growth of 3.9%, a rate higher than in 2018 (3.7%);
- Investments in the economic sectors (excluding ships and aircraft) recorded a moderate rise of 1.2% (compares to a growth of 6.5% in 2018), following a steep decline of 9.8% in investments in machinery and equipment (on the background of completion of a large investment in the economy being import abundant). On the other hand, growth continued in investments in infrastructure and in non-residential construction, as well as in passenger vehicles (leasing). It is noted that a moderate growth of approx. 2% was recorded in residential construction, following contraction in 2018;
- public consumption (excluding defense imports) grew by 3.6% in 2019, lower than in 2018 (4.5%), with relatively rapid growth continuing in civilian consumption;
- imports of goods and services (excluding defense imports, ships, aircraft and diamonds) recorded relatively rapid growth of 4.1%, though this was still low compared with 2018 (5.1%).

Developments in the Debt of the Corporate Banking Segment

As of November 2019[8], an increase of 2.8% was recorded in the debt of the business sector (excluding banks and insurance companies), compared with December 2018 (the rates of change are in nominal terms, and are affected by changes in the exchange rates and in the CPI). The balance of the debt at the end of November 2019 stood at NIS 949 billion, compared with NIS 924 billion at the end of 2018. The growth in the debt reflected an increase at the rate of 5.1% in the debt to banks (including corporate bonds), and of 4.9% in the debt to institutional bodies. (of which, loans to individuals granted by the institutional bodies grew by approx. 10%, compared to a moderate growth of 1% in the balances of the bonds held by them). On the other hand, indebtedness to foreign residents and households shrank at a rate of 2.2% and 1.9%, respectively. As a result of the said trends, a negligible growth was recorded in the weight of the debt to banks in the total debt amount of the business sector, from 47.7% at the end of 2018 to 48.8% at the end of November 2019.
Funds raised by the issue of corporate bonds in 2019 (both marketable and nonmarketable, excluding the financial sector) amounted to NIS 39.5 billion, compared with NIS 36.8 billion in 2018.
The margin between corporate bonds (included in the Tel-Bond 60) and government bonds at the end of December 2019 was 1.03%, compared to 1.46% at the end of 2018 and 1.26% at the end of the third quarter of 2019.

8 The most updated data available at the time of submitting the report to print.

Developments in Segment Markets

Following are development directions in the principal economic sectors:

- Industrial sector – In the course of the past year, and similarly to the global trend, regression took place in the economic activity of industrial sectors on the background of the global trade war and the strengthening of the shekel, which, inter alia, was reflected in a decline in the volume of exports and in available jobs. Distribution into segments shows that the main negative contribution came from the pharmaceutical and the traditional sectors, whereas the mixed hi-tech sector (mostly chemicals) expanded its activity. Notwithstanding the above, the recent purchase managers' index, published in November 2019, indicates expansion attributed to the import of raw materials, which might serve as an indicator of the anticipated change in trend, mainly due to the progress of the US-China trade agreement;
- Diamonds sector – Significant weakness was demonstrated by the diamond industry in 2019, mainly reflected in the continuous decline in volume of trade;
- The tourism sector – The rate of tourist entries to Israel continues to reflect a record level and supports a further improvement in the sector's activity, as is reflected in hotel occupancy rates throughout the country. The robust activity is also expressed in the financial results of the public hotel chains, which continue to post revenue growth;
- Commercial sector – This sector is being affected mostly, by domestic demand. In accordance with the first estimate for 2019, the rate of change in public consumption during 2019 rose and amounted to 3.9%, compared to 2018. However, the growth in private consumption was not felt in all the traditional commerce sectors, which continue to face the challenges of online shopping and fiercer competition;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

Anticipated Developments in the Segment's Markets

In accordance with the Bank of Israel estimates, the market growth in 2020 is expected to slow down amounting to 2.9%. The inflation forecast has also been slightly updated downwards (1.0%) – the lower edge of the targeted range. Accordingly, the Bank of Israel interest rate is expected to remain at its present level and even may decrease to a level of 0.1%.

Reaching Targets and Business Strategy - 2019

In the course of 2019 the Bank operated in accordance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.
In addition, in 2018 the Bank focused on syndication transactions and capital mitigation, as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return, in terms of return on the regulatory capital and return on the economic capital.
In addition, the Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

Targets and Business Strategy

In 2020, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.
Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2019:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies in Israel and abroad;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;

- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (targeted populations, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2018". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

Developments in the segment

Establishment of the 360 plus for business banking wing. Within the framework of the consistent effort to improve the quality of service offered to the Bank's customers, Management of the Bank decided in September 2019, to establish the 360 plus for business banking wing, which incorporates the foreign trade units, Cash Management and the Tel Aviv Main Branch. The wing is expected to lead the offering of operating and digital services to large corporate business customers engaged in these areas.

Purchase of a credit risk insurance policy

The Bank purchased credit risk insurance for the real estate field. The policy covers the existing loan portfolio as well as new loans extended during the period of the policy, the nature of which loans agrees with the definitions contained in the insurance contract. These purchases are in addition to the purchase of a credit risk insurance policy with respect to Sale Act guaranties and to an insurance policy covering other nonfinancial guaranties.
Within the framework of the policies, the Bank transfers a part of the credit risk to an international consortium of re-insurers. Under the provisions of Proper Conduct of Banking Business Directive No. 203, the insurance transaction allows the Bank to reduce its risk assets, by way of reducing the risk weight of the exposure, and bringing it to a risk weight of 20%, in accordance with the international rating of the re-insurers.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

The principal restrictions applicable to this segment are briefly described hereunder.
Proper Conduct of Banking Business Directive No. 313. In accordance with the directive, the indebtedness limit for a single borrower (that is not a bank) stands at 15% of the bank's capital, the indebtedness limit for a group of borrowers stands at 25% of the bank's capital and the indebtedness limit for a group of banking borrowers or a group of credit card borrowers stands at 15% of the bank's capital. The total indebtedness of borrowers, groups of borrowers, groups of banking borrowers and groups of credit card borrowers, whose net indebtedness to the banking corporation exceeds 10% of the bank's capital, is not to exceed 120% of the bank's capital.
The definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. As of December 31, 2019 no deviations existed to the limitations as set in the directive.
The Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.
During 2018, the percentage at which Sales Act guarantees are weighted for the purpose of the concentration calculation was reduced to 30% with respect to residential units still to be delivered.
The Supervisor of Banks published on October 27, 2019, an amendment to the Directive, which adds restrictions relating to indebtedness of a borrower/groups of borrowers engaged in speculative activity. The Amendment takes effect on July 1, 2020.

The limitation on "related persons". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2019, there were no deviations from the said limitations.

Service to Segment Customers

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.
The financing operations of the large corporations are performed by business managers in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. The teams include a business manager, a business banker, economists and credit coordinators. Such teams serve as the banking address for all the financial needs of the corporate customer.
The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities.
Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking.
The Capital Market Department. The aim of the department is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The department engages in the allotment of credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.
Customers engaged in international trade are being served by the foreign trade unit (for additional details, see below).
The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.
Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").
Application for business customers. A designated Application became available in 2019 for use by business customers, offering them a wide range of services and transactions regarding their current work.

Foreign Trade Operations

General. The Bank's foreign trade operations are conducted by the foreign trade unit and by the hybrid foreign trade finance unit. These two units operate within the framework of the Bank's Corporate Division, and provide varied services to customers of the different business sectors that engage in international trade.
Operations. The business activity of the foreign trade unit includes all the services in the foreign trade field that the customer requires (import, export, finance, conducting factoring of foreign guarantees, etc.). In addition to conducting the activity, intensive activity continues in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.

Substitutes for Products and Services of the Segment and Changes therein

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities. In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.
Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

Products and Services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.
In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

Construction and Real Estate activity

Market developments

Residential construction. The growth trend in volume of transactions continued in the course of the past year, both as regards market prices and particularly within the framework of the "price for the purchaser" plan. Alongside the growth in the volume of operation a decline was indeed reflected in prices of new apartments, though this was affected by the sharp growth in sales under the "price for the purchaser" plan (their weight in the total purchase transactions for new apartments crossed in October, for the first time, the line of 50%), due to public tenders published in prior years and reaching construction now.
With a forward outlook, construction beginnings, which continue to stay below the level of the natural growth needs of households, alongside the low mortgage interest rates and the uncertainty regarding the future of the "price for the purchaser" plan, comprise potential for pressure for price increases, as reflected in the general apartment price index. However, there are cities in which concern regarding the accumulation of excess supply exists, mainly due to massive construction already finalized within the framework of the "price for the purchaser" plan.
Income generating real-estate for office buildings. Occupancy rates and rentals in the offices market continued to remain stable in 2019. In addition, occupancy rates and rentals continued their upward trend in Tel Aviv, Israel's largest offices market.
Income generating real-estate commercial buildings. In the commercial real estate market there appears to be a weakness in tenants' turnover, however occupancy rates remained stable. During the past year, some of the retail chains began to reduce the physical size of their commercial space, while concurrently same store sales of the leading fashion companies continued to fall.
Infrastructure. The scope of activity in the infrastructure sector continued to grow in 2019. In addition to projects already underway, substantial additional projects are expected to commence.

Developments in the financing resources of the activities

Competition on the part of the institutional bodies. In recent years, the growth in the nonmarketable credit offered by institutional bodies has a consistent growth. Most of the credit was designated for the finance of real estate and infrastructure projects in Israel and abroad. This trend is expected to continue in the coming years, leading to a more intense competition between the banks and these bodies.

Expected developments in the activity

Residential construction. The trends that characterized the past year are expected to continue in the short term. However, uncertainty exists on the background of the upcoming general elections and the anticipated policy of the Government.
Office and commercial income generating real estate. With the entry into the market in the coming years of a large volume of new office and commercial properties, most of which in demand areas, excess supply might occur leading to a decline in rental prices in certain areas.
So long as weakness continues in the activity of major tenants at the commercial centers, it may lead to damaging the profitability of certain commercial centers.
Infrastructure. Substantial activity is expected to continue in the infrastructure sector in the coming years.

Directions of business development in the markets activities

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:
- Closed housing project financing, including small projects, in low volume of finance, in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;

- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing projects in the form of closed project financing;
- Financing projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

Credit policy in the construction and real estate activity

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.
The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted in the Proper Conduct of Banking Business Directives no. 315 regarding a sectoral indebtedness limit, a limitation was set to apply to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank’s exposure as regards credit to the construction and real-estate industry as of December 31, 2019 reached a rate of 18.85% (18.79% at the end of 2018).
Proper conduct of Banking Business Directive No. 315 in the matter of "limitation on sectorial indebtedness" was updated on January 12, 2020. The update allows a banking corporation to maintain the total indebtedness in respect of "real estate construction and manufacturing and trading in construction products" at 24% of total indebtedness of the public to the banking corporation, and this on condition that the said total indebtedness, net of indebtedness in respect of the financing of projects jointly executed by the public and private segments, shall not exceed 20%. The amendment to the Directive takes effect on date of publication.

Service to customers of the segment

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition, the financing operations of the segment are also conducted by business managers at the large corporations department, mainly with income producing real estate holding corporations, as well as by means of the business centers of the Banking Division.
Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method). The unit engages in allocating appropriate finance packages though at smaller volumes.
MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

Alternatives to products and services of the operations and changes therein

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.
In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

Structure of the competition prevailing in the operations and changes therein

Competition exists in this sector both on the part of banking corporations and on the part of institutional bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Certain of the institutional bodies have even extended their activity to granting Sales Act guarantees to purchasers of residential units.

Coping with competition

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.
Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

Products and services

The services provided include, among other: credit for the construction or purchase of properties intended for housing and/or intended to serve as income producing property (mostly commercial and office space, large parts of which are marketed in advance); credit financing national infrastructure projects at the construction and operating stages; credit financing working capital and/or investments in Israel, and in exceptional cases also investments abroad; credit granted to acquisition groups; providing Sales act guarantees to purchasers of residential units and guarantees to landowners within the framework of combination construction transactions.

Institutional bodies Segment (Domestic operations) - Additional Details

Condensed description of the characteristics of the segment

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (by means of mutual funds and ETFs).

Areas of operation

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, managers of mutual funds and ETFs. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

Competition

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years.

A Competitive Process

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

Operating Services

At the present time, the Bank does not provide operating services to institutional bodies.

Financial Management Segment (Domestic Operations) - Additional Details

Dealing room

A dealing room acts for the Bank's customers to execute transactions in the global financial and capital markets, while providing personal and professional financial services. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. The combination of several fields of activity enables customers to obtain trading services in foreign currency, interest rates, securities and derivatives under one roof.
The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading - Foreign Currency and Interest Rate Trading

The OTC unit develops and adapts different market risk hedge transactions in accordance with customer needs. The unit serves also as a "principal market maker" with respect to Dollar/Shekel and government bonds transactions.
The main transactions carried out by the unit with Bank customers, are: Purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives.

Trading in securities

Foreign securities. The foreign securities desk operates in a wide range of markets around the world, and is conducting brokerage transactions in a wide range of instruments: shares traded on foreign stock exchanges, options, state and corporate bonds, mutual funds and hedge funds.
Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded in the Israeli market. The desk provides brokerage services involving both marketable and non-marketable securities (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Global Treasury

The Global Treasury unit coordinates the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, management of interest risk, inflation risk and exchange rate risk management, and managing the capital. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance at the subsidiaries.
Following are details of the principal areas of operation of the Global Treasury:
Liquidity risk management and formation of the financing plan of the Bank. Liquidity risk management is performed using internal models and regulatory models, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of a current analysis of changes in the volume of assets and liabilities of the Group. In addition, the unit recommends to Management and to the Board of Directors liquidity ratios goals and forms financing plans for the Bank and for the Group companies.
Managing the Capital. Formation of recommendations to Management and to the Board of Directors with respect to the equity ratio targets, formation of a risk asset budget for Group companies and business units, and its current management.
Market exposure management. The management of market exposure is conducted by means of a designated computer system, which calculates risk indices in relation to up-to-date data, reflecting the overall business activity at the Bank. The ALM committee, headed by the President & CEO, determines the market risk exposure targets, within the framework of limitations set by the Board of Directors as regards the risk appetite.
The raising of liquidity and investment of the surplus. The Treasury Desk operates mostly through the Bank of Israel tenders, deposits by corporate customers and SWAP transactions, the government bonds market and the interest derivatives market. The desk provides interest quotations for deposits of large customers (super jumbo) in foreign and Israeli currency and invests the surplus short-term liquidity and conducts transactions for the hedging of the Bank's interest risk.
Raising of secondary capital and bonds. The Global Treasury Unit is responsible for the raising of secondary capital and bonds in accordance with the capital planning and the financing plan of the Bank.

Transfer prices and management of the marginal financial spread. A daily calculation of the Bank's internal transfer prices, serving as a basis for the pricing and measuring profitability of credit and deposits. The prices are being updated in accordance with developments in the capital and financial markets, and with the determination of the marginal spread targets regarding deposits, as well as with the conduct of current monitoring.

Deposit product management. Formation of a strategy for the management of the deposit product, while providing response to changes in the business environment. The setting up and updating of products belonging to the core system of the Bank for deposit management. Production and publication of deposit interest tables.

Development of financial models. Development of models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, premature withdrawal option regarding deposits, early repayment forecasts for mortgages and more.

Nostro Management

"Nostro" portfolio management policy. The Bank's "Nostro" Unit is subject to the decisions of investment committee and to frameworks determined by the Bank's Board of Directors.

The investment portfolio of the "Nostro" unit, manages a facility out of the surplus liquidity balances comprising investments embodying credit margin risk – inter alia, corporate bonds, state bonds and other debt instruments.

The investment activity of the subsidiary companies, in particular, IDB New York, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank. The Group's "Nostro" portfolios are being managed from an overall standpoint, subject to risk limitations determined by the Bank's Board of Directors.

Competition

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

Business Strategy and Targets

The goals for the year 2020 set for this segment are the continuation of profitability improvement in a low interest rate environment and in a challenging macro-economic environment, and a difficult competitive environment also with respect to non-banking financial entities and fintech initiatives. All this, while maintaining a risk level in accordance with the risk appetite of the Bank.

Investments in Non-Financial Companies

Policy regarding non-financial investments

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank's Board of Directors prior to their execution.

Principal areas of operation

The investments of the Discount Group in non-financial companies are made primarily through the subsidiary Discount Capital and are divided into three principal categories:

- Investment in private equity funds and in venture capital funds;
- Investments in companies;
- Mezzanine operations.

Investments in private equity funds and in venture capital funds

Discount Capital's strategy for investing in investment funds places emphasis on the portfolio's decentralization from the aspects of management groups, the life-stage of the portfolio companies, the activity spheres of the funds and the geographical region in which they invest. As of December 31, 2019, Discount Capital was invested in 40 funds which were spread over 25 different management groups.

Discount Capital's investment balances in funds amounted to US$204 million as of December 31, 2019 and the balance of its liability to funds that had not yet reached the end of their investment period (usually five years) amounted to US$146 million.

Selected investments in private investment funds and in venture capital funds

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2018		
Fimi Opportunity II	293	50	44.3	-	Israeli Private Equity Fund.
Fimi Opportunity IV	509	50	41.3	-	Israeli Private Equity Fund.
FIMI Opportunity V	824	70	63.6	6.4	Israeli Private Equity Fund.
Fimi Opportunity VI	1,100	70	31.2	38.8	Israeli Private Equity Fund.
Vertex Israel IV Fund	144	5	4.4	0.6	An Israeli venture capital fund.
Vertex Israel V Fund	126	7	2.9	4.1	An Israeli venture capital fund.
Fortissimo II	110	20	18.8	1.2	An Israeli venture capital fund, which invests primarily in technological and industrial companies.
Fortissimo III	265	10	9.6	0.4	An Israeli venture capital fund, which invests primarily in technological and industrial companies.
Fortissimo V	650	8	-	8	An Israeli venture capital fund, which invests primarily in technological and industrial companies.
Stage One Ventures Capital Fund II	65	5	4.2	0.8	A venture capital fund, which specializes in early-stages investment.
Stage One Ventures Capital Fund III	110	8	1.5	6.5	A venture capital fund, which specializes in early-stages investment.
IGP I (Israel Growth Partners)	229	6	17.4(2)	0.18	An Israeli venture capital fund that focuses on growth-stages technology companies. The investment in the fund is comprised of an investment commitment and an option to expand the investment (Pool B).
IGP II	190	17	6.6	10.4	An Israeli venture capital fund that focuses on growth-stages technology companies.
AMI Opportunities	504	10	6.6	3.4	An Israeli Private Equity Fund of the Global APAX Group.
Sky III	200	20	6.7	13.3	An Israeli private equity fund specializing in investments in mid-market companies.
One Equity Partners VI	1,650	5	5	-	A U.S. Private Equity fund.
One Equity Partners VII	947	5	3.3	1.7	A U.S. Private Equity fund.
Qumra II	150	10	5.1	4.8	An Israeli venture capital fund focusing on growth stage technology companies.
Vestar VII	1,000	5	1.2	3.8	A U.S. Private Equity fund.
Viola-Fintech	93	8	2.3	5.7	A new investment fund of the Viola Group, specializing in investments in the fintech field.
Briges Israel	77	10	3.7	6.3	An Israeli impact investment fund.
AP Partners	83	5	1.1	3.9	An Israeli PE fund that specializes in investments in small-medium companies.
aMoonII	660	10	3	7	An Israeli venture capital fund focusing on technology companies engaged in the healthcare field.
Other Funds	Not relevant	137	117.3	19	
Total	Not relevant	550	401	146	

Notes:
(1)The amounts are presented in U.S. dollars, unless otherwise stated.
(2) Of which an amount of US$12.2 million was invested following the exercise of the option to join the investment and not as part of the settlement of the liability

Direct investment in non-financial companies

The direct investments of Discount Capital as of December 31, 2019 amounted to NIS 170 million, in cost terms, in some 15 companies. Following is a summary description of the principal investments:

Investment in "Menif" - Financial Services Ltd. Discount Capital owns approx. 19.6% of the equity of Menif, which is engaged in the financing field and the supplementing of equity capital to entrepreneurs regarding construction projects. Complementing the equity capital is effected by way of providing guarantees in favor of the project in consideration of a return participating in profits. For details regarding guarantees provided by Discount Capital, see Note 26 C 14 (b).

