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CONDENSED FINANCIAL STATEMENTS

Q3 2020

Link to an accessible report

ISRAEL DISCOUNT BANK

Board of Directors and Management Report

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Condensed Financial Statements

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CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

At the meeting of the Board of Directors held on November 23, 2020, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for September 30, 2020 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

Condensed financial information regarding financial position and operating results

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

	Nine months 2020	2019	Year 2019
	In %		
Main performance indicators:			
Return on equity	5.0	10.4	9.4
Return on assets	0.34	0.76	0.70
Ratio of Net credit to the public to deposits from the public	82.9	89.2	89.6
Ratio of common equity tier 1 to risk assets	10.10	10.41	10.31
Ratio of total capital to risk assets	12.96	13.33	13.86
Leverage ratio[1]	6.4	7.1	6.9
Liquidity coverage ratio[1]	146.9	123.5	121.2
Efficiency ratio	64.9	64.0	65.2
Main credit quality indicators:			
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.91	1.35	1.38
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.21	1.23	1.25
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.22	0.22	0.23
Ratio of credit loss expenses to the average balance of credit to the public	1.08	0.33	0.40
	In NIS millions		
Principal statements of profit and loss data for the reporting period:			
Net Profit Attributed to the Bank's Shareholders	**711**	**1,377**	**1,702**
Net interest income	4,394	4,414	5,893
Credit loss expenses	1,518	429	690
Non-financing income	3,096	2,820	3,771
Of which: Fees and commissions	2,087	2,204	2,972
Non-financing expenses	4,861	4,633	6,299
Of which: salaries and related expenses	2,448	2,528	3,343
Comprehensive income, attributed to the Bank's shareholders	**537**	**1,497**	**1,782**
Total earnings per share attributed to Bank's shareholders (in NIS)	0.61	1.18	1.46

For footnote see next page.

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

	Nine months 2020	Nine months 2019	Year 2019
	In NIS millions		
Principal balance sheet data for the end of the reporting period:			
Total assets	**287,678**	**248,778**	**259,823**
Of which:			
Cash and deposits with banks	40,469	21,746	26,044
Securities	41,431	37,303	37,745
Net credit to the public	186,656	173,437	180,467
Total liabilities	**267,979**	**229,805**	**240,630**
Of which:			
Deposits from the public	225,108	194,462	201,450
Deposits from banks	9,384	5,980	6,419
Bonds and Subordinated debt notes	11,314	8,131	13,129
Equity capital attributed to the Bank's shareholders	19,160	18,457	18,678
Total equity	**19,699**	**18,973**	**19,193**
Additional data:			
Share price	924	1,457	1,601
Dividend per share	4.19	9.39	21.92
Ratio of Fees and commissions to total assets	1.0	1.2	1.2

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

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

Market share

Based on data relating to the banking industry as of June 30, 2020, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	June 30, 2020	December 31, 2019
	In %	
Total assets	16.2	16.2
Net credit to the public	17.2	17.2
Deposits from the public	15.9	15.9
Net interest income	18.8	18.4
Total non-interest income	26.7	23.2

Development of the Discount share

	Closing price at end of the trading day			Change in the first nine months of 2020 in %
	November 19, 2020	September 30, 2020	December 31, 2019	
Discount share	1,124	924	1,601	(42.3)
The TA 5 Banks index	1,995.21	1,641.00	2,606.44	(37.0)
The TA 35 index	1,423.96	1,308.16	1,683.29	(22.3)
Discount market value (in NIS billions)	13.08	10.76	18.64	(42.3)

Goals and business strategy

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

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

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

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

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

Acceleration of the efficiency measures

Alongside the management of the Corona crisis and the formation of an outline for the exit from the crisis, the Bank continues in the implementation of the strategic plan and in the realization of the potential in focusing the operations at the Bank and at the Group. During the reported period, the Management and the Board of Directors held strategic discussions, in which it was resolved to accelerated the efficiency measures and implement a wide scope retirement plan. See below "Efficiency of the Banking Industry".