Investment in Ginegar Plastic Products Ltd. ("Ginegar"). Discount Capital holds 15% of the equity capital of Ginegar, which is listed on the Tel Aviv Stock Exchange. Ginegar is one of the leading companies in the world engaged in the manufacturing of advanced plastic cover film and nets for a large variety of applications in agriculture. Covers are manufactured by the company in accordance with the needs of the farmer – for different crops in different areas.

Investment in Gaon Holdings Ltd. Discount Capital owns approx. 12% of the equity of Gaon Holdings Ltd. This investment was made by way of joining an investor group led by Viola Group, holding together approx. 60% of the company.

Investment in Felco Ltd. (Feldman Ice Cream). Discount Capital holds 18% of the equity capital of Felco Ltd. The investment was made by joining an investor group led by the Green Lantern Group. The company is engaged in the production and marketing of ice cream and ice-lolly under the old established and known brand name of Feldman Ice Cream, and is the fifth largest participant in the ice cream market in Israel.

Investment in Gad Dairies Ltd. During the first quarter of 2019, Discount Capital completed the purchase of 20% of the equity capital of the company. Gad Dairies is an old established and leading dairy in Israel, engaged in cheese production (with a focus on special, hard and salty cheeses) and in the marketing of its products both to the wholesale market (marketing networks) and to the professional market (pizza stores, restaurants, bakeries, etc.).

Investment in Cellebrite Ltd. During the second quarter of 2019, the company committed to invest in Cellebrite Ltd. an amount of US$10 million. The investment was made by way of a co-investment with the IGP II Fund. As of the balance sheet date, an amount of US$7 million had been invested in the company.

Moreover, Discount Capital makes direct investments from time to time in technology companies at different stages of development, as well as investments in the fintech field (directly and through investment funds).

Mezzanine activity

This activity began in 2018. Since the beginning of operation and until the end of 2019, transactions were made in this field in a total amount of NIS 210 million.

Developments in the activity

Realizations. In 2019, Discount Capital has recognized income in the total amount of NIS 90 million in respect of realizations of investments, mostly in respect of realization of the investment in Super-Pharm (in the amount of NIS 24 million), realizations by Funds of the FIMI group (approx. NIS 35 million), of the Vertex Group (approx. NIS 11 million) and of the Fortissimo group (approx. NIS 9 million), compared with approx. NIS 93 million in 2018.

New investments. In 2019, Discount Capital made 8 new investments in investment funds and companies, in a total amount of US$45 million.

The sale of holdings in Super-Pharm. On April 16, 2019, Discount Capital entered into an agreement with Union Investments & Development Ltd. ("the purchaser") and others for the sale of shares of Super-Pharm, including the sale of all the holdings of Discount Capital in Super-Pharm, which were purchased in 2013 and comprise approx. 10.37% of the share capital of Super-Pharm. The agreement further states that until the date of consummation of the transaction, Super-Pharm would distribute a dividend to its present shareholders. The share of Discount Capital in such a dividend amounts to approx. NIS 4.1 million.

On April 28, 2019, the approval of the Commissioner of Competition was received and on May 7, 2019, the transaction was consummated.

All as detailed in the immediate report dated April 16, 2019 (Ref No. 2019-01-034875), the details included therein are presented herewith by way of reference.

In respect of the above sale, the Bank recorded a profit (before tax) of approx. NIS 20 million, this in addition to the distributed dividend - in total of approx. NIS 24.1 million before tax (an amount of NIS 19.5 million, after tax).

Legislative and regulatory limitations and special constraints applicable to the investments operations

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -

(1) Up to 15% of its capital - in any non-financial corporation;

(2) Up to a further 5% of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;

(3) Up to a further 5% of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.

As of December 31, 2019, no violation of these restrictions exists.

Within the framework of the Concentration Law, restrictions have been prescribed whereby a banking corporation may not hold more than 1% of a certain class of the means of control of a significant non-financial corporation (a significant non-financial corporation is a corporation the volume of operations of which, or the volume of its indebtedness exceed NIS 6 billion, and which is included in the list of significant non-financial corporations published in accordance with the Concentration Act). Notwithstanding the aforesaid, a banking corporation may hold more than 1%, but not more than 10%, of a single significant non-financial corporation. As of December 31, 2019, no violation of these restrictions exists.

International Operations Segment - Additional Details

General

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On December 31, 2019, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 15.09% of total risk assets, as compared with 14.37% on December 31, 2018. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group (restriction of the exposure rate, as stated, was 25% on December 31, 2017). The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

IDB New York - Risk Based and Leverage Capital Ratios. Beginning on January 1, 2015, IDB New York became subject to new Basel III capital rules based on the final rules published by the FRB in July 2013 (the "Basel III Capital Rules"). The new rules establish a new comprehensive capital framework for U.S. banking organizations.

The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 ("CET1") minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a "capital conservation buffer", consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.

The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios as of January 1, 2016 are as follows:
- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

US legislation. The operation of IDB New York is subject to different legislative instructions, such as the Dodd Frank legislation, including amendments thereto enacted over the years, such as within the framework of the Economic Growth, Regulatory Relief and Consumer Protection Act.

IDB New York is preparing for the possibility that its total assets would cross the US$10 billion line in the course of the year 2020. Various regulatory requirements are expected to apply to IDB New York following the crossing of the said line, and accordingly, these are being prepared for. Inter alia, different instructions are expected to apply to operations regarding derivative instruments and to the methodology regarding the calculation of deposit insurance. Following the crossing of the line, the activity of IDB New York would be subject to supervision by the Consumer Financial Protection Bureau, the authority of which relates to compliance and to different instructions intended for the protection of customers.

Guidelines of the Supervisor of Banks. In 2016, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB New York is preparing for the implementation of these guidelines with modifications required by the local laws applying to it. For further details regarding the guidelines, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

New Proper Conduct of Banking Business Directive in the matter of "supervision over overseas extensions". For details see "Other risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is published concurrently with this report, and which is available on the MAGNA and MAYA sites as well as on the Bank's website.

Taxation

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Rubik Tax Agreement. Two international treaties entered into effect as from 2013 – a treaty between Switzerland and Great Britain and a treaty between Switzerland and Austria. These treaties regulate (both in respect of the past and in respect to the future) the taxation treatment of income and capital gains earned on financial investments at Swiss banks performed by residents of the said countries, who had elected to remain anonymous, and which preserves the protection of privacy in Switzerland.

Where account holders would wish to declare their financial investments and pay the relevant taxes directly and personally, the banks, with the consent of the account holders, shall provide the details of their accounts to the tax authorities of their countries of residence.

Service to Segment Customers

IDB New York ("IDB Bank") is the largest of the Israeli banks operating overseas. This bank maintains four branches in the New York area, one branch in Florida and two branches in California.

Services and Principal Products of IDB New York

Credit. IDB New York provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.

Middle Market. IDB New York grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.

Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.

Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.

Private Banking. IDB New York provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth.
At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, and products and services of IDB Capital, as subsidiary of IDB New York, engaged in securities transactions and insurance products in behalf of customers.

Credit Card Operations

Structure of the field of operation

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.
The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission". This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.
According to publications by the Central Bureau of Statistics, over 85% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2019 was approx. 11.5 million. Furthermore, some 80 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

The Operations of ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card and clearing of credit card transactions.
ICC directly issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement with ICC, Diners and MAX (see Note 36 B 1).
In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards that are divided into two main groups: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. As regards these cards, ICC issues and manages the card, bears the costs of management of the card and of theft and forgery damage. The banks provide the credit facilities to the customer and bear the full credit risk involved with the card; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.
ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.
ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only).
In the clearing field, ICC offers its customers voucher factoring services, loans, the advancing of payment dates and the granting of advances. Most of the marketing efforts in the clearing field are directed at trading houses, including chains, through focusing on their needs.

Quantitative data regarding the activity of ICC

	December 31, 2019		December 31, 2018	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,880	1,618	1,694	1,453
Off-banking cards	1,683	1,259	1,581	1,176
Total	**3,563**	**2,877**	**3,275**	**2,629**

Transactions turnover

	For the year ended December 31, 2019	For the year ended December 31, 2018
	in NIS millions	
Bank cards	75,455	67,161
Off-banking cards	31,641	26,222
Total	**107,096**	**93,383**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

Breakout of the Corona virus. For details, see above "Main Investee Companies".

New activities and strategic collaborations

Arrangements following the Strum Act. For details regarding the signing of agreements between ICC and Bank Leumi and ICC and Bank Hapoalim on the one hand, and between the Bank and LeumiCard on other hand, see Note 36 B to the financial statements.
Memorandum of principles with Shufersal Company. For details, see Note 36 D above.
Agreement with El Al. On December 11, 2018, an agreement in principle was signed for ICC to enter into a new engagement with El Al with regard to the issuance and operation of branded credit cards. For further details, see Note 36 C above.
Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and ICC.
The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of Concentration in the Banking Market in Israel Act, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses. The period of the agreement was extended in 2019 until January 5, 2025.
A tripartite agreement between ICC, Shufersal and EL AL. A tripartite agreement was signed on November 26, 2019, between ICC, Shufersal and EL AL for the establishment of the "Shufersal Flight" Club and in respect of the accelerated accumulation of points by use of FlyCards in the Shufersal chain.
Extension of the Diners franchise. For details, see Note 36 E above.

Additional developments in Operations

Entry of an additional clearing agent to the clearing market in Israel. On March 20, 2018, the Supervisor of Banks announced the granting of a new clearing agent license, in addition to that granted to another company on April 8, 2017. It was noted in the announcement that the additional clearing agent is expected to begin clearing operations within 18 months from date of the license. In ICC's opinion, it is not possible at this stage to assess the effect in general of the additional clearing agents entering the clearing market in Israel, or its effect on ICC in particular, noting that the said clearing agents obtained a restricted license until completion of their preparations.
Extending the agreement with Mizrahi Tefahot Bank. On February 24, 2019, ICC and Mizrahi Tefahot Bank Ltd. signed an agreement for the extension of the previous agreement between the parties, while updating its commercial terms. The agreement is valid until December 31, 2024.

Reduction of the cross-commission rate. For details, see Note 36 A 1 above.
You Customer Club. The agreement between ICC and the Blue Square– Dor Alon Customer Club (registered partnership), under which the "YOU" Club operated, expired on September 2, 2019.
Support agreements with Visa Europe Limited. In February 2020, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC. This agreement has been signed following the announcement of VISA Europe regarding the increase in commission tariffs payable to it. ICC estimates that, the anticipated effect of the support agreement, on the one hand, and the raising of the VISA rates, on the other hand, is not expected to be material. This assessment may change in the event that the volume of operations using the VISA brand would be materially different than the present volume of operations.

Changes regarding competition in the credit card market

The competitive environment in the credit cards field, which is growing constantly fiercer in recent years, is affected, inter alia, from the following factors:

- On the background of the separation of Isracard and Max from the respective banks, alongside the impact of regulation measures initiated by the Supervisor of Banks, as well as in view of action taken by credit card companies, such as engagement of ICC with GAMA (for additional detail see above), competition between the credit card companies, which has intensified recently, is reflected in the decrease in clearing fees;
- Banking corporations have launched payment solutions which may operate outside the debit cards framework. Among these, the following apps should be mentioned: PAYBOX (Discount Bank), BIT (Bank Hapoalim) and PAY (Bank Leumi), as well as progress on a system for immediate account-to-account debiting and crediting, which is being promoted by BCC, and which is likely to constitute an alternative to the debit cards framework;
- According to public announcements, the tech giants – such as Apple, Google, Facebook and Amazon, are working on developing digital wallets or other payment methods, which may also operate outside the debit cards framework;
- Fierce competition appeared in the customer clubs field, which, inter alia, was expressed in the commercial terms of a number of agreements signed in the credit card field. ICC estimates that this state of affairs will also continue in the coming years;
- Competition in the off-banking credit field in recent years has also increased in view of the significant increase in the number of financial entities offering loans to households, such as: provident funds, further education funds or inter-personal loan platforms (P2P). Various regulatory measures, introduced by the Supervisor of Banks, such as the establishment of a credit data base, are expected to increase the volume of competition and enable providers of off-banking credit (including credit card companies, including ICC) to obtain more reliable information regarding existing and potential customers;
- The “Implementation of Open Banking” directive requires the banks and credit card companies to share information regarding customers (with the customer’s consent) and to even allow, at a later stage, payments initiation. Open banking constitutes an opportunity for ICC but will also permit other entities to receive the unique information that the credit card companies hold, as well as increasing competition in the payments field by means of payments initiation.

It should be noted that the directive will take effect in several stages:

- in the first stage – with effect from December 31, 2020 – obligation to provide data regarding current accounts and the option of being data consumers. At this stage, the credit card companies will be solely and exclusively data consumers, while the banks will be required to be a data source but can also be data consumers;
- in the second stage – with effect from July 1, 2021 – obligation to transmit data regarding debit cards with an option to also initiate payments. Both the banks and the credit card companies will be data sources and data consumers;
- in the third stage – with effect from December 31, 2021 – providing data regarding credit, deposits and securities.

ICC had prepared and is preparing for such changes, and has formed a strategy aimed at enabling it to handle these changes in an optimal manner (for additional details, see above "Main Investee Companies").
It is noted that, on July 9, 2019 the Governor of the Bank of Israel issued a position paper regarding activity via the banks’ payments applications for payment at trading houses. The main provisions of the position paper are as follows:

- a turnover limit of NIS 2, 2.5 and 3 billion has been stipulated for each application for the years 2019, 2020 and 2021, respectively;
- the bank applications will not operate on an immediate payment service basis unless the immediate payment switch service is also accessible to non-banking entities;
- with effect from 2021, the applications’ turnover limit will not apply to merchants that execute transactions on the basis of the international EMV Standard for the performance of smart transactions;
- it has been clarified that credit card companies would be able to operate by means of applications for payment to trading houses with no restrictions.

Concurrently, the Bank of Israel Issued a permit for the expansion of the use of the "PayBox" application for trading houses subject to the turnover limit detailed above, subject to certain conditions, among which, are: (1) Determination of limits with respect to the transfer of payments from customers to trading houses based on risk evaluation; it has been determined in this respect that no transfer of payments to trading houses (including individuals) would be made in an amount exceeding an annual volume of NIS 50,000, without conducting a process of identification and verification of the entity receiving the payments; (2) Approval of the Board of Directors in accordance with the procedure regarding a new product; (3) Informing the Supervisor of Banks of any change in the payment system (by means of a credit card or accumulated balance).

Regulations, Legislation and Arrangements

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. Upon the Payment Services Act taking effect, the Debit Cards Act will be revoked. For details regarding the Payment Services Act, see “Legislation and Supervision” below. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.

The Competition Commissioner (in her former title: The Antitrust Commissioner). The Competition Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 B 1 and 2 to the financial statements.

Reduction of the cross-commission rate. For details regarding the outline for the reduction of the cross-commission rate, in respect of deferred debit transactions and in respect of immediate debit transactions, published by the Governor of the Bank of Israel, and regarding the draft of the exemption terms for the new agreement in this field, published by the Competition Commissioner, see above Note 36 A 1 to the financial statements.

Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. The Ministry of Finance informed ICC on July 24, 2017, that to the extent that the maximum trading house commission applying to domestic transactions, charged in relation to an exclusive issue and clearing brand, shall be reduced over the period from 2017 to 2020 by four significant installments, reaching until the end of December 2017 a level not exceeding 2.95%, until the end of December 2018 a level not exceeding 2.45%, until the end of December 2019 a level not exceeding 2.10%, and until the end of June 2020 a level not exceeding 1.99%, then, for the time being, the Minister of Finance does not see the need to use his authority under section 36 M (a) of the Banking Act (Licensing), 1981, or to support proposed Bills, the contents of which is identical with acting under the said authority, or which directly interfere with the brand commission above and beyond the reduction outline described above.

In July 2017, the Boards of Directors of ICC and of Diners approved the limitation on clearing fees regarding the Diners brand, in accordance with the said outline. Diners is acting in accordance with the said outline, and has accordingly informed the relevant trading houses.

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017. For details, see "Legislation and Supervision" below.

Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. For details, see "Legislation and Supervision" below.

Charge Cards Bill (Amendment of Cancellation Charge on Credit due to Transaction with Supplier in Breach), 2018. On November 25, 2018, the Knesset plenum passed the first reading of the bill. The bill is also intended, like the amendments recently made to Proper Conduct of Banking Business Directive No. 472, to strengthen the protection of customers from suppliers with a reputation for defrauding and deceiving customers. In accordance with the bill, if the Commissioner of Consumer Protection and Fair Trade has a reasonable basis to assume that transactions took place between a supplier and customers in which the supplier exercised unfair influence or deceived customers, in aggravated circumstances, the Commissioner will be entitled to inform the issuer to cease charging customers for all transactions that took place with the supplier, and to inform the clearing agents to refrain from transferring payments to the supplier for the transactions that took place with it. According to that proposed, within the framework of the clarification process with the supplier suspected of being in violation, a notice will also be sent to clearing agents so that they should already cease sending money to the supplier from the same date. In a second stage, the Commissioner will decide whether to inform the aforesaid issuers and clearing agents to cease charging the customer and cease transferring money to the supplier. Furthermore, if an issuer charges a customer for a transaction with a supplier who is in violation, but the amount charged has not yet been transferred to the supplier, the issuer will be obliged to credit the customer such charges as soon as possible and not later than 10 workdays from the date of the Commissioner’s notice. It is stated in the explanatory notes that, at the time of preparing the bill for its second and third readings, consideration will be given to the possibility of revealing the identity of the suppliers; expanding the obligation to repay the customer to also include money deriving from charges that were already transferred to the supplier; allowing a clearing agents to cease transferring money even without a notice from the Commissioner in certain circumstances; and discussing sanctions that could be imposed on an issuer or a clearing agent that breaches the provisions of the Act.

Amendment of Proper Conduct of Banking Business Directive No. 470 in the matter of "Debit Cards". The Amendment was published on January 15, 2020, with the aim of promoting the integration of the EMV Standard in Israel designed to reduce fraud with respect to payments by use of debit cards and the withdrawal of cash from ATMs, acceleration of the integration of the technology into trading houses and encouragement of competition. Directive No. 470 states that all debit cards issued by a banking corporation, an auxiliary corporation and a clearing agent would be cards in accordance with the EMV Standard, which would enable contactless transactions, except for a bank card used for cash withdrawals, a rechargeable card, designated cards for payments between trading houses (B2B) and cards enabling purchases at specific trading houses (SPC). The Directive clarifies that a banking corporation may not connect to his systems ATMs that do not support in practice the EMV Standard. The Amendment takes effect on March 3, 2020.

Amendment of Proper Conduct of Banking Business Directive No. 472 in the matter of "clearing agents and clearing of transaction made by use of debit cards". Following the amendment of Directive 470, as stated above, an amendment was published on January 15, 2020, stating that debit card transactions shall be made using the EMV technology and that where a smartcard is used for the transaction also a personal identification number (PIN) or another amplified verification item is required, unless the issuer or clearing agent determine otherwise. The Amendment takes effect gradually from date of publication and until July 31, 2021, based on the volume of transactions of the trading houses.

On November 3 and 27, 2019, further drafts were published of the Proper Conduct of Banking Business directives dealing with this matter. The amendments proposed in the drafts relate to advancing the EMV standard in Israel and include, inter alia, a plan that will gradually discontinue the performance of transactions using the existing communications protocol or the performance of transactions by means of a smart card without a PIN, as well as the transition to performing full EMV transactions. According to the proposed outline, the Israeli economy in its entirety is meant to transition to full EMV by July 31, 2022. Discussions in relation to the manner of implementing the outline, including the timetable for its implementation, are taking place in parallel at the Banking Supervision Department and at the Debit Cards Committee of the Bank of Israel.

Letter of the Antitrust Authority regarding the operating interface. Two letters from the Competition Authority were received on November 10, 2019, with respect to the exemption that had been granted to the operating interface regarding the cross-clearing and the engagement with IsraCard. The letters state that exemptions existing in the different types of exemptions, which allow for self-assessment, shall not apply to these engagements. ICC is studying the implications of statements contained in the letters.

Critical Success Factors

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Competition Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; the existence of cross-clearing agreements between all clearing agents in the country; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the clearing switch and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

Market entry barriers

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the holding of control over the issuer by a financially stable corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling banking corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertising and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

Alternative Products

Credit cards have many alternative products, starting with the traditional alternative products, such as cash, checks, bank transfers, standing orders, purchase vouchers, rechargeable cards and credit extended by banks and off-banking credit companies, and ending with technology based alternative products that are available and convenient, such as: payment by means of the smart phone (including, inter alia, payment applications operated by banking corporations in Israel) as well as the "digital wallet" service.

Customers

The issuance field. Customers in this field are holders of credit cards, among whom are private customers, employees of large corporations and businesses. ICC is active in increasing the rate of holders of off-banking credit cards, mainly through the framework of customer clubs, subject to the examination of solvency of each potential customer.

The clearing field. ICC is engaged in clearing agreements with businesses in a variety of economic sectors. Additional customers in the clearing field are trading houses that require services of discounting vouchers, obtaining credit, early payments and advances.

Marketing and Distribution

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a "recruitment base" for ICC in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are Shufersal, FlyCard, Cal-365, Cal-H&O and PowerCard. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.

Distribution of non-bank cards is based, usually, on sales-promotion agreements with companies, which operate distribution stands on their sales floors.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.

The clearing field. Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more. The marketing of clearing services is also performed by means of GAMA Company (for details of the agreement with it, see above "New activities and strategic collaborations").

The company's main objectives in its marketing operations are: the retention of existing trading houses as customers; improving and enhancing its image; recruiting new businesses for its services; and, enlarging the basket of services that it offers.

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard and MAX group, which in the past, had been controlled by banks, and at the present time, when they are no longer controlled by banks, may expand their operations to areas in which ICC is not permitted to operate due to it being owned by banks. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The clearing field is characterized by intense competition between the credit card companies.

Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and LeumiCard clearing the brands "VISA", "MasterCard" and "IsraCard".

Various regulatory changes may bring about the entry of additional clearing agents and increase competition in this segment.

ICC is competing in order to expand the range of businesses that receive clearing and supplementary services from it and is focusing on recruiting new businesses to sign clearing agreements and on retaining existing trading houses as its customers, through investing in considerable marketing and sales efforts.

Another aspect of the competition in the segment relates to the development of financial and operational products and services for trading houses, which will lead to a rise in the scope of those businesses' turnover with ICC.

In order to cope with the competition in the segment and to strengthen trading houses' loyalty toward it, ICC is implementing the following measures: a competitive tariffs policy, investment of resources for the improvement of service to trading houses and for their retention, while aligning the products and services to the business' needs; strengthening cooperation with trading houses; activating an efficient service array and marketing and sales array that will be able to provide solutions to trading houses and to respond to their changing needs; and, marketing a comprehensive basket of products to trading houses, while enlarging market share in the segment.

Business Goals and Strategy

The issuance field. Leading the market through the exhaustion of the banking lane and through offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.

Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).

The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing sector. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

For additional details, see Note 36 to the financial statements.

Technological Improvements and Innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience. Among the measures taken in this field may be noted the establishment of the Digital and Data Division, operating within the framework of which are the digital wing, a fintech and innovation unit, a unit which manages the PayBox application and the Chief Digital Officer (CDO) group.

The Digital Department leads solutions concept in three principal content spheres - direct channels, the CRM and customer concept and current account. The department is responsible for setting the course for each content sphere, for shaping the customer's future journeys, for upgrading and adapting the bankers' work environment to the changing reality and for the assimilation of innovative tools, services and solutions with a view of improving customer experience as well as customer satisfaction.

The "fintech and innovation" unit acts for the creation of cooperation with FinTech companies and the integration thereof in value offers to customers, as part of the banking work environment and of the systems of the Bank.

The PayBox unit acts to expand the payments operations of the Bank, by means of the cellular Application and the website.

PayBox

In April 2017 the Bank entered into an agreement with a startup company in the Fintech field by the name of PayBox Payment Solutions Ltd. ("the company"). The company has developed a cellular phone application and a designated Internet website under the brand name of "PayBox", which enablesthe transfer of funds between private individuals, as well as the collective collection of funds for a defined purpose by way of establishing a closed group for this purpose. The Bank acquired from the company an exclusive license to operate the application and the website in Israel, and also a number of assets and services that enable it to independently operate the application and the website.

The technological changes required for its operation by the Bank. The Bank received a permit from the Bank of Israel to acquire the activity of PayBox Israel. A permit from the Bank of Israel was received on July 9, 2019, for the expansion of the use of the "PayBox" application for trading houses.

As part of expanding the payment operations on the PayBox application, on March 27, 2019, the Bank signed an agreement with HopOn Mobility Ltd., which offers, inter alia, refill services for the “Rav-Kav” card used for travel on public transport, in partnership with Dan Public Transportation Co. Ltd.. During the second quarter, the Bank integrated within the PayBox application the company’s solution for topping up Rav Kav travelcards, whereby PayBox users can top-up their Rav Kav travelcard via the application. In addition, the Bank has recently introduced a designated area in the application, which enables the transfer of donations to a variety of associations.

The Bank, in cooperation with HopOn Mobility Ltd. and Cellopark Technologies Ltd., had submitted a proposal for a procedure by the Ministry of Transport for the payment of public transport fares by means of a cellular application, which was chosen as a candidate for obtaining an operating permit.

DIDI – a digital representative

In December 2017, the Bank began the staged launch of a new service to its banking app customers, through which it is possible to correspond and talk on the app with a digital representative, called “Didi”. Didi offers an innovative and unique way for digital banking activity and thereby changes the way in which customers work with the app. The conversation with Didi takes place in free language and is based on sophisticated artificial intelligence technology, which enables to decipher the text that the customer inputs on the one hand, and holding a conversation with a smart learning robot on the other hand. Didi is able to present customers with account information, to link to the transaction execution portal, to assist with navigating within the app, and to create artificial intelligence-based insight regarding important events that have taken place on the account.

The service is unique and is a first in the Israeli banking system. The effort to enrich "Didi" continued in 2019, so as to enable her to provide response to additional questions regarding a variety of subjects. "Didi" was asked over one million questions during the year.

iCount

In August 2017, the Bank entered into a cooperation agreement with a fintech technology company which has developed a system for the management of accounts and cash flows for small and medium businesses. In accordance with the agreement, Discount Bank and MDB let their small business customers securely connect small business account with the iCount accounting system, and benefit from advanced business management tools. This is the first technological-business application using an Application Programming Interface (API) platform of the most advanced in the world (see also hereunder).

The open banking platform

Discount Bank was the first bank in the Israeli banking sector that has implemented, in cooperation with iCount Company, the concept of open banking, for the interface with third party suppliers, by means of the API platform (Application Programming Interface), being one of the most advanced in the world (for additional details, see the 2018 Annual Report, p. 358). The Bank is preparing to expand the open banking platform and introduced an API shop offering third parties to interface with the Bank in order to consume a variety of banking services through the API, in a controlled and secured manner.

Agreement with nsKnox

On February 18, 2019, the Bank signed an agreement with nsKnox Technologies Ltd., which has developed security and control solutions with respect to organizational payment systems for large and medium corporations, using cooperative cyber security technology.

In the framework of this agreement and as part of the realization of the cooperative defense concept, the Bank shall become part of the defense layout of the company, in return for consideration out of the income of the company. This is a first and innovative move for the leverage of existing capabilities of the Bank in favor of third parties, and this within the efforts made to expand its operations and diversify its sources of income, while implementing innovative banking models. The start of operations is subject to performing technological adjustments.

Agreement with the Hebrew University

The Bank has signed an agreement with the Fintech Center of the Hebrew University in Jerusalem, in which both organizations agreed to cooperate in promoting banking data based applied research, with the aim of improving the service and value offers of the Bank to its customers.

Direct channels

The Bank is constantly working to provide its customers with a progressive experience on the direct channels. While striving to constantly improve the variety of services that the Bank provides, emphasis is placed on making the service user-friendly and, above all, on the customer's satisfaction and on providing an exceptional customer experience. This year, the Bank has placed an emphasis on development and upgrade of its leading digital assets and, in particular, on lunching a new website for private customers and a new Business+ app, as well as on development of new capabilities.
From the results of the Bank of Israel survey dealing with the satisfaction of private customers from the banks, it was found that Discount Bank leads the field in customer satisfaction with the digital services – the internet website and the app. The services and products contained in this framework of operation in the year 2019, are:

Digital for business

The Business app

The Business+ app, which went live this year, is an innovative app that offers a simple interface and advanced capabilities for smart business management, including convenient navigation that enables fast and easy access to all the financial worlds, information and transactions.

Customer experience

Fast and simple identification on the app. Logging in to the app can be done either through fingerprints or through facial recognition (on supporting devices) and the input of the Discode is only necessary when conducting a transaction and is only required once per log in.
Overall situation report regarding the accounts on the main screen. All the information regarding balances is summarized on the main screen and is broken down according to the banking content worlds.
Updates and alerts. Immediately after logging in, important notices are displayed regarding events that have taken place on the account, such as transfers that are awaiting signature, credit facility limits that have been exceeded, checkbooks awaiting collection at the branch, upcoming events regarding deposits or loan arrears.

Functionality

With the new app, customers can view information regarding a variety of financial worlds and can perform transactions by means of a short, user-friendly process. Inter alia, the app enables the performance of various kinds of transfers, transactions in accordance with the signatures' composition, the immediate taking of a loan, and so forth.
Checks deposit in a convenient and simple manner with the app.
Activation of a new credit card. Customers who have received a new credit card can activate it with the app. Alerts regarding a card that is awaiting activation will be displayed for customers upon logging in to the app and on other screens, and will connect directly to the screen "selection of card for activation".
Business portfolio. Business customers who often deposit cash, can enroll for the service and then – with the aid of the app – define "declarants" for depositing cash. The declarants can make the declarations on a link from the app's login screen, without having to go into the business account, in a fast and simple process. Enrollment for this new service is done at the branch and is part of the cross-bank project to make cash-use more efficient.

Branch locator. Similar to that in the app for private customers, this service displays the nearby branches and enables filtering by services and criteria, such as, financial counseling, mortgage advice, various ATM services, accessibility for those with disabilities, and more.
Foreign currency conversion and foreign currency transfers at the Bank. Executed directly from the app. The service supports the signatures round if this is required on the account.
Placing a deposit or renewal of a deposit directly with the app.

The Internet website for business customers

Customer experience

Activity areas on the account. The activity areas defined on the account are summarized for Business+ subscribers. Via the website, account holders or an individual authorized signatory can add a signature to an activity area, which will be reflected immediately on the account.
"My services and channels". Henceforth, information will be displayed also on the business website regarding the enrollment status for the "doar@discount" email service and the "Discount by SMS" service. Enrollment for these services, as well as their update and cancellation, can be done via the website.
Display of mortgage information. Detailed information regarding mortgages, such as list of mortgage accounts, the total debt outstanding balance, the number of installments remaining according tracks, the amount of the next payment on each track, etc.

Functionality

Authorization of several transactions at once (up to 20!).
Remote authorization of a single transfer. When a customer has insufficient funds on an account, he will receive an alert stating that the transaction is being passed to a banker for authorization, thereby saving the customer the necessity of having to go to the branch.
Payment of accounts via the RTGS ("Zahav") system (a Hebrew acronym for Real Time Credits and Transfers). The service enables Business+ subscribers to pay accounts for larger amounts via the Zahav system, in accordance with the table of amounts to which the subscriber belongs.
Definition of a permanent beneficiary in connection with the making of transfers. Business+ customers can define permanent beneficiaries for third-party shekel transfers (via the branch), and transfer them payments of larger amounts.
Foreign trade transfers. Foreign trade customers wishing to make several foreign-currency transfers are able to create a file containing several payment orders and are also able to authorize these transactions within the framework of the signatures' round.
Expanding the alternatives for signature compositions. Customers can choose between various compositions for conducting transactions.
Document display and production. An official bank document regarding a returned check can be printed or saved using the "computerized check output". There is also an option to generate an "account management confirmation", to display vouchers with respect to payments credited to the account, including vouchers from a contractor, to view a photocopy of a voucher, and so forth.

Foreign trade

Import documentary credit. The application service for the opening of an import documentary credit has been upgraded to an advanced interface with the Business+ website and the application is submitted through a digital process that is both convenient and simple. The website system is smart and knows by itself how to complete fields based on data that has been input to previous fields.
The capability of **independently managing beneficiaries** has been added to the documentary credit service.
Anticipated maturities. Information regarding anticipated payments and receipts from import or export activity, including amounts, dates and information regarding payments that the customer has made as deferred foreign-currency transfers. Filtering and classification is performed through an advanced and convenient search interface.
Expansion of the information regarding historical transactions, including complex transactions. Information has been added regarding the stages in complex transactions and regarding parameters that were previously not displayed, such as details of the opening of a documentary credit, receipt of the documents, endorsement of a bill of lading, and so forth.
Transaction duplication. By selecting "transaction duplication" most of the parameters will be automatically replicated, thereby saving the customer time and effort by not having to re-input the data (on the business website).
Payments within the framework of "documents collection" – imports. Importers can now transmit payment instructions for transactions that are performed in cash or with suppliers' credit when the maturity date falls due.

Digital for private customers

The App for Private Customers

Customer experience

Setting up a meeting with a banker. Customers can set up a meeting, via the app, with a bank teller for cashier services, with a banker from the service team or with an investment consultant. The service enables a meeting to be scheduled up to two weeks in advance and a meeting that has not yet taken place can be canceled.
Defining a personal name for the app's display. The customer can choose for himself a nickname that will appear on the login screen and when executing transactions on the app.
Discount Key VIP service at Ben-Gurion Airport. Customers can check and exercise their entitlement to this benefit, which is a collaborative project between the Discount Key Card and Laufer-GHI, on the private customers' app or the Business+ app.

Functionality

One-time increase of the ATM daily withdrawal ceiling. Customers can elect to increase the ATM withdrawal ceiling and can choose the card by means of which they want to make the higher withdrawal.
Depositing to a Deposit Plus on the app. Deposit Plus, which was only available from consultants at the branches, is now on the app and gives customers exposure to capital market changes without putting their principal at risk.
Depositing to deposits with compound interest. Increased, integrated or choice interest deposits have been added to depositing on the app.
Opening a foreign-currency account through a foreign-currency conversion process. Customers may purchase whatever currency they like directly via the app. In the event of the customer choosing a currency for which he does not have an account, a currency account is opened for the chosen currency using this process (with the customer's approval).
Primary account for digital display. A customer who has more than one account at the time of subscribing can define – via the app – the default account that is to be displayed.
Opening an account through the app - new. A service that makes it possible to open an account through a simple and short process directly from the customer's mobile device and without the need to sign documents. The process includes scanning the ID card, selecting the type of account and the branch, making a photocopy of the beneficiary's declaration and a graphic signature. This service replaces the Bank's current online account opening process. The service is available for Israel residents aged 18 and above, who do not have U.S. citizenship nor restrictive indications who wish to open a first private customer's account with Discount.

The Internet website for private customers

A website for private customers - new. The website enables the receipt of information and the execution of transactions with advanced visibility, convenient and user-friendly . The homepage display and the actions menu on the website can be adapted to the user's personal preferences and include, inter alia, giving prominence to updates and new alerts as early as on the homepage, the option of working on several transactions at once, a fast actions menu from every screen, and more.