Invigoration of the foci in the strategic plan

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

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

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

Goals of the Strategic Plan

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

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

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

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

Material trends, occurrences, developments and changes

Management's handling of current material issues

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

Outbreak of the Corona virus

General. A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. In March 2020, the World Health Organization announced the Corona virus a "pandemic".
Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households (see below "Principal economic developments"). Following a significant decline in the scope of morbidity in Israel, in the months of May and June, an additional widespread outbreak of the morbidity occurred during July-September. Following of the renewed outbreak, an additional lockdown was imposed in Israel in the months of September and October, which brought about a significant reduction in economic activity and a rise in the rate of unemployment.
Preparations made by the Bank. With the beginning of the crisis, the Bank's Management directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the Bank's President & CEO, managed the different layers of the Bank's operations under the crisis, while closely following developments and adopting measures for the reduction of the different risks and the maintenance of business continuity. The business divisions increased monitoring and control operations over the condition of the credit portfolio and of the financial assets portfolio of the Bank.
Concurrently with the management of the crisis, cross-organization teams, led by the Planning, Strategy and Finance Division, have begun planning the Bank's preparations for exiting the Corona crisis and the initiation of actions in this field.

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

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

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

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

In October, the Bank launched a new service – Mobile ATM, which goes out to care homes. The service is intended to provide an answer to the needs of the elderly population, which has not had access to banking services during the lockdown period.

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

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

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

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

The branch network operated in full during the second lockdown, with the exception of the ad-hoc closure of one branch due to contamination of employees by the Corona virus.

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

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

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

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

In addition, the risk environment has grown on the background of the present assessment regarding the possible implications of the crisis on the domestic and global economy. Likewise, evaluation of the reputation risk has been raised from "Low-Medium" to “Medium”, on the background of the high public sensitivity. (See below "Risk factors Table").

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

Expenses for credit losses in the amount of NIS 1,518 million were recognized in the first nine months of 2020, as compared to expenses of NIS 429 million in the corresponding period last year, an increase of 253.8%. This increase stems mostly from the implications of the crisis, and in particular from the increase in the group allowance for credit losses due to the rise in uncertainty in view of the Corona crisis.

It is noted that, within the framework of assessment of credit losses inherent in the credit portfolio with respect to borrowers affected by the crisis but not yet identified, use was made, inter alia, in deterioration coefficients based on the risk evaluation for the different economic sectors. Furthermore, the Bank conducted in the third quarter a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, decline in turnover and additional risk characteristics.

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

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

Effect on the value of the securities portfolio. During March, steep declines took place on the capital markets in Israel and throughout the world, which were expressed in a decrease in the value of the Bank’s marketable assets, mostly in the available-for-sale bonds portfolio. During the subsequent quarters, the capital markets experienced a recovery and, at the end of the third quarter, the value of the securities portfolio had risen compared to the end of 2019.

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

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

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

Fintech and Innovation

Within the framework of the Bank's activity regarding expansion of the open banking services, two fintech companies that operate in the field of cash flow management have signed agreements for joining the open banking platform of Discount Bank, viz: RiseUp Moments Ltd., which offers service to private customers, and Amir CashFlow Ltd., which offers service to small and medium businesses. The connection of these companies with Discount Bank will allow Discount customers who join these services to connect their account, in a secured manner, with no need for a user name and a pass code (as would be required from customers of all other banks). Introduction of the service is subject to technical adjustments.

Additional Issues

- **The 2020 retirement plan.** The Bank's Management has diligently engaged in the reported period in the preparation of a retirement plan. For additional details, see below "The 2020 retirement plan" under "Efficiency of the banking industry - the regulatory expectations".
- **Malfunction in the PayBox Application.** For details, see below "Operational risks" in "Chapter C - Risks review".
- **Discount Campus.** Construction work on the campus continued in the reported period. For additional details, see the 2019 Annual Report (p. 307-308) and Note 10 B 6 to the condensed financial statements.
- **An early redemption in full of the subordinate capital notes (Series 1).** For details, see Note 9 section 1 (I) to the condensed financial statements.
- **Realization of VISA Inc.** shares. For details, see Note 5 J to the condensed financial statements.