Customer experience

New English website. The new website in English displays information regarding the customer's financial transactions. The website has new capabilities that give the customer an advanced digital user experience, for example: personal adaptations can be made to the homepage display, updates and important alerts about events on the account are displayed immediately upon logging in, such as with regard to exceeding the credit facility limit, checkbooks that are awaiting collection at the branch, upcoming events in connection with deposits, and so forth. Surfing the website can also be done from a cellular device and the website is also accessible to those with disabilities.
"My Profile" in English. Information regarding personal particulars, authorizations and services on the account, together with the ability to subscribe to the email services, or to cancel or to update them, to define a nickname for the account and to replace the primary account displayed.
"Customer Portfolio" – on the English website for private customers. Customers whose account is managed at the international banking branches will enjoy an enhanced display of all the elements in the "portfolio summary": a summary of all the customer's investments (deposits, savings, securities and foreign currency/shekel current accounts) in a single location, broken down by products, channels and currencies, and with an option of viewing the portfolio revalued in shekels, euros or dollars.

Functionality

New operation in the credit card world: ordering a replacement credit card/freezing a card. In the event of a card becoming worn out or being lost, the customer can order a new card and/or freeze the card for 24 or 48 hours (through being transferred to the issuer's website).
Sending a request to increase the credit facility of a card. A direct link to correspondence with a banker to request the increase.
Document display and production – producing a "computerized check output". An official bank document regarding a returned check, with a digital signature, with which the customer can turn to the official institutions (this also exists on the Business+ website and also on the English website), **information about vouchers credited in the account.**

Cross-organizational topics

Capital market area

Customers that are active on the capital market can now view a breakdown of their securities portfolio, also according to exposures. This is available on the business website, on the website for private customers and on the app.
The information for customers has been expanded with data having been added in relation to: portfolio yields for up to three years in the past, orders executed for up to one year in the past and tax balances.

Availability of general information and accessibility

Accessibility. Ongoing improvements with regard to accessibility, such as: supporting changing the font size used on android devices, providing a link to information regarding accessibility which is available at a central location on the marketing website, and so forth.

Deposits

Increasing the amount that can be deposited digitally in a deposit. The maximum amount for a deposit has been increased from NIS 800 thousand to NIS 2 million.

Credit

Fair credit. As part of the implementation of regulations and the general expansion of the disclosure for customers, all the detailed information is displayed digitally, prior to the loan being taken, so as to enable the customer to review the terms and particulars of the loan.

Identification and passwords

Privacy policy. In light of the importance that the Bank attributes to customers' privacy, the Bank's "Privacy policy" has been redrafted and is presented upon logging in to the digital channels.
Improving the customer experience when changing the password. It is now possible to choose a password that was used previously (apart from the current password and that immediately prior thereto). The regularity of the characters' continuity when choosing a password has also been made more lenient. In addition, when changing a password whose validity has expired, the present password no longer needs to be input. From now on, it is easier and simpler to restore the identification code (on the private customers website).

Main developments in Israel and around the world in 2019

Developments in Global Economy

General. 2019 was characterized by a slowdown in the expansion pace of the global economy and world trade. This, following a sharp downturn in industry and the trade war between the USA and China. Nevertheless, toward the end of the year, the data stabilized, and, at the same time, risks began to decrease against the background of progress in the negotiations between the USA and China and the UK election results. According to the International Monetary Fund, global product slowed to 2.9% in 2019 (compared to 3.6% in 2018). The U.S. economy grew in 2019 at a rate of 2.3%, a slowdown compared to a growth of 2.9% in 2018. Growth in the Eurozone also slowed, to 1.2%, compared with 1.9% in 2018.
During the second half of 2019, some of the world's central banks began taking expansionary measures to support their economies. The Fed lowered interest three times, to 1.5%-1.75%. In the Eurozone, the ECB lowered interest on bank deposits by 0.1% to -0.5%, and restarted its bonds purchasing program. Inflation in most major economies is lower than their central banks' targets.

Financial markets. Global equities trading was characterized by price rises, against the background of a renewal in the process of monetary expansion in the various economies. For the period as a whole, the world's leading indices showed sharp rises.

Changes in the leading equities indices recorded during the years 2018 and 2019

Index	2019	2018
500 S&P	28.9%	(6.2%)
DAX	25.5%	(18.3%)
MSCI Emerging Markets	15.4%	(16.6%)

Return on government bonds fell sharply during 2019. Return on U.S. government bonds for ten years was traded at a level of 1.92% at the end of the year, compared to 2.68% at the start of the year. In Germany, the return on 10-year bonds fell 43 basis points to a level of -0.19% at the end of the year.

Returns on government bonds

Return on bonds for 10 years	December 31, 2019	December 31, 2018
U.S.A.	1.9%	2.7%
Germany	(0.19%)	0.24%

The dollar basket (the "dollar index") remained stable in 2019 (a moderate appreciation of 0.2%). Nevertheless, there have been some differences in the rate at which major currencies have changed in relation to the U.S. dollar.

Changes in the U.S. dollar against selected currencies

Exchange rate	2019	2018
EUR	2.00%	4.90%
JPY	(1.00%)	(2.70%)
GBP	(3.9%)	6.0%

Oil trading in 2019 was characterized by fluctuations. For the year as a whole, the price of oil showed a steep rise of approx. 23%. This, following a sharp decline in the final quarter of 2018. Concurrently, the price of gold rose by 19%, with the dominant factor for this being the change in the trend of the interest rate in the USA and in the Eurozone.

Changes in selected commodities indexes

	2019	2018
The commodities index - GSCI	16.5%	(15.4%)
The oil price (BRENT)	22.7%	(19.5%)
The oil price (WTI)	34.5%	(24.8%)
Gold	18.8%	(1.6%)

Main Developments in the Israeli Economy

General

The economy grew in 2019 at a rate of 3.5%, compared to 3.4% in 2018. Private consumption continues to constitute a primary growth engine (with growth of 3.9%), led by the consumption of services and the significant contribution of private motor vehicles. Exports (excluding start-ups and diamonds) grew by 5.7%, with further rapid growth in the export of hi-tech services (approx. 9%) and a more moderate growth in industrial exports (3.5%). Concurrently, public consumption continued to grow at a rapid pace (3.5%). In contrast, a very moderate growth was recorded in investments in fixed assets (1.2%), primarily due to a steep decline in investments in machinery and equipment (against the background of completing a major, import-rich investment in the country).
The labor market remains "tight": the unemployment rate fell to 3.4% (average) in 2019, compared with 3.5% in 2018, with the participation rate having slightly risen to 80.4% (in the 25-64 age bracket). Concurrently, wages have continued to rise in the economy (but at a slower pace than in the previous year). Nevertheless, a downturn has been noted in the rate at which the labor market is expanding: a fall in the number of vacant positions and a standstill in the growth of salaried positions.

Main developments in economic sectors

Industrial production recorded improvement in 2019, though this improvement relates primarily to the hi-tech industry sectors. The Industrial Production Index rose in 2019 at a rate of 3.5%. Industrial production in the hi-tech sectors accelerated (growth of 8.0%), on the other hand, the remaining technology-intensive sectors showed weakness – in line with the global trend. The traditional and mixed traditional industrial sectors grew by 1.1% and 1.0%, respectively, while the industrial sectors classified as mixed hi-tech recorded contraction at a rate of 2.1%.
It should be noted that the growth trend is continuing in the service sectors, led by services to hi-tech.

Developments in the activity of the Israeli economy with overseas markets

The direct investments in Israel (through banks) by foreign residents amounted during 2019 to US$11.5 billion, as compared with US$13.2 billion in 2018. The financial investments of foreign residents in Israeli financial assets traded abroad expanded by US$0.7 billion (due to growth in government bonds), compared to a decrease of US$5.9 billion in 2018. On the other hand, the financial investments of foreign residents on the Tel-Aviv Stock Exchange recorded net realizations of US$0.4 billion (as a result of net realizations of shares and government bonds), compared with an increase of US$2.8 billion in 2018.
Financial investments in securities by Israeli residents abroad amounted in 2019 to US$6.5 billion, of which US$2.8 billion and US$3.7 billion in equities and the remainder in bonds.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-December 2019	January-December 2018
	US$ billion	
Total direct investments through banks	11,429	13,179
Total financial investments	357	(3,094)
Of which: Government bonds and MAKAM	2,081	5,297
Shares	(1,572)	(8,380)

Investments abroad by Israeli residents	January-December 2019	January-December 2018
	US$ billion	
Total direct investments	3,206	1,084
Total financial investments	6,512	7,219

Developments in Foreign Exchange Rates and Inflation Rates

Following a rapid worsening during the last half a year, the inflation rate in Israel in 2019 amounted to 0.6% (2018 – 0.8%). "Core inflation" (CPI without energy, vegetables and fruit) showed a similar trend (also amounting to 0.6%). It should be noted that, at the end of the year, one-year inflation expectations ranged between 0.8% and 0.9%.
The shekel changed its trend and in 2019 appreciated at a rate of 7.8% and 9.6% against the dollar and against the euro, respectively. In terms of the effective exchange rate, the shekel appreciated by 8.3%.

Fiscal and Monetary policy

Fiscal policy. The budgetary deficit amounted to NIS 52.2 billion in 2019, exceeding the original planned deficit by NIS 12 billion. As a percentage of the product, the annual deficit stood at 3.7% compared with the annual target of 2.9%. The gap between the government's deficit target and the actual results is explained by revenues which are lower than forecast, in the amount of NIS 9.2 billion and higher than planed expenses, in the amount of NIS 2.8 billion. It is noted, that as from January 2020, and in the absence of an approved budget for 2020, the Government operates under a continuing budget, according to which the Government is permitted to spend in each month 1/12 of the budget for 2019. The continuing budget may have a contracting effect in the first half of 2020.

Monetary policy. The Bank of Israel left the interest unchanged, at a level of 0.25%, during the reviewed period, but has changed its "future intention". The Monetary Committee has assessed that, in light of the inflationary environment is Israel, the monetary policy of the major central banks, developments in the global economy and the risks confronting the local economy, as well as exchange rate movements, it will be necessary to leave the interest rate at its current level for some considerable time or to lower it – so as to support inflation and further economic growth at a fair pace. In addition, the Committee is implementing other measures, as required, in order to expand even more the monetary policy. The intension is to purchase foreign currency while, in the last quarter of 2019, the central bank purchased a significant amount of dollars (US$3.8 billion).

Changes in the monetary base. Growth at the rate of 8.2% was recorded during 2019 in the M1 money supply (cash held by the public and shekel current account deposits), of which, the current account deposits grew by 9.4%, and the cash grew by 2.1%. The M2 money supply (M1 plus non-linked deposits for up to one year) recorded a growth of 6.3%. It is noted, that in 2018 both the M1 and M2 money supply grew by 9.6% and 2%, respectively.

In 2019, a growth of NIS 4.8 billion was recorded in the monetary base, similar to 2018. The growth in the monetary base stems from the inflow by the Government in the amount of NIS 7.2 billion, and on the other hand absorption by Bank of Israel in the amount of NIS 2.4 billion. The Bank of Israel provided cash through the conversion of foreign currency but absorbed a higher amount through tenders for shekel deposits and open market operations (excess of raising short-term loans (MAKAM) over redemption).

Sources for the change in the monetary base

	2019	2018	change
	In NIS billion		in %
Operations on the Capital Market	(11.6)	(15.8)	(26.2)
The Shekel deposits tender	(6.0)	6.0	
Foreign currency conversion	13.7	11.7	17.3
Government activity	7.2	1.8	296.6

The Capital Market

The reviewed period was marked by a steep rise in prices on the local capital market, on the background of global developments. In total for the year, the TA-35 and the TA-125 indices rose by 15% and 21.3%, respectively.

Changes in selected share indices in the years 2018 and 2019

Index	2019	2018
TA 35	15.0%	(3.0%)
TA 125	21.3%	(2.3%)
TA banks	28.3%	4.4%
TA Global-Blutech	18.6%	(10.6%)
Real-estate 15	73.2%	(10.9%)

All through the period, trading in government bonds in Israel was marked by a sharp decline in returns, on the background of the global trend and developments in the local market (decline in the expectations for a rise in the Bank of Israel interest rate). In total for the year, the Shekel return for ten years (Shekel government bonds series 928) dropped by 144 basis points, trading at the end of the year at a level of 0.85%. The trade in corporate bonds was largely affected by the decrease in returns on government bonds concurrently with the steep decrease in margins.

Changes recorded in selected bond indices during 2018 and 2019

Index	2019	2018
General bonds	8.7%	(1.5%)
General Government bonds	9.1%	(1.3%)
Shekel Government bonds	8.3%	(1.2%)
Linked Government bonds	10.3%	(1.4%)
General Corporate bonds	8.2%	(1.8%)
Linked Corporate bonds	7.9%	(0.8%)
Shekel Tel-Bond	8.6%	(4.3%)

In 2019, capital raised through corporate bonds totaled NIS 71.0 billion, compared with NIS 54.4 billion in 2018. Of this sum, NIS 22.4 billion was raised through issuances by the banks, compared with NIS 11.5 billion in 2018.

The asset portfolio held by the public

The value of the portfolio of financial assets held by the public rose by 10.1% during January-November 2019. The growth stems from an increase in the equities component in Israel and abroad (24.5% and 13.5%, respectively), as well as an increase in the linked component (10.6%) and in the nonlinked component (7.6%). On the other hand, the foreign currency linked component recorded a decline.

Distribution of the asset portfolio held by the public

	November 30, 2019	December 31, 2018
Shares	24.7%	22.6%
Non-linked assets	36.0%	36.9%
CPI linked assets	28.3%	28.2%
Foreign currency linked assets	11.0%	12.3%

Principal Economic Developments in January-March 2020[9]

The breakout of the Corona virus caused concern in the markets as well as a flight to safety. Trading on the capital markets was subject to high volatility and have been affected by reports concerning the virus and the rate at which it has spread in China and beyond. The measures taken by the Chinese Government to contain the spread are expected to lead to significant short-term damage to growth in China and in other countries highly dependent on China. An additional increase in risks and in uncertainty has recently taken place following increasing cases of contamination outside China. At this stage, it is difficult to assess the effect on global economy, however, the continued expansion of the Corona virus, increases the possibility of considerable damage to the global economy. The implications on the Israeli economy depend on the force and length of time of the damage to the global economy and on the measures taken in Israel. On March 3, the Heads of the FED convened an emergency meeting, and surprisingly, lowered the interest rate by 0.5% (to a range of 1%-1.25%). The FED estimates that the US economy remains strong; however, the Corona virus constitutes a risk to economic activity. The announcement states that the FED is following the developments and implications on economic activity and would use the tools at its disposal to support the economy. It is noted that the markets take into account a further lowering of the interest rate at the coming meeting of the FED on March 18, 2020.
Prior to the above, on February 24, the Bank of Israel left unchanged the interest rate, assuming again that the interest rate will have to remain unchanged at its present level for a long time or even lowered. Latest developments – the spreading of the corona virus globally and in Israel, the lowering of the interest rate by the FED and anticipated relief measures by additional central banks – increase anticipation for the lowering of the interest rate in Israel. On March 4, the Bank of Israel issued a statement regarding economic developments following the spreading of the Corona virus, noting that in the event that a significant deterioration in the economic or financial situation occurs, the Committee would employ the range of tools at its disposal at any required moment.
Prices of commodities have dropped steeply since the beginning of the year, led by the price of oil.

9 All the data in this chapter refer to the period from January 1, 2020 to March 10, 2020.

As stated, the equities markets recorded exceptional fluctuations, while since the beginning of the year the S&P 500 and the TA 125 Indices dropped by approx. 11% and approx. 18%, respectively. Returns on ten year US Government bonds declined by 120 basis points, trading at a low level of 0.72%. The decline in returns in Israel was moderate compared to that of the US (the return on ten-year shekel bonds dropped by 35 basis points).

Legislation and Supervision

General

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, to the extent that these have an extraterritorial effect relating to its operations.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank’s said operations.

Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).

Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc.

In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, liquidation and receivership laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.

The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority, the Capital Market, Insurance and Savings Authority. These parties are authorized to conduct audits at the Bank and the subsidiaries relating to various fields of operation.

The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.

A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.

Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's or the Group's operations.

Legislation for increasing competition in banking and financial services

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (legislation amendments), 2017, ("the Act" or "the Strum Law") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.

The Act enters into effect on date of its publication (“the beginning date”); however, certain of the provisions have later effective dates.

Following are the principal issues of the Act:

1.1 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from the beginning date, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date. It is noted that as of date of this report, the Bank is not considered a "bank having a Wide-Ranging Activity", as the term is defined in the Act.

1.2 In the period from the end of four years from the beginning date and until six years from this date, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration, inter alia, the state of competition existing in the credit market.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.

1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.

1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.

1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

For the implementation of this directive, on December 25, 2017, the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking was published, deals with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer. The Amendment took effect on July 31, 2018.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement.

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. On January 31, 2019, an order was published that deferred the application date of the aforesaid directive to January 31, 2020.

On November 13, 2018, an amendment to Proper Conduct of Banking Business Directive No. 470, “Debit Cards”, was published, within the framework of which provisions regarding the presentation of the aforesaid information were added. In addition, on February 3, 2019 the Banking Regulations (Customer Service) (Transfer of Information from an Issuer to a Banking Corporation), 2019 were published which prescribe the obligations to which issuers are subject in relation to the types of information and the dates for transferring the information from the issuers to the banking corporations.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.

These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 During a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Act had controlled or held means of control in a debit card company, as follows:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Act and until the end of the transitional period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period under the terms prescribed in the Act. The engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period, also the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers.

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Act, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Act or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5% of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator between the issuer and the clearing agent for confirming of charge card transactions – it is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Act, is entitled to determine a rate different than that stated above and where over 75% of the means of control in an operator as above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.

Due to these restrictions, the Bank is required to sell its holdings in Automatic Banking Services Ltd. that exceed 10%, with this having to be done by June 1, 2021.

1.10 Within the framework of the Act, amendments were made to the Supervision over Financial Services Act (Regularized Financial Services) Act, 2016, and a chapter was added thereto in the matter of service for comparing financial costs, which will take effect on the date on which primary regulations would be set regarding the viewing and making use of online financial information. Preliminary regulations as aforesaid have yet to be published (see below "Statement of Principles for Strengthening Competition in the Financial System" regarding costs comparison service). On January 14, 2020, within the framework of a report of the inter-ministerial team regarding the identity of the Commissioner of Regulated Financial Services, it was clarified that in order to achieve the purposes of the Act and create regulation that would protect in an optimal manner the privacy of customers and of financial information, amendments to the existing legislation are required, and that in the two recent years, the team formed regulation that would replace the existing regulation. The new regulation is expected to provide an answer to all activities involved in the offering of financial information services and to the duties that would apply to financial entities in connection with their activity as sources of information holding financial information regarding their customers.