Principal economic developments

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

Growth. An unprecedented contraction was recorded in the first half of 2020 in the global economic activity and in global trade, following the spreading of the Corona pandemic and the adopted prevention measures. The return to business following the shutdown, has led to a speedy recovery in activity in the third quarter, in the wake of expansionary fiscal and monetary policies of an unprecedented scope. This should be qualified, due to the moderation recorded in the pace of recovery in recent weeks in view of the repeated outbreak of the virus in many countries around the world. Also in Israel, the cutback in the product in the first half was unprecedented and following the exit from the first lockout a relatively speedy recovery was recorded. Despite the strong growth in the third quarter (38% in annualized terms), the level of the product was 1.4% lower compared to corresponding quarter last year. It should be noted that, the second lockout stopped the recovery, leading to a significant deterioration in economic activity starting with the second half of September. The Corona crisis has caused also a shock to the labor market and to a steep increase in unemployment. Just before the second lockout, the labor market data indicated a slight improvement, but the imposed restrictions have turned back in the second half of September some three hundred thousand Israelis into the unpaid leave or unemployment circles. According to the Bank's estimates, a negative growth of approx. 4% is expected in 2020.

Exchange rates. During March, the foreign currency market recorded exceptional volatility against the background of the steep declines in the markets and the dollar's difficult liquidity situation. The shekel had been devalued at a steep rate, and in consequence thereof, the Bank of Israel provided liquidity to the market, the fluctuations declined and the Shekel gained strength. The appreciation trend of the Shekel continued in the following months, and the Bank of Israel resumed the purchase of foreign currency. In total for the first nine months of the year, the shekel appreciated against the US dollar at a moderate rate of 0.4%. The Bank estimates that the intervention of the Bank of Israel in the foreign currency market would prevent sharp fluctuations in the exchange rate.

Inflation. The inflationary environment declined sharply following the Corona crisis. The inflationary environment experienced a sharp decline following the Corona crisis. The annual inflation rate as well as the "core inflation" (excluding energy, fruit and vegetables) are found in the negative territory, and in September amounted to -0.7% and -0.4%, respectively. Inflation based contracts for one year were traded at the end of the third quarter at a negative level of – 0.15%. As estimated by the Bank, during 2020 a negative inflation of 0.5% is expected.

Monetary policy. The central banks around the world, headed by the FED, have taken unprecedented measures already at the beginning of the crisis, signaling an expansionary policy for a long period of time. The Bank of Israel is adopting an extremely expansionary policy, and is determined to maintain low interest rates for households, businesses and the Government. For this purpose it operates several plans on the financial markets, the most outstanding of which is the plan for the purchase of government bonds. In its interest rate decision of October 22, the said plan was enlarged by an additional amount of NIS 36 billion (to NIS 85 billion). On the same date, a new layer of the plan easing the credit terms for small and minute businesses was introduced, within the framework of which, the central bank shall provide the banks with loans bearing a negative interest of 0.1%, against credit extended to small and minute businesses. The Bank is predicting that the Bank of Israel's interest rate at the end of 2020 will be 0.1%.

Fiscal policy. Alongside actions taken by the central banks, governments around the world have announced wide scope assistance programs. According to different estimates, the budget deficit is expected to total approx. 13% of the product, in the wake of the economic plan announced by the Government and the impairment in tax revenues.
The financial markets. Share indices around the world suffered a jolt at the beginning of the crisis, though these started to recover towards the end of March on the background of the measures taken by central banks and governments. This recovery trend has continued so that in total for the first nine months of the year, share indices around the world recorded a relatively moderate decline in rates. Favorably prominent were the US share indices showing a positive return since the beginning of the year. The Tel Aviv Stock Exchange presented negative performance. Returns on government bonds (in Israel and the world over) were stabilized at a low level following involvement of the central banks.
The fourth quarter of 2020. The renewed global outbreak of the Corona is expected to adversely affect the product in the last quarter. The announcements by two leading companies (Pfizer and Moderna) regarding progress in developing a vaccine that has an efficacy rate of 90% and higher have supported optimism in the markets. The equity and commodity indices have risen, as have yields of government bonds. The FED maintained its policy unchanged, and continued to call the Administration for an additional fiscal expansion. The election results in the US are expected to lead to an additional fiscal expansion, though of a more reduced form. A growth in economic activity was recorded in Israel with the beginning of the reliefs from the lockdown. However, the pace of recovery is rather limited. The budget deficit reached in October 10.1% of the product (aggregate in the last 12 months), and returns on government bonds in Israel were traded showing an upward trend with an increase in the steepness of the graph. S&P rating agency has ratified the credit rating of the State of Israel at the level of "-AA", leaving the rating outlook at "Stable".
Forward-looking information. The aforesaid includes, inter alia, assessments of the Bank regarding the future development of primary indicators, which are deemed to be forward-looking information. The aforesaid reflects the assessment of the Bank's Management, taking account of information available to it at the time of preparing the quarterly report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.
For further details, see "Main developments in Israel and around the world in the first nine months of 2020" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Leading and developing risks

The Bank considers business model risks, cyber and data protection risks, model risks, privacy protection aspects as well as conduct risks, as the most significant developing leading risks. For additional details see the 2019 Annual Report (pp. 20-21).
Macro environment risk. In light of the Corona crisis, the macro environment risk worsened in the first quarter of 2020, in light of the material implications likely to arise from the crisis for the domestic and global economy, as well as for the markets. The crisis has led to increased risk in most of the managed risk sectors and, particularly, with regard to credit risk and operational risk. At this stage, considerable uncertainty exists regarding the severity of the crisis and the length of time over which it is expected to impact the global and domestic economy and the banking sector, including the Discount Group. For additional details see "Outbreak of the Coronavirus" above.

Initiatives concerning the banking sector and its operations

Increase in competition and reduction in concentration Act. The Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation Amendments) Act, 2017, was published in the Official Gazette on January 31, 2017. The Act constitutes the adoption of the recommendations of the Strum Committee, appointed in June 2015 by the Minister of Finance and by the Governor of the Bank of Israel, in order to recommend, inter alia, of ways for attracting new participants in the competition for the supply of prevalent financial services, including by way of separation from banks of the ownership of credit card companies.
In the first stage, within the framework of implementing the Act, the credit card companies Isracard and MAX (formally: Leumi Card) were separated from Bank Hapoalim and Bank Leumi, respectively, and the separation of ownership of the credit card companies from the banks did not apply to the owners of ICC. Only in the second stage will the issue of the separation of ownership in relation to ICC be re-examined. According to the Act, on February 1, 2021, a two-year period will commence during which the Minister of Finance may order ICC to be separated from the banks that currently own it. This and more, if in the past the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, MAX and ICC), so that competition exists now between the companies. Each bank holding control means in a debit card company, is required to divert a part of the business of issuing new cards to its customers to at least one other operating company, with which the bank had no business relations in the past. From the view point of ICC, although there is a reduction in the issue of credit cards to customers of the owner banks, ICC now has the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

The aforementioned could have a material effect on the banking system, including the Bank itself, on the credit card market and on ICC. Nevertheless, at this stage, prior to clarifying the nature, character, scope and timing of all the measures that will be taken, it is not possible to assess the aforesaid effects either in terms of materiality or in terms of quantity.
The additional tax that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of June 30, 2020, is estimated at NIS 57 million.
For details regarding the said Act and additional legislation initiatives concerning the banking sector, see the 2019 Annual Report (pp. 364-369). For details in respect of agreements between ICC and certain banks on the one hand, and between the Bank and MAX on the other hand, see the 2019 Annual Report (p. 287). For details in the matter of "Changes regarding competition in the credit card market", see the 2019 Annual Report (pp. 350-351).
Reduction of the cross-commission rate. The Banking Order (Customer service)(Supervision over cross-clearing service for transactions made by charge cards and for immediate debit transactions), 2018, was published on November 2, 2018, establishing an outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five stages and an outline with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date to a rate of 0.25%. The Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated. For additional details, see the 2019 Annual Report (pp. 285-286).
For details regarding the exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expired on December 31, 2018), published by the Competition Commissioner, see the 2019 Annual Report (pp. 285-286).
Encouraging innovation at banks and at clearing agents. The Supervisor of Banks published a letter on June 23, 2019, which defines the expectations from the banking corporations and clarifies the regulatory viewpoint with the aim of reaching a further stage in the encouragement of innovation. For details regarding the actions taken by the Bank in this respect, see above "The updated strategic plan" and below "Technological improvements and innovation".
Initiatives in view of the Corona crisis. For details regarding regulation in view of the Corona crisis, including regulation moves initiated by the Supervisor of Banks, intended to allow the banking system to fulfill its duty during the period of crisis and thereafter, see "Legislation and supervision" hereunder. For details regarding credit funds established by the State, operated through the banking system for the support of the economy in this period, see below "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments".