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

1.12 By January 31, 2018, the Ministry of Finance is to implement one of these: to publish, in consultation with the Bank of Israel, a tender for establishing a technological infrastructure to provide and operate computerization services to financial bodies; to prescribe criteria for conferring grants, loans or guarantees that will enable the provision and operation of computerization services to financial bodies (see hereunder "Letter of principles for increasing the competition in the financial system" regarding the provision of assistance for establishing a banking service and computerization bureau).

1.13 At the end of eighteen months from the beginning date, if certain conditions determined in the Act are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

Issues regulated by the Act have an impact upon the Bank and ICC and upon their operations. Notwithstanding that, at this stage it is not possible to estimate the said impact, neither in terms of materiality nor in terms of quantity. The Bank and ICC are studying the implications and ramification of the Act, are acting for its implementation and follow developments in legislation and regulation, as well as moves and developments in the market following the publication of the Act.

The Committee for the examination of competition in the credit market. In accordance with the law, a committee was formed for the examination of competition in the credit market has been determined, which would monitor the implementation of the Act since the beginning date, and until the end of six years since the said date. The duties of the committee are: conduct periodic examinations regarding the state of competition in the credit market and locate barriers in respect of development of competition in this market; to monitor the implementation of the provisions of the Act; to recommend in the matter of activating the authority of the Minister of Finance in respect of extending to additional banking corporations the prohibition on engagement in the operation of issuance and clearing of charge cards, on the control of or on the holding of means of control in a corporation engaged in the said operations.

A measurable test for the measuring success in increasing competition in the banking sector. In accordance with the Law, on October 25, 2017, the Committee for the Examination of Competition in the Credit Market published measurable tests for the examination of success in increasing competition in the banking market. These tests will serve as a basis for a semi-annual analysis and for the report that the Committee will submit to the Economic Committee of the Knesset, and are also expected to serve the Committee when recommending measures for improvement and increase in competition in the market, including also the matter of exercising the authority of the Minister of Finance, under the Strum Act, to change the definition of "a bank with Wide-Ranging Activity". The Committee retains the right to change, add or reduce tests. A set of general tests have been determined, as well as an additional test relating to the Bank and ICC.

The Committee has determined tests of different types, including – tests for the removal of entry barriers and transfer barriers for customers; tests examining the entry of new competitors and customer activity; tests regarding the distribution of market shares, volume and prices; tests regarding means of payment.

A test for the Bank and ICC. The Committee decided to test whether the cumulative rate of change in credit balances (excluding large business and operations abroad) of the Discount group at the end of 2020 would be in the range of 2.5 to 4.5 percentage points over the cumulative rate of change of the other four large banking groups and the two credit card companies that had been separated. This test would be monitored on a semi-annual frequency. It has been clarified that this test, as all other tests, would serve the Committee as indication for a decision regarding the detachment of ICC from the Bank, though in any event, the Committee retains discretion in the matter.

On May 1, 2018, a draft of additional testing was published that dealt with the implementation of the Strum Committee’s conclusions regarding the opening of the overdrafts sector to competition.

The first half-yearly report of the committee for examining competition in the credit market. On May 22, 2018, the report was published. The report focuses on the progress in implementing the regulatory measures that were set out within the testing framework published by the committee (measures for removing entry barriers).

The report mentions the testing in respect of Discount Bank and ICC – it noted that, during 2017, Discount Group’s credit balance grew by 7.05%, while the credit balance of the other four banking groups grew by only 4.05%.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Act, the Supervisor of Bank published further amendments to Proper Conduct of Banking Business Directives. See below "Directives of the Supervisor of Banks".

Letter of principles for increasing the competition in the financial system - Continuation of the plan for strengthening competition in the banking market. On December 13, 2017, the Ministry of Finance and the Bank of Israel published a continuation of the plan for strengthening competition in the banking market. The plan includes three measures: mobility between banks at the "press of a button", making it possible for the consumer to compare costs relating to his personal financial products, reliefs for new banks by means of assisting in setting up an office for banking computerization services.

For the purpose of implementing the aforesaid measures, the following documents have been published:

- **The Economic Program Act (Legislation amendments for the implementation of the economic policy for the budgetary year 2019), 2018 – An indirect amendment of the Banking Act (Customer service).** The Act was published on the Official Gazette on March 22, 2018. The Act will enter into effect following three years from date of publication. In accordance with the Act a bank shall be obliged to enable a customer wishing to transfer his financial activity to another bank, to do so in an online, convenient and safe manner and at no cost to the customer, all this within seven business days from date of approval of the customer's request by the transferee bank; on November 13, 2018, the Banking Rules (Customer Service) (Transferring a Customer's Financial Activity between Banks), 2019, which were updated on December 10, 2019, and these set out the types of accounts that will be mobilized by the Act; the Supervisor of Banks shall determine procedural instructions for fulfilling the mobility obligation; the Governor of Bank of Israel with the consent of the Minister of Finance, shall be authorized to determine that a small bank or digital bank (as defined in the Act), shall be exempt from the mobility duty, or would be permitted to postpone the date of application of the said duty because of cost or competition considerations and at the request of such bank, as stated.
- **Cost comparison service (Read only).** As stated above, the Supervision over Regularized Financial Services Act states that the effective date of the Chapter dealing with the service for comparing financing costs, shall be the day on which the first regulations regarding the viewing and use of online financial information take effect. In order that the delay in the publication of the Regulations shall not delay the start by the banks of the required implementation in the matter. The Bank of Israel informed on August 6, 2018 that it had started the project of regularizing the API Standard for open banking in Israel, which allows third parties, with the consent of the customer, to receive from the banks financial information regarding the customer.
- **Banking services and computer service office.** Regarding a solution to the blocking of computerization for banks and deposit and credit unions through the establishment of a banking computerization infrastructure (IT), on September 12, 2018, the Ministry of Finance published the final criteria for awarding a government grant in the amount of NIS 200 million for the establishment of a service and banking computerization bureau that will serve the new banks and deposit and credit unions.

Sale of holdings in Automated Banking Services Ltd. ("ABS"). In order to comply with the requirements of the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act, according to which the Bank has to sell its holdings in ABS that exceed 10%, the Bank sold within the framework of a public offering of shares of ABS, completed on June 5, 2019, shares comprising approx. 9.3% in ABS. The gains on the sale are immaterial (a net amount of NIS 14 million, including the gain on revaluation of the balance of the investment). On September 4, 2019, the Bank transferred to Mizrahi Tefahot Bank Ltd. ("Mizrahi Bank") shares comprising 0.7% of ABS in consideration for an immaterial amount. The transfer was made in accordance with a compromise agreement reached between Mizrahi Bank and the Bank together with additional banks being shareholders of ABS. Following the said sale and transfer, the rate of holdings of the Bank in ABS was reduced to 10%.

Policy for establishing new banks and guidelines for license applicants

On June 3, 2018, the Bank of Israel published a policy that arranges, clarifies and simplifies the process for establishing a bank and creates regulatory certainty at an early stage of the licensing process for the entrepreneur interested in establishing a bank.

The new policy enables an entrepreneur to receive – within a relatively short period and even before its preparations have been completed – a restricted bank license, under which it will be possible to conduct limited deposit receipt and credit granting operations. Following completion of all the processes required in accordance with the outline to be agreed with it, the restricted license will be exchanged for a permanent license.

The policy prescribes reduced regulation over new banks that conduct noncomplex operations, such as retail operations. In order to implement the set policy, a Licensing and New Banks Unit has been set up at the Banking Supervision Department.

Announcement by the Bank of Israel regarding permission for the establishment of a digital bank in Israel

On September 24, 2019, the Bank of Israel announced the granting of a permit for the establishment of a new bank in Israel. In accordance with the announcement, the Governor of the Bank of Israel and the Supervisor of Banks informed the promoters of the new bank that the Governor is prepared to grant them a bank license and a permit for the control of a bank, following the conclusion of the examination of the project by the Supervisor of Banks. The promoters had presented to the Supervisor of Banks a business plan,

according to which, they plan to establish a digital bank with no branches, and to focus on the offer of banking services to households, including the granting of credit, receipt of deposits, conduct of current accounts and providing services for the purchase and sale of securities.
On November 18, 2019, the Supervisor of Banks published a draft Proper Conduct of Banking Business Directive regarding adjustments to the instructions of proper conduct of banking business applying to a new banking corporation. The adjustments refer to compliance requirements that would be cumbersome for a new banking corporation, entailing high costs and having no proportion to the risk to which that new banking corporation might be exposed to or to the system risk produced by it. The announcement notes that the Supervisor of Banks will examine in the future the extension of the adjustments also to a part of the consumer instructions and to the reporting to the Supervisor of Banks Directives. Also published on that date was a draft Public Reporting Directive for a new banking corporation.

Supervision over Financial Services Act (Regularized financial services), 2016

Letter of the Supervisor of Banks regarding the policy of banking corporations' activities vis-à-vis customers that are regulated financial service providers and offering coordinators. The letter was published on April 15, 2018. Accounts of entities listed in the Supervision over Financial Services Act (Regulated financial services), 2016. The Bank is preparing accordingly. For details regarding the Act, see the 2018 Annual (p. 318).

Regulation of Off-Banking Loans Act (Amendment No. 5), 2017 ("Fair Credit Law")

On August 9, 2017, the Amendment was published in the Official Gazette. The main points of the amendment: changing the name of the law to the Fair Credit Law, extending the application of the Law to additional lenders, including banking corporations and auxiliary corporations. The Law applies to borrowers who are private individuals. However, the Minister of Justice is authorized to extend its application to types of corporations to be specified; a definition of a loan to which the Law applies has been added; a uniform ceiling has been set for the cost of the credit that is granted by lenders; a ceiling has been set for arrears interest; the addition of "criminal interest", the charging of which is prohibited and constitutes a criminal offense punishable by imprisonment; broad disclosure obligations and borrower protections are prescribed. Criminal and financial sanctions have been determined for breaching the provisions of the Law; Offences under the Law that are punishable by three years' imprisonment are defined as "predicate offences"; it states that in the period starting with the end of two years from the date of the Amendment and ending with the end of the third year from that date, the Bank of Israel would examine the average rate of the actual cost of the credit granted by banking corporations to borrowers. If the Bank of Israel finds that the maximum cost of credit, as determined by the Act, led to an unjustified increase in the average cost, as stated, then the Bank of Israel would recommend to the Minister of Finance whether to decrease the maximum cost rate of credit. After receiving the Bank of Israel's recommendation as stated, the Minister of Finance shall examine as to whether he should use his authority under the Act and reduce the maximum rate of cost of credit. The Act entered into effect on August 25, 2019.

Principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof

On July 18, 2016, the Supervisor of Banks published a document containing principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof. This, as part of promoting competition in the debit card market. The document of principles creates the terms allowing entrance of new players all along the line of performing transactions by use of debit cards.

Terms of access to controlled payment systems

On July 31, 2016, the Supervisor of Banks published the terms of access to the "debit card services" system, to the "automatic bank instruments" system operated by ABS, and to the "credit, debit and payment transfer" system operated by BCC – threshold terms for participation therein. This move is intended to allow off-banking entities to participate, either directly or indirectly, in these payment systems.
On August 13, 2018, the Memorandum of the Supervision over Financial Services (Regulated Financial Services) Bill, 2018, was published, which proposes to determine, inter alia, instructions regarding access to controlled payment systems by holders of a license to grant payment services.

Legislation and Standards in the matter of Debt Collection

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower on account of the rights of lenders, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.

In this framework, the following legislation matters should be mentioned:

- **Debt Execution Act (Amendment No. 46), 2015,** in effect as from October 2015, which greatly encumbers the delivery of notice to debtors, in view of the duty imposed on the Appellants to serve the defendant, by registered mail with delivery confirmation, a warning notice of the intention to submit the claim to the Debt Execution Office.
- **Banking Act (customer service) (Amendment No. 19), 2014**, in effect as from September 2014, does not allow a bank to call for the immediate repayment of a loan or to institute legal proceedings against the borrower, unless a prior notice in writing is delivered to the borrower in person, and this 21 business days beforehand.
- **Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks - debt collection procedures.** The directive was published on February 1, 2017, within its framework, rules, actions and various functions have been prescribed in proceedings for the collection of debts solely of households and small businesses (the directive does not apply to corporations), with the aim, inter alia, of enhancing the fairness and transparency with debtors. It is noted that though the Directive took effect on February 1, 2018, its first draft was published in the middle of 2015, and the Bank began implementation thereof a year ago.
- **Economic Recovery Act, 2016**, see below.

The Debt Execution Act (Amendment No. 63), 2019. On January 2, 2019, the amendment was published, according to which, a debtor is entitled to file a motion in an Execution Office case requesting that he be recognized as a “paying debtor” should he have paid on time the number of payments set for him. If the debtor has been recognized as a paying debtor, the interest that is added to his debt will be reduced by 25% from the date of recognition and thereafter.

Banking Act (Customer service) (Amendment No. 30), 2018 and Banking Act (Customer service) (Amendment No. 31), 2019. See above "Mortgage Activity".

For completion of the scene, the regularization initiative, being still a proposal, shall also be mentioned:

The Criminal Law Procedure Bill (Forfeiture of offence money), 2018. The Bill, which was published on July 11, 2018, states that the offset right of a bank shall be recognized as "a right to an asset", which would grant the bank priority to the right of forfeiture of the State. Notwithstanding this, the State's Attorney Office, in agreement with the Bank of Israel, requested to combine the said recognition pertaining to a bank claiming an offset right, with an internal audit to be conducted with respect to the funds deposited in the account of the customer, in respect of which a forfeiture order or seizure order had been issued. This in order to examine, in addition to the question of the propriety of the conduct of the bank in this matter, also as to whether it was possible to know beforehand that the customer was involved in criminal actions. The examination report, the scope and contents of which are not known at this stage, shall be delivered only to the Supervisor of Banks, who is supposed to examine whether an additional instruction should be issued reducing the possibility of the bank being used for money laundering purposes.

Draft Memorandum Execution Office Act (Amendment No.__), 2019. A draft Memorandum of the Execution Office Regulations was published in February 2020. The Amendment refers to the realization of assets, the rights in respect thereof are registered with the Land Registry Office and had been pledged by their owner in favor of a bank. The draft states that a debt execution file may be opened only if the property is registered in the name of the pledging entity. Furthermore, realization proceedings may be initiated only if the details of the owner of the property are stated in full. In case of missing identification details, the Execution Registrar has to refer to the Land Registry Office and verify that the complete identification had been settled. The above Amendment may have an effect upon the realization procedures of the Bank.

The Insolvency and Economic Recovery Act, 2018

The Act took effect on September 15, 2019, and shall apply to insolvency proceedings instituted as from that date onwards. The Act contains many innovations and changes in the substantive law. The Bank is preparing for the implementation of the Act and Regulations enacted under it in areas relevant to its operations. For additional details, see the 2018 Annual Report (p. 371).

Economic Competition

The Economic Competition Act (Amendment No. 21), 2019. The Amendment to the Act, which was published on January 10, 2019, determines, inter alia, the duty imposed upon an Officer of a corporation to supervise and do everything possible to prevent the violation of the Act by the corporation or its employees. Violation of this duty will be considered a criminal offence carrying imprisonment and a monetary penalty, and this even if the corporation itself has not violated the Act. In the event that an offence has been committed under the Act, the Officer may be deemed to have violated the said supervisory duty, unless he can prove that he had done the utmost to fulfill his duty. An Officer is an active manager in the corporation, a partner, excluding a limited partner, or a clerk responsible on behalf of the corporation for the area in which the offence had been committed. Furthermore, the amount of the monetary sanctions, which the Commissioner is authorized to impose upon a corporation, has been increased; the duty to report mergers has been reduced; and the definition stated in the Act of an owner of a monopoly has been updated, so as to apply also to a person who holds a significant share of market power in a particular market.

Exemption from approval of a restrictive agreement in respect of the holdings and joint operation within the framework of ABS. On September 24, 2017, the Competition Commissioner issued a decision regarding the exemption from approval of a restrictive agreement in the matter of Automatic Bank Services (ABS) ("the exemption decision"). Within the framework of the exemption decision, the Antitrust Commissioner instructed the transfer of the rights of ABS in the communication protocol, according to which the various entities act in the field of charge cards, with no consideration, to an association, the members of which would be all entities active in the field of charge cards.

Moreover, the exemption decision states instructions as regards the distribution of dividends by ABS and to additional conditions, subject to the sale of the surplus holdings of the banks in ABS, in accordance with the requirement of the Strum Act (see above).

Exemption from approval of a restrictive agreement with respect to the joint holdings in and operation of Bank Clearing Center (BCC). The Competition Commissioner (in her former title: Antitrust Commissioner) announced on September 28, 2017, that in view of the uncertainty regarding the structure of ownership of BCC, following the effect of the Strum Act on the structure of ownership of ABS, he extends the validity of the exemption issued to BCC on March 20, 2016 with no change in terms. On February 14, 2019, the Competition Commissioner has decided to amend Exemption Decision, whereby the exemption will also apply to the establishment of an account portability system. The validity of the exemption has been extended from time to time until March 20, 2020. On December 23, 2019, BCC submitted a request for the extension of the exemption form approval of a restrictive agreement that had been granted to the banks in connection to their joint holding in BCC (this, inter alia, considering the approach made by the Competition Commissioner with respect to exemptions from restrictive agreements, as detailed below). Following submission of the request for exemption, the Competition Authority applied to the Bank requesting oral explanations regarding certain matters. The Bank held a discussion with the Authority. The competition Authority has asked for an extension until March 20, 2020, for submission of its response to the request for extension of the exemption. The draft terms for the exemption was received on March 11, 2020, for comment by the Bank.

Opinions and draft opinions issued for public comment. During February until October 2019, the Competition Authority published a number of opinions and draft opinions for public comment, and this since the publication in the Official Gazette in January 2019, of the Economic Competition Act (Amendment No. 21), 2019:

- Amendment of the opinion in the matter of discretion of the Competition Commissioner in determining the amount of a monetary sanction under the Competition Act, dealing with the details regarding the discretion of the Commissioner in determining the amount of a monetary sanction to be imposed on a corporation or on a violating officer under the law;
- Opinion in the matter of the examination of a significant market power, regarding tests once existing, a body would be considered as holding of a "significant market power";
- Opinion in the matter of cooperation among institutional investors outside the competition field (for additional details in this matter, see the 2018 annual report, p.372);
- Amendment of the opinion regarding the activity of business associations from the aspect of competition laws;
- Opinion regarding cooperation between institutional bodies with respect to debt arrangements, referring to situations where institutional investors, including banks, that had extended loans to business entities, are required to cooperate in order to collect the debt.

The Competition Authority also published in March-April 2019, a draft recommendations document regarding competitive considerations applied in public tenders, as well as a request to the public for information regarding competition failures stemming from regulation.