Efficiency of the Banking Industry

Regulatory expectations. The position of the Supervisor of Banks is that the banking industry in Israel is characterized by low efficiency, as compared with banks in the developed countries. One of the key targets defined by the Supervisor of Banks is improvement in bank efficiency, namely – a reduction in bank expenses in relation to income. The object of the Supervisor is that the efficiency obtained by banks would also reach the customers, namely, would reduce the cost of bank services, lead to the shifting of resources to innovation and improvement of banking service, and to the increase in dividends to bank shareholders, who are mainly the public at large in Israel.
On December 17, 2019, the Supervisor of Banks extended the validity of letters regarding operational efficiency of the banking system dated January 12, 2016 and June 13, 2017, within the framework of which banks had been granted certain relief in the matter of capital adequacy, until December 31, 2021. This, in order to enable the banking corporations to implement additional efficiency plans.
The 2020 retirement plan. On August 26, 2020, the Board of Directors approved a retirement plan, following an outline that had been formed by the Bank's Management, on the background of the Corona crisis and the intention to significantly increase the number of retirees over and above the employees expected to reach natural retirement. In view of the above stated, it has been decided to alter the retirement outline at the Bank, in an exceptional and one-time manner, offering retirees preferential terms compared with the usual retirement terms and the terms that had been offered in previous plans.
In accordance with the plan, early retirement at preferential terms is being offered to approx. 300 permanent employees of the Bank, belonging to the defined targeted population (ages 50-66). Retirees are offered increased severance pay at the rate of up to 200% (in excess of severance pay in accordance with the law). Within the framework of the plan, additional rewards are offered to the focused population (ages 56-60) in relation to the remaining number of years until retirement, to shift/split-up work employees and employees earning a low salary.
In light of the success of the retirement plan and the interest shown by many additional employees in retiring in accordance with the terms and conditions of the plan, the Bank's Board of Directors approved, on October 19, 2020, enlarging the retirement plan by up to an additional 200 employees.
The boards of directors of MDB and of ICC have approved an early retirement plan for approx. 60 employees and approx. 80 employees during 2020-2021, accordingly (see Note 8 D to the condensed financial statements). Accordingly, as assessed by the Bank's management, up to approx. 790 Group employees in Israel are likely to retire during 2020-2021 (including natural retirement of approx. 150 employees, of whom 51 employees had actually retired as of September 30, 2020).

The stated plans increased the liability stated in the books by approx. NIS 545 million (before tax effect; in excess of the cost of the legal severance pay and the surplus balance from a previous plan; NIS 354 million, net of the tax effect, which was charged to equity as "Adjustments in respect of employee benefits" as part of "Other comprehensive profit (loss)").
The Banking Supervision Department has granted the Bank and MDB reliefs with regard to the calculation of capital adequacy in respect of the aforementioned retirement plan. The effect of the reliefs on the Common Equity Tier 1 ratio amounts to approx. 0.21% (for further details, see Note 9 section 1 (e)-(g) to the condensed financial statements).
As assessed by the Bank's Management, 500 retirees within the framework of the retirement plans at the Bank and MDB will complete the retirement process prior to the end of 2020. The remainder of the retirees will complete the process in 2021. Accordingly, the amount of the settlement that was charged to profit and loss in the first nine months of 2020 (including in respect of the previous retirement plans) amounted to NIS 40 million (before tax effect). The amount of the settlement to be charged to profit and loss in the fourth quarter of 2020, in respect of the Bank and MDB, is expected to amount to approx. NIS 344 million (before tax effect). An additional settlement amount will be recognized in 2021, in respect of employees retiring in this year. The balance will be spread over the average duration of the liability, which currently stands at approx. 13 years, in accordance with the accounting principles applicable to the Bank.
It should be noted that the amount of the settlement, which the Bank estimates will be charged to profit and loss in the fourth quarter, is expected to have a material effect on the results of the fourth quarter.
Until November 15, 2020, some 540 employees (at the Bank, MDB and ICC) have singed a retirement agreement and are expected to retire until the end of 2020, of which seventeen employees who had actually retired until September 30, 2020.
Forward-looking information. The data presented above is considered forward-looking information, within the meaning of the term in the Securities Act, 1968. The scope of the efficiency plans, as well as their effect on profit and loss and on capital adequacy, during the period of the plans and thereafter, are dependent, inter alia, on the extent of employee response to the retirement offers, in accordance with the terms of the plan, and in the scope of completing the retirement process before the end of 2020, in changes in the discounting rate used for actuarial computations and in other actuarial changes, and in the characteristics of the retiree population (seniority, gender and salary level). Accordingly, the actual effects of the retirement plan may be materially different from the data presented above.

Review by the independent auditors

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

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The business results for the first nine months of 2020 have been materially affected by the Corona crisis and the reaction of the markets.
Net profit attributed to the Bank's shareholders for the first nine months of 2020 totaled NIS 711 million, compared with NIS 1,377 million in the corresponding period last year, a decrease of 48.4%.
Net return on Shareholders' equity for the first nine months of 2020 reached a rate of 5.0%, on an annual basis, compared with a rate of 10.4% for the corresponding period last year, and 9.4% for all of 2019.
The following are the main factors that had an effect on the business results of the Group in the first nine months of 2020, compared with the corresponding period last year:

a. A decrease in net interest income, in an amount of NIS 20 million (0.5%).
b. An increase in credit loss expenses, of NIS 1,089 million (253.8%). The increase stems mostly from the implications of the Corona crisis, and in particular from the increase in the group allowance for credit losses.
c. An increase in the total non-interest income, of NIS 276 million (9.8%), affected mostly by an increase of NIS 397 million in non-interest financing income (66.5%), which stemmed, mostly, from the increase in gains on realization of bonds and from the increase in income from exchange differences and from derivative operations, from the increase in gains from the sale of shares not held for trading and from a decrease of NIS 117 million in fees and commissions (5.3%), mainly from a decrease in fees and commissions on credit cards and account management.

d. An increase in operating and other expenses in the amount of NIS 228 million (4.9%), which was mostly affected by other expenses and by an increase in maintenance and depreciation expenses, which were partly offset by the reduction in salaries and related expenses.
e. Tax provision of NIS 390 million in the first nine months of 2020, compared with NIS 764 million in the corresponding period last year.

Additional details and explanations are presented below.

Net profit attributable to the Bank's shareholders amounted in the third quarter of 2020 to NIS 258 million, compared to NIS 174 million in the second quarter of the year, a decrease at the rate of 48.3%, and compared to NIS 427 million in the third quarter of 2019, a decrease at the rate of 39.6%.

Net return on equity attributable to the Bank's shareholders reached in the third quarter of 2020 an annualized rate of 5.5%, compared to 3.7% in the second quarter of the year and compared to 9.7% in the third quarter of 2019.

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

a. An increase in net interest income in the amount of NIS 13 million (0.9%).
b. A decrease in expenses for credit losses in the amount of NIS 202 million (38.0%).
c. An increase in non-interest income in the amount of NIS 72 million (7.7%).
d. An increase in operating and other expenses in the amount of NIS 164 million (10.4%).
e. A provision for taxes on income in the amount of NIS 134 million was recorded in the third quarter of 2020, compared to an amount of NIS 105 million in the preceding quarter.