The Competition Authority published in July 2019 a draft Antitrust Regulations (Registration, publication and reporting of transactions) (Amendment No. 1) (Merger announcements), 2019, in which it is proposed to modify the requirements for reporting and obtaining approval for merger of corporations to the provisions of the said Amendment 21 to the Economic Competition Act.

Approach to Automated Bank Services ("ABS") by the Competition Authority in the matter of the mutual affinity between ABS and Bank Clearing Center ("BCC") and the Prima Facie existence of a restrictive agreement. In accordance with an Immediate Report by ABS dated October 29, 2019, the Competition Authority approached ABS on October 28, 2019, in the matter of the mutual affinity between ABS and BCC. The Authority is of the opinion that due to the significant affinity existing between the two companies (which jointly operate a head office and office premises, as well a joint technological infrastructure and back-up facilities, and more), alongside the competition potential between ABS and BCC, there exists Prima Facie, a restrictive agreement, which had not been approved or given a temporary permit by the Competition Tribunal or given an exemption by the Competition Commissioner. The position of the Authority is that it is doubtful whether the arrangement fulfills the class exemption condition under Section 15A of the Economic Competition Act. The Authority requested ABS to take immediate action in order to stop the violation and rectify the situation. In its Immediate Report ABS clarified that in its opinion the existing relations do not constitute a restrictive agreement, and that it studies the approach and its implications. The Bank owns 25% of the equity of BCC and 10% of the shares in ABS. In continuation thereof, the Competition Authority approached the companies with a request for information regarding the mutual services being granted by one of the companies to another, or the joint services being granted by a third party to the two companies.

Approach by the Competition Commissioner regarding exemptions from restrictive agreements. On November 10, 2019, the Bank received four letters from the Competition Authority regarding four decisions that had been made in the past by the Competition Commissioner regarding exemption from a restrictive agreement under certain conditions, with respect to the following arrangements: the credit cards cross-clearing arrangement, the arrangement between BCC and different banks, the arrangement regarding the holdings by different banks in ABS and the arrangement between different banks regarding the mutual recognition agreement for use of ATMs. The Bank is a party to each of the above arrangements. In accordance with the said letters, the Competition Commissioner had decided to use her authority under Section 15A(g) of the Economic Competition Act, and determine that with respect to each of the above arrangements and to any restrictive agreement regarding such matters, an exemption from a restrictive agreement, granted by the Act according to the class exemption rule, shall not apply. It is explained in the letters that the exemption decisions given with respect to each of the said arrangements shall remain in effect until the end of the effective period of each arrangement (December 31, 2023, March 20, 2020, September 24, 2022 and July 30, 2023, respectively), and the Bank may continue to operate in accordance with the said arrangements until the end of the effective periods without having to obtain the permit of the Competition Tribunal, on condition that no change occurs in a material item of such arrangements. To the understanding of the Bank, the meaning of the decision is that at the end of each of the said periods, the parties to the arrangements would be required to submit to the Competition Commissioner specific requests for extension of the exemption in respect of each of the said arrangements. Until November 24, 2019, the Bank has the right to argue before the Commissioner against the decision not to apply the class exemption to the said arrangements. A press release issued by the Competition Authority states that a similar decision had been made with respect to additional arrangements in the market.

Prohibition of money laundering and Prohibition of Financing Terror Activities

Prohibition of Money Laundering

The Prohibition on Money Laundering Law, 2000 (hereinafter - "Prohibition of Money Laundering Law") came into effect on August 17, 2000, under the power of which, Regulations and Orders have been enacted over the years. Also amended was Proper Conduct of Banking Business Directive No. 411, and the Supervisor of Banks issued clarifications and circulars in the matter. This set of legislation imposed upon banking corporations as well as on additional subsidiaries (like the company for Portfolio Management - Tafnit Discount Asset Management) identification, verification, reporting and record maintenance duties regarding customers and customer accounts managed by them. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

Determination of a uniform regulatory policy in the matter of prohibition of money laundering and finance of terror with respect to debit cards and payment applications. On February 2, 2020, the Supervisor of Banks published a draft regulatory policy with respect to off-banking credit cards and bank payment applications, within the framework of which the Supervisor states a position according to which the regulatory governance applying to the issue of means of payment and the governance applying to the opening of payment accounts to receivers of payments and settlement accounts should agree with the level of risk, and that with respect to means of payment accounts restricted by the principles stated in the draft, rules similar to those applying to a closed system account, should apply. In accordance therewith, it is proposed to grant exemption from "know your customer" processes, verification of details and request for documents, declaration of beneficiaries and face-to-face identification.

Legislation and Regulation Amendments relating to the Capital Market

General Permit terms in accordance with Section 49A of the Securities Act. The Israel Securities Authority published on December 27, 2018, the version of the Permit terms, according to which, within four months from date of publication of the version of the Permit, the Bank has to apply to the Israel Securities Authority for permission to submit an offer for providing trade services by means of stock exchanges outside Israel. The Bank applied to the Israeli Securities Authority on May 21, 2019. A reply has not yet been received.

U.S. Legislation

As owners of a U.S. bank, IDB New York, the Bank is subject to a number of U.S. legislation provisions, which apply to entities, and companies related to them, and which have banking operations in the U.S., whether as a bank or as a branch office.
Within the framework of these provisions, significant exceptions have been determined with respect to non U.S. banking entities, such as the Bank, so that the regulation under these provisions relating to operations and investments, applies mostly to the said operations and investments of the bank in the U.S..
The operations of the Bank conform to the U.S. legislation provisions, to the extent that these apply to its operations, including conforming to the restriction imposed on the Bank under the Volcker Rule, enacted as part of the U.S. Dodd Frank reform.
Subject to certain exceptions the Volker Rule includes prohibition of proprietary trading and investment and sponsoring operations in private equity funds of certain types.
Following amendments made to the Dodd Frank reform, the Bank, including its subsidiaries, is no longer subject to enhanced prudential standards determined by the Dodd Frank reform.

Various Legislation Matters

Credit Data Act, 2016

The Act was published on the Official Gazette on April 12, 2016. The Act is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. According to the Act, the Bank of Israel is to establish and manage a central credit data base. Data would be assembled from sources determined in the Act and including banking corporations, would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit in accordance with the regulations stated in the Act. Following the publication of the Act, further regulations have been published intended to supplement the regulations stated in the Act, as well as the setting out of supporting regulations with respect to specific arrangements which are not regulated by the Act itself. For the purpose of implementing the Act, the Bank of Israel has taken measures to establish a system for sharing credit information, which includes setting up a central credit database.
On September 20, 2018, an order was published postponing the effective date of the Act until April 12, 2019. The Bank is preparing for the implementation of the Act. The credit data base, established under the law, began operations on April 12, 2019 (see the 2018 Annual report (p.374). The Ministry of Justice issued on April 4, 2019, a clarification regarding the possibility of a credit provider to make use of credit indications for the purpose of monitoring existing renewable credit transaction. FAQ file was published on June 25, 2019, regarding the credit data reports provided by the Bank to the data base and on July 15, 2019 an FAQ file was published for users of credit data. Also published in September 2019 was a draft of the Credit Data Regulations (Amendment No.1), 2019, intended to supplement the instructions stated in the Credit Data Act, and outline supporting instructions with respect to arrangements that are not included in the Act. On November 14, 2019, an updated FAQ file was published, which included clarifications regarding the factor reporting the transaction and regarding the transaction reporting format in respect of which the reporting entity had received an exemption. The Supervisor of Credit Data Sharing published on December 10, 2019, an updated FAQ file for users of credit data.
Moreover, during the past year the Supervisor of Credit Data Sharing issued a number of directives relating to the manner of implementation of the Act, including: Directive No. 401 in the matter of means of identification, Directive No. 402 in the matter of delivery of a credit report to a customer, and Directive No. 501 in the matter of collection of data, its recording and reporting to the credit data system – which regulates the duty of a bank, as a source of information, to appoint a factor responsible for information, as well as the duty of the internal audit to perform audits regarding the compliance of the source of information with the determined rules.
It is noted, that providing of detailed data regarding Bank customers may expose the Bank to various claims, including customer arguments regarding the quality of the data in certain cases. The Bank is making timely preparations for the delivery of the data, in accordance with the Bank of Israel instructions, and acts to improve such data, where required.

Self-assessment process for testing compliance with the provisions of the Credit Data Act. In a letter dated November 18, 2019, the Supervisor of Credit Data Sharing at the Bank of Israel informed the corporations defined as users of credit data that they have to perform a self-assessment process for the testing of their compliance with the requirements of the Credit Data Act, and to deliver the findings of the examination to the Supervisor by June 30, 2020. The Bank is preparing for the performance of the process by means of an independent external factor.

Banking Order (Customer Service) (Supervision Over Postdated Check Depositing Service) (Temporary Provision), 2019. The Order was published on April 3, 2019 and it declares the postdated check depositing service to be a supervised service and prescribes the amount of maximum commission that may be collected for it will amount to NIS 2. The aim of the Order is to encourage the deposit of postdated checks that were endorsed prior to the entering into effect of the Reduction in Use of Cash Act, 2018 ("the Reduction in Use of Cash Act") with this being to prevent a situation in which such checks are not honored due to the provisions of the new Act. The Order will be in effect for the period starting from April 15, 2019 through June 30, 2019. For further details regarding the Reduction in Use of Cash Act, see the 2018 Annual Report (p. 375).

Payment Services Act, 2019

The Act was published on the Official Gazette on January 9, 2019. The Act amalgamates, under a single legislative umbrella, the majority of the "payment services" that are currently provided and that will be provided in the future to the general public (payers, on the one hand, and beneficiaries – the recipient of the payment, on the other hand) by various "providers of payment services", including the banks, the credit card companies, off-banking operators of advanced payment applications, etc. The Act prescribes consumer regulation which will apply uniformly (subject to the secondary legislature of each regulator) to all the providers of payment services in the market – to the banks, and also to other providers of payment services that are competing (or are planned to compete) with the payment services that are provided (or that will be provided in the future) by the banks to their customers. The Act will take effect following one year from date of publication thereof, except for several provisions that would become effective in July 2020.

The Bank is preparing to implement the provisions of the Act in respect of its operations in the field of payment accounts and means of payments, inter alia, by way of updating agreements with customers, operational preparations, updating procedures and work processes.

On February 17, 2020, was approved by the Knesset the Payment Services Act (Amendment No. 1) (Deferral of the effective date), 2019, in which Section 77 of the Act was amended so that its effective date was deferred for nine months to October 14, 2020.

Customer Protection Act (Amendment No. 57) (Human professional response on the automatic answering service), 2018

On July 25, 2018, the Amendment was published in the Official Gazette. The subject matter of the Amendment requires businesses that operate a phone call service that includes an automatic call routing system, to enable customers to transfer to a human voice response already at the first menu of the conversation and limiting the waiting time for a human response, as regards certain matters (treatment of failure, account information and termination of engagement) to six minutes. This requirement takes effect by way of an amendment of the Banking Act (Customer service).

On June 12, 2019, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 426 in the matter of "provision of professional human response by telephone", within the framework of which, banks had been given the possibility of deviation from the time for waiting on the line under conditions and at time-rates determined in the Directive. On January 1, 2020, the Section that requires priority for senior citizens waiting on line for a telephone call response entered into effect. In addition, it is required to monitor and control response patterns at the call center; as well as the publication of details on the Internet website of the banking corporation.

Reduction in Use of Cash Act, 2018

The Act was published on the Official Gazette on March 18, 2018, and took effect on January 1, 2019, whereas the instructions regarding checks took effect on July 1, 2019. Inter alia, the Act imposes restrictions on transactions the payment for which is in cash; A bank may not cash a check in which the name of the beneficiary is not stated (blank check); and may not cash a check in an amount exceeding NIS 10,000, if it had been assigned more than once (or twice, if the second assignment is in favor of a supervised financial body), or if it does not state the name of the assignor and his ID number as well as the name of the assignee. Whoever violates the provisions of the Act is exposed, inter alia, to penalties.

In the period of the first nine months since the instructions took effect, no penalties would be imposed in respect of violations, unless that bank had been warned accordingly by the Bank of Israel and has repeated the violation.

Banking Rules Amendment (Customer service) (Commissions), 2019. The Amendment was published on May 1, 2019, the essence of which is the definition of "communication lines" with the banking corporations, possibility of obtaining the bank's price lists and for delivering a request for the cancellation of participation in a particular commission track; imposing a duty on banks to conduct during the fiscal year a monthly examination of the accounts of customers classified as a small/authorized business, with respect to the commission charged to them in comparison to the basic and expanded commission tracks, and attaching the customers to the commission track most beneficial to them in relation to the commission charged; reduction in the commission charged in respect of the granting of a bank guarantee secured by a specific deposit; and the addition of the possibility to charge a commission in respect of the following special services: pension consulting, withdrawal of cash from an ATM by means of a rechargeable card that is not connected to a current account, and the withdrawal of cash from an ATM by means of a charge card issued abroad or issued by an extension of a foreign bank. As a general rule, the Amendment takes effect on date of publication, excluding certain exceptions stated therein.

Amendment of the Inheritance Regulations and of the Debt Execution Regulations. The Amendments were published on September 3, 2019. The Amendment to the Inheritance Regulations creates proceedings for the realization of debts of a deceased, through an application by means of an electronic document, as an alternative to realization by means of the appointment of an Estate Executor. The alternative proceedings apply to the realization of debts in amounts of up to NIS 20,000, under conditions stated in the Regulations. The Debt Execution Regulations were amended with respect to the collection of debts due to private creditors approved by the Court.

Proposed Amendment of the Banking Order (Dormant deposits), 2000. The Supervisor of Bank in conjunction with the Ministry of Finance are considering an amendment of the Order with respect to the investment of funds of dormant deposits. In addition, the Supervisor of Banks published a draft Proper Conduct of Banking Business Directive in the matter of dormant deposits and accounts of deceased account owners with the aim of regulating, inter alia, the definition of a dormant account, rules regarding the duty to maintain communication with the customer, reporting to the Custodian General and rules regarding location of heirs of deceased account owners.

Directives of the Supervisor of Banks

Amendment to Proper Conduct of Banking Business Directive No. 332, "Self-Purchase by Banking Corporations". On February 28, 2019, an amendment was published, which removed the prohibition on the self-acquisition of shares of the banking corporation, allowing banking corporations to acquire their own shares, subject to certain conditions. Furthermore, an update was included of the restrictions applying to the granting of finance collateralized by securities that had been issued by the banking corporation.

Draft Proper Conduct of Banking Business Directive in the matter of engagement of a banking corporation in financial instrument operations on behalf of customers. On August 25, 2019 the draft was published, intended to comprise a framework for regulating broker/dealer operations at banking corporations, namely the receipt and delivery of orders for transactions in financial instruments on behalf of customers, both as brokers and by way of trading in their own accounts. The draft is intended to replace the existing instructions of Proper Conduct of Banking Business Directives Nos. 461 and 419.

Proper Conduct of Banking Business Directive in the matter of API. A Directive regarding the implementation in Israel of the open banking standard (Directive No. 368) was published on February 25, 2020. The Directive details the requirements of the Bank of Israel from the banks and credit card companies regarding this field, with the aim of defining the infrastructure for open banking in Israel.

The dates for the entry into effect of the Directive are as follows: Implementation of open banking for information viewing purposes only – December 31, 2020; Conducting a single payment operation and information regarding credit cards – July 1, 2020; Information regarding savings deposits, deposits, credit and securities – December 31, 2021. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. In accordance with the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2018 Annual Report (p. 355) and the Item "Technological improvements and innovation" above.

"E-Banking" - Amendment of Proper Conduct of Banking Business Directive No. 367. An amendment to the Directive was published on May 7, 2019, in which fax services were added to the definition of "E-Banking" services. The mode of customer identification has also been facilitated.

An amendment to the Directive was published on January 20, 2020. The Amendment is intended to clarify that the special instructions applying to the online opening of a clearing account, apply also to the online opening of a discounting account.

Letter regarding the replacement in foreign interest rate benchmarks. For details, see "Marker Risks" in Chapter C above.

Letter of the Supervisor of Banks regarding the encouragement of innovation at banks and at clearing agents. See above "Initiatives concerning the banking sector and its operations".

Amendment of the Banking Rules (Customer service) (The transfer between banks of the financial activity of customers), 2019, and Proper Conduct of Banking Business Directive no. 418 regarding the transfer between banks of the financial activity of customers in an online manner. The Directives were published on December 16, 2019. The amendment of the Rules relates to the types of financial activity in respect of which banks would be under duty to enable their customers to transfer their financial activity from one bank to another in an online and secured manner and at no cost to the customer, and this in accordance with the Amendment to the Banking Act (Customer service). The Proper Conduct of Banking Business Directive states general principles with respect to the mobility process, including the length of time allotted to this process, cancellation of the mobility request, transfer of information between entities during the mobility process, the possible actions which may be taken to retain the customer, situations in which a bank may refuse a mobility request, and more. The Directive and the rules will take effect on the date on which Section 5(b)(1) of the Act takes effect, namely on March 22, 2021. For additional details, see the 2018 Report for 2018 (p. 367) and in the 2019 First Quarter Report (p. 183). In addition, in February 2020, a draft Amendment of Proper Conduct of Banking Business Directive No. 432 regarding "transfer of operation and the closing of an account of a customer" was published, according to which, inter alia, a banking corporation must allow a customer to apply for the transfer of his securities portfolio to another financial institution, at least through the Internet website of the corporation, without requiring the customer to personally appear at the bank's branch.

Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. The draft was published on October 27, 2019. In accordance with the explanatory notes, the need for the draft became evident due to the significant growth in credit granted to households, inter alia, on the background of the low interest rate, the growth in private consumption and availability of credit granted by off-banking sources. It is further noted that the subject of improper conduct towards customers appears in the heart of the public and regulatory discourse in Israel and around the world, which may bring about the realization of legal and regulatory risks, impairment of reputation and considerable losses for the banking corporations.

The draft states a series of instructions relating to the management and marketing of credit to private individuals, including fixing of a policy, procedures and strategy, as well as the duties of the Board of Directors and of Management relating to responsibility for the implementation thereof. The draft stresses three main principles: the granting of credit based on information, fairness and decency and the management of credit risk and compliance risks at the customer level and at the overall credit level of the lender. The draft includes also rules prohibiting the aggressive marketing of credit, as well as rules concerning proper disclosure, underwriting, monitoring and control.

Amendment of Proper Conduct of Banking Business Directive No. 301 regarding the "Board of Directors"

The Supervisor of Banks published on July 5, 2017, an amendment to the Directive. Within the framework of the amendment the maximum number of directors of a banking corporation was reduced to ten, and additional instructions were included regarding the qualification of the Board and its composition, within the framework of which the number of directors required to have banking experience was increased from one fifth to one third, and it is required that at least one director must have proven experience in the field of information technology. In addition, additional directives have been prescribed aimed at making the work of the Board of Directors and its committees more efficient. The Amendment takes effect on date of publication thereof, excluding the instructions regarding the reduction in the number of Directors and qualification of its members, which will take effect on July 1, 2020.

On November 13, 2018, an update to the directive was published, within the framework of which a duty was determined to appoint a committee of the Board of Directors dealing with matters of IT and innovation, that at least one of the members of which should have knowledge and recognized experience in the field of IT. Furthermore, the draft adds a requirement for the adoption of a policy with respect to the maximum length of service of members of Board committees and their chairpersons. The amendments are to take effect on the date of publication of the Amendment, except for the requirement regarding the composition of the technology committee; the effective date thereof is July 1, 2020.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

For further details regarding "Legislation and Supervision", see the 2018 Annual Report (pp. 363-377) and the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Corporate governance

A call for public reference to the need for adjustment of the corporate governance rules regarding corporations having no core controlling interest. On September 23, 2019, the Ministry of Justice and the Israeli Securities Authority issued a call to the public requesting reference regarding legislation amendments for the adjustment of the corporate governance rules applying to corporations having no core controlling interest. The request referred to different issues, including the definition of "control", the composition of the board of directors, the process of appointment of directors, transactions with interested parties, remuneration, etc. On December 15, 2019, the Union of Banks submitted its response regarding the "Public Consultation", in view of the special arrangements applying to a banking corporation having no core controlling interest.

Different instructions

Guidance by the Attorney General to the Government regarding the guidelines for the formation of digital arrangements. Guidance by the Attorney General to the Government was published on October 10, 2019, determining the principle of "no-preference", according to which a physical arrangement has in principle no preference over a digital arrangement. In accordance with this principle, the legal validity of a document or its admissibility shall not be denied due only to its being electronic, and in many cases, the maintenance of an original document has no preference over the maintenance of its copy. It has been determined that with respect to the interpretation of an existing statute, so long as there is nothing in the legislation which denies the possibility of performing an operation by electronic means, it is possible to perform such operation electronically (e.g., with respect to the supply of a document). As to the matter of signature, the legal requirement for a signature does not mean that the original document has to be maintained, and the purpose of the requirement for a signature may be maintained by use of other tools.

Securitization – public issues of assets backed bonds. In September 2019, the Securities Authority published for public comment, a document regarding its preparations for the opening of the market in Israel to public securitization. The document is intended to increase the awareness and understanding of capital market players regarding the principal characteristics of securitization transactions, which raise questions on the part of Investors.

Legislation and regulation initiatives

The year 2019, in contrast to earlier years, was marked by sparse legislation initiatives and new legislation, and this on the background of the dissolution of the 21 and 22 Knesset. On the other hand, the passing of numerous new regulatory directives continues, including the Supervisor of Banks. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal and Regulatory Risks" in Chapter "Risks Review" above.

Taxation

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.

Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made. On July 9, 2017, the validity of the agreement was extended up to and including the 2020 tax year.

In addition, on July 9, 2017, an agreement was signed with the Israeli Tax Authority regarding the timing of the recognition for tax purposes of allowances in respect to housing loans. As part of this agreement, which is valid up to and including the 2020 tax year, it is prescribed, inter alia, that 65% of the closing balances in respect problematic debts regarding housing loans granted, and for which an allowance was first recorded on January 1, 2014, will be adjusted for tax purposes.

A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group's preparations to implement its provisions, see "exposure to cross-border risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

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

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

Additional Legal Proceedings

1. **Approach in accordance with Section 198A of the Companies Act.** On December 14, 2016, the Bank received an approach headed "approach in accordance with Section 198A of the Companies Act, 1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 26 C to the financial statements, item 13.2).

   On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.

   On June 24, 2018, the power of a Court verdict was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file anew a disclosure motion under Section 198A of the Companies Act, and/or a motion for approval of a derivative action, this within ninety days from date of the verdict and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.

   On February 6, 2020, a motion for the disclosure of documents under Section 198A of the Companies Act was resubmitted to the Tel Aviv District Court. The motion requests the Court to instruct Discount Bank and MDB to deliver documents listed in the motion for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.

   The Bank has to respond to the motion by April 1, 2020. The hearing of the motion is fixed for May 13, 2020.

2. **Plea regarding the application of the Income Tax Regulations.** On July 10, 2019, notice was received of an administrative plea that had been submitted to the Jerusalem District Court (sitting as an Administrative court) against the Bank of Israel, the Bank and against fifteen additional banks (including MDB). Attached to the plea was a motion for an urgent hearing of the case as well as a motion for the issue of an interim injunction.
   The subject matter of the plea is the manner of application of the Income Tax Regulations (Application of a uniform standard for reporting fair information regarding financial accounts) (hereinafter: "the reporting regulations"). The reporting regulations impose a duty on financial institutions to report to the relevant foreign tax authorities any foreign resident owning an account with the financial institution. It is alleged that in the absence of clear and written rules, the Respondents are applying the reporting regulations without uniformity.
   The Plaintiff requested the Court to instruct the Bank of Israel to require the banks to determine orderly, clear and uniform rules and proceedings as regards the application of the reporting regulations, and to instruct the banks to apply the reporting regulations in accordance with the law. The District Court rejected the motion in limine, due to lack of subject-matter jurisdiction.
   The motion was filed on July 28, 2019, in a form nearly identical to the Supreme Court sitting as a High Court of Justice. The Supreme Court decided to reject the motion in limine, due to the non-utilization of legal proceedings.
   On August 12, 2019, following the submission to the Appellant of the response of the Bank of Israel (Respondent No. 1), the Plea was resubmitted to the Supreme Court sitting as a High Court of Justice, against the Bank of Israel, the Bank and against seven additional banks (including MDB). On February 9, 2020, the Supreme Court sitting as a High Court of Justice, dismissed the Plea in limine, stating that claims against the banks should be addressed to the appropriate civil instance, and with respect to issues related to the Bank of Israel, the Plaintiffs had not established their claim that the law requires the enactment of regulations, as requested.
3. **Legal proceeding in Belgium.** Within the framework of proceedings for the enforcement of a Court verdict given in Belgium, conducted by the Bank for some time against a Belgian corporation, which is not a customer of the Bank, the said corporation filed on May 13, 2019, a criminal action with a Court of first instance in Antwerp, Belgium, against the Bank and against its former employee, claiming that the Bank had forged and acts on the basis of forged documents. The Counsel representing the Bank in the proceedings for enforcement of the verdict in Belgium is of the opinion that the aim of the action filed by that corporation is to delay the enforcement proceedings in Belgium. In accordance with Belgian law, the action is being investigated by an Investigating Magistrate appointed for this matter. No time limit exists with respect to the criminal investigation, and the investigation process is not open to the Bank. At the end of the investigation the case passes for a "pre trial", in which another Judge decides as to whether sufficient evidential matter exists for the case to be tried by a Central Court. The Bank has the right of appeal against such a decision. A hearing of the preliminary arguments of the parties, fixed for October 24, 2019, has been deferred at the request of the Belgian company, which had requested supplements to the investigation. On December 24, 2019, the Attorney representing the Bank in the proceedings informed that the motions that had been submitted by the representative of the Belgian company were dismissed, and a hearing was fixed for March 26, 2020, in order to reach conclusion of the proceedings and the closing of the case (following rejection of the motions of the Belgian company, as stated above).

For additional details regarding different legal proceedings, see Note 26 C, items 12 and 13.

Significant Legal Proceedings settled in 2019

1. For details regarding a motion for approval of an action as a class action suit, a verdict given on January 15, 2019, approving the amended compromise arrangement, see the 2018 Annual Report (p. 207, item 12.2).
2. For details regarding a motion for approval of an action as a class action suit, which on March 24, 2019, the Court decided to reject, see in the 2018 Annual report (p. 210, item 13.4) and in the Second quarter of 2019 report (p. 116, item 4.1).
3. For details regarding two motions for approval of actions as a class action suits, which were rejected by verdicts given on March 1, 2018, against which appeals were filed with the Supreme Court, which were rejected on April 1, 2019, see in the 2018 Annual report (pp. 206-207, items 12.1 and 12.3) and in the Second quarter of 2019 report (pp. 116-117, items 4.2 and 4.3), item 4.2 and 4.3.
4. For details regarding a motion for approval of an action as a class action suit, which on May 6, 2019, the Court decided to reject, see in the 2018 Annual report (p. 209, item 13.3) and in the Second quarter of 2019 report (p.117, item 4.4).
5. For details regarding a motion for approval of an action as a class action suit, which was rejected by verdicts given on September 23, 2019, see in the 2018 Annual report (p. 208, item 12.6) and in the Third quarter of 2019 report (p.118, item 4.1).
6. For details regarding the motion for approval of an action as a class action suit, in respect of which, a request for withdrawal from the motion was filed on November 24, 2019, see in the 2018 Annual report (p. 210, item 13.9) and in the Third quarter of 2019 report (p.120, item 4.11).
7. For details regarding a motion for approval of a class action suit, which, at the request of the Plaintiff, was removed on December 2, 2019, see in the Third quarter of 2019 report (p.122, item 5.3).

For details regarding the motion for approval of an action as a class action suit, in respect of which, a request for withdrawal from the motion was filed on January 2, 2020, see Note 26 to the financial statements, item 12.8. For details regarding a Plea for the issue of a decree nisi, which the Court has dismissed, see the Report for the third quarter of 2019 (p. 209). For details regarding the Plea submitted under the Freedom of Information Act, which during the hearing held on December 15, 2019, the Claimant, at the recommendation of the Court, withdrew the Plea, see the Report for the third quarter of 2019 (p. 209). For details regarding the dismissal of the motion regarding the implementation of the Income Tax Regulations, see above "Additional legal proceedings". For details regarding an erased action following arrival at a compromise agreement, see Note 26 c Item 12.4 (a).
It is noted that the Bank has not included in Note 26 information regarding certain legal actions that were included therein in prior reporting periods, even though these have not yet ended, due to the fact that they no longer fall within the determined minimum disclosure requirements (item 13.1 to the financial statements as of December 31, 2018, p. 208 and item 5.1 in the Third quarter of 2019 report, p. 121. Item 13.5 in the financial statements as of December 31, 2018 (p. 210) and item 4.8 in the Third Quarter of 2019 report, p. 120).

Proceedings regarding Authorities

1) For details regarding various proceedings by the Competition Commissioner and the Competition Tribunal concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2) **Demand for data – The Competition Authority.** In the past year, the Bank and the subsidiary companies received from the Competition Authority a number of requests for data regarding different matters. These requests included data regarding the clearing field, banking services provided to the Arab sector, fintech companies and the payment systems.
3) **Request by the Tax Authority for information regarding the "Paybox" payment application.** On June 6, 2019, the Bank received a request by the Tax Authority, under Section 135A of the Tax Ordinance, for information regarding users of the "Paybox" application of the Bank, in accordance with the criteria stated in the request. The Bank has responded to the request.
4) **Privacy Protection Authority.** The Authority announced on February 16, 2020, the starting of a regulatory administrative process under the Privacy Protection Act, for the examination of circumstances of the PayBox event, and demanded information and documents relating to the event.
5) **Requirement made by the Public Inquiries Unit at Bank of Israel.** A letter was received on February 9, 2020, from the Public Inquiries Unit of the Bank of Israel, the headline thereof being a demand for the rectification of faulty disclosure to customers of ICC, within the framework of which, ICC is, inter alia, required to examine the disclosure provided in notices sent by the company to its customers. ICC responded to the letter on February 20, 2020.

Miscellaneous

Environmental Quality

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited, if any at all. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.
Most of the Bank's environmental effects are indirect effects stemming from the use of "administrative" resources, such as: energy, water, paper and such like. These indirect environmental effects do not expose the Bank to environmental risks (within the meaning of the term in the Securities Regulations), which have or might have a material effect upon the Bank. One of the Bank’s targets as regards the environment is to reduce the indirect effect, as stated.
Details regarding the actions taken by the Bank to reduce the said indirect effect, as stated (including: reduced use of paper, recycling of paper and plastic bottles, reducing the use of water, energy and more) are reported in the social responsibility reports issued by the Bank from time to time. For details regarding environmental risks within their meaning in Directives of the Supervisor of Banks, see "Environmental risks" under "Exposure to risks and risk management" above.

Appendices to the Annual Report

Appendices – List of tables

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses

Part "A" - Average balances and interest rates - assets

	2019			2018			2017		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:(3)									
In Israel	139,837	5,575	3.99	128,200	5,284	4.12	116,490	4,735	4.06
Abroad	23,524	1,177	5.00	21,366	1,040	4.87	20,816	830	3.99
Total credit to the public	**163,361**	***6,752**	**4.13**	**149,566**	***6,324**	**4.23**	**137,306**	***5,565**	**4.05**
Credit to the Government:									
In Israel	3,370	92	2.73	2,194	63	2.87	960	28	2.92
Abroad	-	-	-	-	-	-	2	-	-
Total credit to the Government	**3,370**	**92**	**2.73**	**2,194**	**63**	**2.87**	**962**	**28**	**2.91**
Deposits with banks:									
In Israel	3,009	48	1.60	3,007	27	0.90	3,236	26	0.80
Abroad	180	1	0.56	221	1	0.45	429	4	0.93
Total deposits with banks	**3,189**	**49**	**1.54**	**3,228**	**28**	**0.87**	**3,665**	**30**	**0.82**
Deposits with central banks:									
In Israel	12,683	31	0.24	15,426	17	0.11	18,266	18	0.10
Abroad	601	11	1.83	509	7	1.38	996	10	1.00
Total deposits with central banks	**13,284**	**42**	**0.32**	**15,935**	**24**	**0.15**	**19,262**	**28**	**0.15**
Securities borrowed or purchased under resale agreements:									
In Israel	676	-	-	758	-	-	604	-	-
Total securities borrowed or purchased under resale agreements	**676**	**-**	**-**	**758**	**-**	**-**	**604**	**-**	**-**
Bonds held for redemption and available for sale:(4)									
In Israel	25,110	380	1.51	23,049	328	1.42	23,905	294	1.23
Abroad	8,446	211	2.50	9,237	231	2.50	9,807	224	2.28
Total bonds held for redemption and available for sale	**33,556**	**591**	**1.76**	**32,286**	**559**	**1.73**	**33,712**	**518**	**1.54**
Trading bonds:(4)									
In Israel	2,200	22	1.00	1,997	33	1.65	2,228	23	1.03
Abroad	74	2	2.70	68	2	2.94	59	1	1.69
Total trading bonds	**2,274**	**24**	**1.06**	**2,065**	**35**	**1.69**	**2,287**	**24**	**1.05**
Other assets:									
Abroad	684	17	2.49	678	20	2.95	674	20	2.97
Total other assets	**684**	**17**	**2.49**	**678**	**20**	**2.95**	**674**	**20**	**2.97**
Total interest bearing assets	**220,394**	**7,567**	**3.43**	**206,710**	**7,053**	**3.41**	**198,472**	**6,213**	**3.13**
Debtors in respect of credit card operations	9,221			7,708			6,591		
Other non-interest bearing assets(5)	16,073			14,828			15,223		
Total assets	**245,688**			**229,246**			**220,286**		
Of which: Total interest bearing assets attributable to operations abroad	33,509	1,419	4.23	32,079	1,301	4.06	32,783	1,089	3.32
* Commissions included in interest income from credit to the public		345			330			308	

For footnotes see page 387.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	2019			2018			2017		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	40,871	14	0.03	34,544	5	0.01	31,981	5	0.02
In Israel - Time deposits	91,909	738	0.80	87,801	657	0.75	83,543	467	0.56
Total deposits from the public in Israel	**132,780**	**752**	**0.57**	**122,345**	**662**	**0.54**	**115,524**	**472**	**0.41**
Abroad - On call	12,340	200	1.62	11,447	118	1.03	12,279	74	0.60
Abroad - Time deposits	9,808	234	2.39	8,857	161	1.82	7,773	97	1.25
Total deposits from the public outside Israel	**22,148**	**434**	**1.96**	**20,304**	**279**	**1.37**	**20,052**	**171**	**0.85**
Total deposits from the public	**154,928**	**1,186**	**0.77**	**142,649**	**941**	**0.66**	**135,576**	**643**	**0.47**
Deposits from the Government:									
In Israel	165	2	1.21	187	2	1.07	208	2	0.96
Abroad	49	1	2.04	80	1	1.25	80	1	1.25
Total deposits from the Government	**214**	**3**	**1.40**	**267**	**3**	**1.12**	**288**	**3**	**1.04**
Deposits from banks:									
In Israel	4,134	25	0.60	4,084	18	0.44	3,282	14	0.43
Abroad	2,055	46	2.24	1,788	34	1.90	1,295	19	1.47
Total deposits from banks	**6,189**	**71**	**1.15**	**5,872**	**52**	**0.89**	**4,577**	**33**	**0.72**
Securities loaned or sold under repurchase agreements:									
Abroad	944	21	2.22	1,669	96	5.75	3,216	127	3.95
Total securities loaned or sold under repurchase agreements	**944**	**21**	**2.22**	**1,669**	**96**	**5.75**	**3,216**	**127**	**3.95**
Bonds and subordinated debt notes:									
In Israel	8,603	389	4.52	7,379	433	5.87	8,522	428	5.02
Total bonds and subordinated debt notes	**8,603**	**389**	**4.52**	**7,379**	**433**	**5.87**	**8,522**	**428**	**5.02**
Other liabilities:									
In Israel	47	4	8.51	47	2	4.26	74	4	5.41
Total other liabilities	**47**	**4**	**8.51**	**47**	**2**	**4.26**	**74**	**4**	**5.41**
Total interest bearing liabilities	**170,925**	**1,674**	**0.98**	**157,883**	**1,527**	**0.97**	**152,253**	**1,238**	**0.81**
Non-interest bearing deposits from the public	38,569			38,562			37,626		
Creditors in respect of credit card operations	9,425			8,220			7,094		
Other non-interest bearing liabilities[(6)]	8,466			7,726			8,008		
Total liabilities	**227,385**			**212,391**			**204,981**		
Total capital resources	**18,303**			**16,855**			**15,305**		
Total liabilities and capital resources	**245,688**			**229,246**			**220,286**		
Interest margin		**5,893**	**2.45**		**5,526**	**2.44**			**2.32**
Net return on interest bearing assets:[(7)]									
In Israel	186,885	4,976	2.66	174,631	4,635	2.65	165,689	4,204	2.54
Abroad	33,509	917	2.74	32,079	891	2.78	32,783	771	2.35
Total net return on interest bearing assets	**220,394**	**5,893**	**2.67**	**206,710**	**5,526**	**2.67**	**198,472**	**4,975**	**2.51**
Of which: Total interest bearing liabilities attributable to operations abroad	25,196	502	1.99	23,841	410	1.72	24,643	318	1.29