Developments in Income and Expenses

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

	For the nine months ended September 30,		
	2020	2019	Change in %
	In NIS millions		
Interest income	5,263	5,707	(7.8)
Interest expenses	869	1,293	(32.8)
Net interest income	4,394	4,414	(0.5)
Credit loss expenses	1,518	429	253.8
Net interest income after credit loss expenses	**2,876**	**3,985**	**(27.8)**
Non-interest Income			
Non-interest financing income	994	597	66.5
Fees and commissions	2,087	2,204	(5.3)
Other income	15	19	(21.1)
Total non-interest income	**3,096**	**2,820**	**9.8**
Operating and other Expenses			
Salaries and related expenses	2,448	2,528	(3.2)
Maintenance and depreciation of buildings and equipment	848	804	5.5
Other expenses	1,565	1,301	20.3
Total operating and other expenses	**4,861**	**4,633**	**4.9**
Profit before taxes	1,111	2,172	(48.8)
Provision for taxes on profit	390	764	(49.0)
Profit after taxes	721	1,408	(48.8)
Bank's share in profit of associates, net of tax effect	14	11	27.3
Net profit attributed to the Non-controlling interests in consolidated companies	(24)	(42)	(42.9)
Net Profit attributed to Bank's shareholders	**711**	**1,377**	**(48.4)**
Return on Shareholders' equity, in %[(1)]	5.0	10.4	
Efficiency ratio in %	64.9	64.0	
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**866**	**1,417**	**(38.9)**
Return on Shareholders' equity, in %[(1)]- excluding certain components (see below)	6.1	10.7	
Efficiency ratio in % - excluding certain components (see below)	61.4	63.2	

Footnote:
(1) On an annual basis.

Profitability - Excluding certain components

	For the nine months ended September 30		
	2020	2019	
	in NIS millions		Change in %
Net Profit Attributed to the Bank's Shareholders - as reported	711	1,377	(48.4)
Excluding[1]:			
Gains on the sale of rights in Visa Europe	(44)	-	
Retirement plan in a subsidiary	18	-	
Effect of settlement	26	26	
Effect of the change in the tax rate	155	14	
Net Profit Attributed to the Bank's Shareholders - excluding the above components	**866**	**1,417**	**(38.9)**

Footnote:

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

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

	2020		2019	Change Q3 2020 compared to	
	Q3	Q2	Q3	Q2 2020	Q3 2019
	In NIS millions			in %	
Interest income	1,730	1,742	1,751	(0.7)	(1.2)
Interest expenses	254	279	353	(9.0)	(28.0)
Net interest income	1,476	1,463	1,398	0.9	5.6
Credit loss expenses	330	532	152	(38.0)	117.1
Net interest income after credit loss expenses	**1,146**	**931**	**1,246**	**23.1**	**(8.0)**
Non-interest Income					
Non-interest financing income	301	276	195	9.1	54.4
Fees and commissions	698	650	765	7.4	(8.8)
Other income	7	8	10	(12.5)	(30.0)
Total non-interest income	**1,006**	**934**	**970**	**7.7**	**3.7**
Operating and other Expenses					
Salaries and related expenses	830	794	824	4.5	0.7
Maintenance and depreciation of buildings and equipment	289	274	272	5.5	6.3
Other expenses	628	515	437	21.9	43.7
Total operating and other expenses	**1,747**	**1,583**	**1,533**	**10.4**	**14.0**
Profit before taxes	405	282	683	43.6	(40.7)
Provision for taxes on profit	134	105	240	27.6	(44.2)
Profit after taxes	271	177	443	53.1	(38.8)
Bank's share in profit of associates, net of tax effect	6	4	-	50.0	-
Net loss (profit) attributed to the Non-controlling interests in consolidated companies	(19)	(7)	(16)	171.4	18.8
Net Profit attributed to Bank's shareholders	**258**	**174**	**427**	**48.3**	**(39.6)**
Return on Shareholders' equity, in %[1]	5.5	3.7	9.7		
Efficiency ratio in %	70.4	66.0	64.7		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**357**	**226**	**439**	**58.0**	**(18.7)**
Return on Shareholders' equity, in %[1] - excluding certain components (see below)	7.7	4.8	9.9		
Efficiency ratio in % - excluding certain components (see below)	63.3	62.7	64.0		

Footnote:

(1) On an annual basis.