For footnotes see page 387.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	2019			2018			2017		
	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	151,397	5,024	3.32	139,675	4,496	3.22	131,656	4,131	3.14
Total interest bearing liabilities	(114,270)	(418)	(0.37)	(104,443)	(331)	(0.32)	(99,076)	(333)	(0.34)
Interest margin		**4,606**	**2.95**		**4,165**	**2.90**			**2.80**
CPI-linked shekels:									
Total interest bearing assets	18,675	575	3.08	18,212	730	4.01	19,182	580	3.02
Total interest bearing liabilities	(10,438)	(373)	(3.57)	(10,684)	(505)	(4.73)	(11,124)	(436)	(3.92)
Interest margin		**202**	**(0.49)**		**225**	**(0.72)**			**(0.90)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	16,813	549	3.27	16,744	526	3.14	14,851	413	2.78
Total interest bearing liabilities	(21,021)	(381)	(1.81)	(18,915)	(281)	(1.49)	(17,410)	(151)	(0.87)
Interest margin		**168**	**1.46**		**245**	**1.65**			**1.91**
Total operations in Israel:									
Total interest bearing assets	186,885	6,148	3.29	174,631	5,752	3.29	165,689	5,124	3.09
Total interest bearing liabilities	(145,729)	(1,172)	(0.80)	(134,042)	(1,117)	(0.83)	(127,610)	(920)	(0.72)
Interest margin		**4,976**	**2.49**		**4,635**	**2.46**		**4,204**	**2.37**

For footnotes see next page.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	2019 Compared to 2018			2018 Compared to 2017		
	Increase (decrease) due to change(8)			Increase (decrease) due to change(8)		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	464	(173)	291	483	66	549
Abroad	108	29	137	27	183	210
Total credit to the public	**572**	**(144)**	**428**	**510**	**249**	**759**
Other interest bearing assets:						
In Israel	8	97	105	(28)	107	79
Abroad	(18)	(1)	(19)	(31)	33	2
Total other interest bearing assets	**(10)**	**96**	**86**	**(59)**	**140**	**81**
Total interest income	**562**	**(48)**	**514**	**451**	**389**	**840**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	59	31	90	37	153	190
Abroad	36	119	155	3	105	108
Total deposits from the public	**95**	**150**	**245**	**40**	**258**	**298**
Other interest bearing liabilities:						
In Israel	41	(76)	(35)	(15)	22	7
Abroad	(11)	(52)	(63)	(39)	23	(16)
Total other interest bearing liabilities	**30**	**(128)**	**(98)**	**(54)**	**45**	**(9)**
Total interest expenses	**125**	**22**	**147**	**(14)**	**303**	**289**
Interest income, net	**437**	**(70)**	**367**	**465**	**86**	**551**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 9 million and NIS 243 million, respectively; 2018 – NIS (12) million and NIS (135) million, respectively; 2017 – NIS 1 million and NIS 110 million, respectively.

(5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

Appendix no. 2 - Consolidated statement of profit and loss for each quarter - multi quarter data

Quarter	4	3	2	1
	In NIS millions			
	2019			
Interest income	1,860	1,751	2,150	1,806
Interest expenses	381	353	555	385
Interest income, net	1,479	1,398	1,595	1,421
Credit loss expenses	261	152	136	141
Net interest income after credit loss expenses	**1,218**	**1,246**	**1,459**	**1,280**
Non-interest Income				
Non-interest financing income	145	195	230	172
Commissions	768	765	729	710
Other income	38	10	1	8
Total non-interest income	**951**	**970**	**960**	**890**
Operating and other Expenses				
Salaries and related expenses	815	824	857	847
Maintenance and depreciation of buildings and equipment	294	272	269	263
Other expenses	557	437	444	420
Total operating and other expenses	**1,666**	**1,533**	**1,570**	**1,530**
Profit before taxes	503	683	849	640
Provision for taxes on profit	168	240	300	224
Profit after taxes	335	443	549	416
Bank's share in profit (loss) of affiliated companies, net of tax effect	5	-	12	(1)
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	340	443	561	415
Attributed to the non-controlling rights holders in consolidated companies	(15)	(16)	(16)	(10)
Net Profit attributed to bank's shareholders	**325**	**427**	**545**	**405**
	2018			
Interest income	1,852	1,782	1,883	1,536
Interest expenses	432	370	463	262
Interest income, net	1,420	1,412	1,420	1,274
Credit loss expenses	176	123	129	112
Net interest income after credit loss expenses	**1,244**	**1,289**	**1,291**	**1,162**
Non-interest Income				
Non-interest financing income	177	160	145	104
Commissions	732	730	697	692
Other income	28	13	10	6
Total non-interest income	**937**	**903**	**852**	**802**
Operating and other Expenses				
Salaries and related expenses	903	826	838	818
Maintenance and depreciation of buildings and equipment	276	255	252	256
Other expenses	527	413	401	383
Total operating and other expenses	**1,706**	**1,494**	**1,491**	**1,457**
Profit before taxes	475	698	652	507
Provision for taxes on profit	144	248	218	179
Profit after taxes	331	450	434	328
Bank's share in profit (loss) of affiliated companies, net of tax effect	4	1	2	(1)
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	335	451	436	327
Attributed to the non-controlling rights holders in consolidated companies	(11)	(12)	(13)	(8)
Net Profit attributed to bank's shareholders	**324**	**439**	**423**	**319**

Appendix no. 3 - Condensed Consolidated balance sheet - multi quarter data

	2019				2018			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	(1)26,044	21,746	21,245	18,894	21,858	21,400	24,154	30,382
Securities	37,745	37,303	35,470	35,618	37,898	36,748	36,689	32,834
Securities borrowed or purchased under resale agreements	531	464	683	823	774	697	489	682
Credit to the public	(1)182,991	175,810	174,553	172,604	167,078	163,334	158,613	155,681
Provision for credit loss	(2,524)	(2,373)	(2,318)	(2,308)	(2,274)	(2,181)	(2,143)	(2,114)
Credit to the public, net	180,467	173,437	172,235	170,296	164,804	161,153	156,470	153,567
Credit to Governments	3,515	3,478	3,495	3,223	3,336	2,915	2,444	1,515
Investments in affiliated companies	171	172	173	196	135	119	120	120
Buildings and equipment	2,577	2,496	2,467	2,443	2,437	2,396	2,399	2,387
Intangible assets and goodwill	164	160	160	160	160	160	160	160
Assets in respect of derivative instruments	4,545	5,601	4,263	3,405	3,726	3,606	4,081	3,472
Other assets	4,064	3,921	4,122	4,382	4,048	3,959	3,782	3,663
Total Assets	**259,823**	**248,778**	**244,313**	**239,440**	**239,176**	**233,153**	**230,788**	**228,782**
Liabilities and Equity								
Deposits from the public	(1)201,450	194,462	192,814	190,839	188,916	184,826	183,210	181,111
Deposits from banks	6,419	5,980	6,416	4,970	6,886	6,013	6,009	5,924
Deposits from the Government	181	186	190	251	257	262	267	275
Securities loaned or sold under buy-back arrangements	346	1,481	536	637	1,126	1,600	1,519	1,478
Bonds and Subordinated debt notes	(1)13,129	8,131	8,158	8,271	8,476	7,340	7,357	7,407
Liabilities in respect of derivative instruments	4,839	6,079	4,345	3,395	3,249	3,374	3,726	3,290
Other liabilities	14,266	13,486	13,186	12,932	12,597	12,601	11,939	12,919
Total liabilities	240,630	229,805	225,645	221,295	221,507	216,016	214,027	212,404
Equity capital attributed to the Bank's shareholders	18,678	18,457	18,168	17,618	17,151	16,630	16,266	15,896
Non-controlling rights in consolidated companies	515	516	500	527	518	507	495	482
Total equity	19,193	18,973	18,668	18,145	17,669	17,137	16,761	16,378
Total Liabilities and Equity	**259,823**	**248,778**	**244,313**	**239,440**	**239,176**	**233,153**	**230,788**	**228,782**

Footnote:
(1) The increase in the fourth quarter is due mainly to the Municipal Bank merger.

Appendix no. 4 - Consolidated statement of profit and loss for the last five years

	As at December 31				
	2019	2018	2017	2016	2015
	in NIS millions				
Interest income	7,567	7,053	6,213	5,659	5,265
Interest expenses	1,674	1,527	1,238	1,102	1,042
Interest income, net	5,893	5,526	4,975	4,557	4,223
Credit loss expenses	690	540	574	469	187
Net interest income after credit loss expenses	**5,203**	**4,986**	**4,401**	**4,088**	**4,036**
Non-interest Income					
Non-interest financing income	742	586	595	754	363
Commissions	2,972	2,851	2,676	2,556	2,611
Other income	57	57	87	100	79
Total non-interest income	**3,771**	**3,494**	**3,358**	**3,410**	**3,053**
Operating and other Expenses					
Salaries and related expenses	3,343	3,385	3,204	3,169	3,393
Maintenance and depreciation of buildings and equipment	1,098	1,039	1,044	1,067	1,158
Other expenses	1,858	1,724	1,446	1,549	1,174
Total operating and other expenses	**6,299**	**6,148**	**5,694**	**5,785**	**5,725**
Profit before taxes	2,675	2,332	2,065	1,713	1,364
Provision for taxes on profit	932	789	747	741	566
Profit after taxes	1,743	1,543	1,318	972	798
Bank's share in profit of affiliated companies, net of tax effect	16	6	1	15	9
Net Profit :					
Before attribution to non-controlling rights holders	1,759	1,549	1,319	987	807
Attributed to the non-controlling rights holders	(57)	(44)	(60)	(82)	(57)
Net Profit attributed to bank's shareholders	**1,702**	**1,505**	**1,259**	**905**	**750**
Total earnings per share attributed to Bank's shareholders	**1.46**	**1.29**	**1.09**	**0.84**	**0.71**

Appendix no. 5 - Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2019	2018	2017	2016	2015
	In NIS millions				
Assets					
Cash and deposits with banks	26,044	21,858	28,026	29,311	28,518
Securities	37,745	37,898	32,703	38,818	38,935
Securities borrowed or purchased under resale agreements	531	774	954	440	279
Credit to the public	182,991	167,078	150,868	142,904	129,268
Provision for credit loss	(2,524)	(2,274)	(2,111)	(2,144)	(2,052)
Credit to the public, net	180,467	164,804	148,757	140,760	127,216
Credit to Governments	3,515	3,336	1,493	737	515
Investments in affiliated companies	171	135	153	157	144
Buildings and equipment	2,577	2,437	2,366	2,322	2,204
Intangible assets and goodwill	164	160	160	160	142
Assets in respect of derivative instruments	4,545	3,726	2,953	3,283	3,208
Other assets	4,064	4,048	3,656	3,589	3,696
Noncurrent assets held for sale	-	-	-	-	403
Total Assets	**259,823**	**239,176**	**221,221**	**219,577**	**205,260**
Liabilities and Equity			-		
Deposits from the public	201,450	188,916	175,170	172,318	157,875
Deposits from banks	6,419	6,886	4,804	5,342	3,907
Deposits from the Government	181	257	267	303	306
Securities loaned or sold under buy-back arrangements	346	1,126	1,943	3,543	3,833
Bonds and Subordinated debt notes	13,129	8,476	7,639	8,498	9,570
Liabilities in respect of derivative instruments	4,839	3,249	3,232	3,570	3,475
Other liabilities	14,266	12,597	12,098	11,067	10,985
Liabilities held for sale	-	-	-	-	1,675
Total liabilities	240,630	221,507	205,153	204,641	191,626
Equity capital attributed to the Bank's shareholders	18,678	17,151	15,594	14,512	13,288
Non-controlling rights in consolidated companies	515	518	474	424	346
Total equity	19,193	17,669	16,068	14,936	13,634
Total Liabilities and Equity	**259,823**	**239,176**	**221,221**	**219,577**	**205,260**

Appendix no. 6 - Additional details - securities portfolio

1. Available for sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	December 31 ,2019			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non goverment bonds				
Various sectors*	2,465	2,529	66	2
Financial services(1)	8,115	8,134	48	29
Total non government bonds	**10,580**	**10,663**	**114**	**31**
Government bonds				
U.S. government	1,564	1,575	18	7
Israel Government	16,856	17,232	377	1
Other Governments	91	92	1	-
Total government bonds	**18,511**	**18,899**	**396**	**8**
Total bond in the available-for-sale portfolio	**29,091**	**29,562**	**510**	**39**
	December 31 ,2018			
Total non governmental bonds and bills	**10,548**	**10,343**	**11**	**216**
Total government bonds and bills	**17,619**	**17,607**	**52**	**64**
Total available-for-sale bonds	**28,167**	**27,950**	**63**	**280**

* Most ot this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 104-199 million, each, in municipal bonds of Washington state, in bonds of New York City transitional authority ("TFA") and in bonds of the Texas state.

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	876	891	15	-
Ginnie Mae	5,486	5,493	25	18
Freddie Mac	212	212	1	1
Fannie Mae	276	278	3	1
Other	1,265	1,260	4	9
Total financial services	**8,115**	**8,134**	**48**	**29**

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America	77	77	-	-
Western Europe(3)	443	454	11	-
Israel	68	68	-	-
Australia	288	292	4	-
Total banks and banking holding companies	**876**	**891**	**15**	**-**

Appendix no. 6 - Additional details - securities portfolio

1. Available for sale bonds - data according to economic sectors

(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe

Britain	140	146	6	-
Sweden	70	70	-	-
France	157	158	1	-
Netherlands	42	43	1	-
Denmark	34	37	3	-
Total	**443**	**454**	**11**	**-**

2. Held-to-maturity securities - data according to economic sectors

Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

	December 31 ,2019			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	178	182	6	2
Financial services*	322	321	3	4
Total non government bonds	**500**	**503**	**9**	**6**
Total Government bonds	**4,253**	**4,495**	**242**	**-**
Total bonds in the held-to-maturity portfolio	**4,753**	**4,998**	**251**	**6**
	December 31 ,2018			
Total non govermental bonds and bills	**1,585**	**1,585**	**16**	**16**
Total government bonds and bills	**5,137**	**5,206**	**89**	**20**
Total held-to-maturity bonds	**6,722**	**6,791**	**105**	**36**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	109	110	2	1
Freddie Mac	150	148	1	3
Fannie Mae	63	63	-	-
Total financial services	**322**	**321**	**3**	**4**

Appendix no. 6 - Additional details - securities portfolio (continued)

3. Trading Bonds - data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	December 31 ,2019			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	59	58	2	3
Financial services	75	77	2	-
Total non government bonds	**134**	**135**	**4**	**3**
Total government bonds	**2,308**	**2,315**	**8**	**1**
Total bonds in the trading portfolio	**2,442**	**2,450**	**12**	**4**
	December 31 ,2018			
Total non govermental bonds	**181**	**174**	**-**	**7**
Total government bonds	**2,013**	**2,013**	**3**	**3**
Total trading bonds in the trading portfolio	**2,194**	**2,187**	**3**	**10**

Appendix no. 7 - Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 28 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2019	2018
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	3
With an AA- rating	125	179
With an A+ rating	657	390
With an A rating	59	99
With an A- rating	5	3
With a BBB+ rating	43	49
Not rated	108	27
Total against foreign banks	**997**	**750**
Total against Israeli banks	**382**	**770**
Total Balance-sheet balances of assets deriving from derivative instruments	**1,379**	**1,520**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2019	2018
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	4	-
With an AA- rating	2	1
With an A+ rating	75	126
With an A rating	7	31
With an A- rating	3	3
With an BBB+ rating	3	6
Total against foreign banks	**94**	**167**
Total against Israeli banks	**9**	**38**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**103**	**205**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 28 B to the financial statements according to the overall credit to the public risk per economic sectors

	As of December 31, 2019		As of December 31, 2018	
	in NIS million			
Agriculture				1
Industry:				
Machines, electrical and electronic equipment	25		97	
Mining, chemical industry and oil products	75		133	
Other	30		23	
Total industry		130		253
Construction and real estate:				
Acquisition of real estate for construction	79		60	
Real estate holdings	154		66	
Other	11		19	
Total Construction and real estate		244		145
Electricity and water		356		291
Commerce		215		61
Hotels, hotel services and food		30		29
Transporation and storage		33		36
Communications and computer services		34		23
Financial services:				
Financial institution (excluding banks)	1,106		370	
Private customers active on the capital market	270		567	
Financial holding institutions	1,083		793	
Insurance and provident fund services	-		-	
Total financial services		2,459		1,730
Business and other services		31		22
Public and community services		62		30
Private individuals - housing loans		-		-
Private individuals - other		9		12
Total credit risk in respect of derivative instruments		**3,603**		**2,633**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.		(1,971)		(747)
Total credit risk in respect of derivative instruments (after deduction of financial instuments and in respect of a cash collateral received)		**1,632**		**1,886**

Appendix no. 7 - Additional details (continued)

3. Credit levels in excess of NIS 800 million - additional details

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

General details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[(1)] (Consolidated)

	As at December 31	
	2019	2018
	in NIS thousands	
Field of activity:		
Financial services[(2)]	5,655,810	5,933,043
Industry	2,251,772	2,531,782
Electricity and water	1,409,606	1,948,314
Financial services	934,716	1,451,281
Real estate	1,002,774	1,382,711
Financial services	2,326,504	2,151,297
Communication and Computer Services	735,052	826,226
Transportation and Storage	1,081,376	984,022
Real estate	775,345	997,589
Real estate	756,275	911,009
Financial services	1,302,433	498,112
Real estate	1,066,828	609,422
Real estate	1,013,433	709,482
Public and Community Services	955,838	-
Commerce	810,079	640,924

Footnotes:

(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.

(2) Including mortgage backed securities issued by GNMA.

Appendix no. 7 - Additional details (continued)

4. Details of the investment in government bonds

Note 12 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	December 31, 2019		December 31, 2018	
	Book value	Fair value[(1)]	Book value	Fair value[(1)]
	In NIS millions			
Of the Israeli Government	23,784	24,026	23,989	24,058
U.S. government	1,591	1,591	475	475
Other governments	92	92	293	293
Total	**25,467**	**25,709**	**24,757**	**24,826**

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 8 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313). Special Mention Debt - A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as "impaired", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 8 – Glossary (continued)

Forward looking information	Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968. The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans. Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to…", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain. The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets. The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.
Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: A. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. B. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 9 – Index

Main Office

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.co.il

Subsidiaries In Israel

Banking
Mercantile Discount Bank

Capital Market And Investments
Tafnit Discount Asset Management
Discount Capital
Discount Capital Underwriting
Discount Manpikim

Credit Cards Companies
Israel Credit Cards
Diners Club

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head Office: 511 Fifth Avenue, New York
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative office
in Long Island