Profitability - Excluding certain components

	2020		2019	Q3 2020 compared to	
	Q3	Q2	Q3	Q2 2020	Q3 2019
	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported	258	174	427	48.3	(39.6)
Excluding[(1)]:					
Gains on the sale of rights in Visa Europe	(44)	-	-		
Subsidiary retirement plan	18	-	-		
Effect of settlement	16	6	12		
Effect of the change in the tax rate	109	46	-		
Net income attributed to the Bank's shareholders - excluding the above components	**357**	**226**	**439**	**58.0**	**(18.7)**

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

Details regarding Eliminated Components

Effect of settlement. Acceleration of the amortization of "actuarial profits/losses" (a charge to profit and loss) following the payment of severance pay to retirees, including those who had retired within the framework of the 2020 retirement plan (see Note 8 D to the condensed financial statements).

Gain on sale of the VISA Inc. shares. Gain in respect of a part of the shares received by ICC and the Bank in 2016, with respect to the merger transaction between VISA Europe and VISA Inc. (see Note 5 J to the condensed financial statements).

Retirement plan at a subsidiary company. A voluntary retirement plan at ICC, which recognized the total cost of the plan as an expense in the third quarter of the year (see Note 8 D (3) to the condensed financial statements).

Provision for claims. Increase in the provision for the proceedings in Australia, see Note 10 (sections 4.2 and 5.1) to the condensed financial statements.

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

Net interest income. In the first nine months of 2020, net interest income, amounted to NIS 4,394 million compared with NIS 4,414 million in the corresponding period last year, a decrease of 0.5%. The decrease in the net interest income, in the amount of NIS 20 million, is explained by a negative price impact of NIS 337 million, and a positive quantitative effect in the amount of NIS 317 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).

The interest spread, excluding derivatives, reached a rate of 2.24% in the first nine months of 2020, compared with 2.48% in the corresponding period last year.

The average balance of interest bearing assets has increased by a rate of approx. 13.3%, from an amount of NIS 218,283 million to NIS 247,355 million, and the average balance of interest bearing liabilities increased by a rate of approx. 11.5%, from an amount of NIS 169,391 million to NIS 188,866 million.

Net interest income according to linkage segments

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

	For the nine months ended September 30					
	2020			2019		
	Volume of activity[(1)] in %	Net interest income in NIS millions	Interest spread in %	Volume of activity[(1)] in %	Net interest income in NIS millions	Interest spread in %
Unlinked shekels	70.7	3,513	2.62	68.5	3,407	2.96
CPI-linked shekels	7.9	113	(0.10)	8.5	178	(0.56)
Foreign Currency	21.4	768	1.84	23.0	829	2.06
Net interest income and the Interest spread	**100.0**	**4,394**	**2.24**	**100.0**	**4,414**	**2.48**

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

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

Non-interest financing income amounted in the first nine months of 2020 to NIS 994 million, compared to NIS 597 million in the corresponding period last year, an increase of 66.5%. The growth in noninterest financing income stemmed, mostly, from the growth in gains on realization of bonds, from the growth in income from exchange differences and from operations in derivatives (see below "Analysis of the total net financing income").

Non-interest financing income in the third quarter of 2020 amounted to NIS 301 million, compared to NIS 195 million in the corresponding period last year, a 54.4% increase. The rise in non-interest financing income is mainly due to the increase in gains on the realization of bonds and on the sale of the VISA Inc. shares (see Note 5 J to the condensed financial statements).

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

Composition of net financing income

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions						
Interest income	1,730	1,742	1,791	1,860	1,751	2,150	1,806
Interest expenses	254	279	336	381	353	555	385
Net interest income	1,476	1,463	1,455	1,479	1,398	1,595	1,421
Non-interest financing income	301	276	417	145	195	230	172
Total net financing income	**1,777**	**1,739**	**1,872**	**1,624**	**1,593**	**1,825**	**1,593**

Analysis of the total net financing income

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions						
Financing Income from current operations	1,523	1,552	1,617	1,586	1,528	1,556	1,529
Effect of CPI	5	(16)	(24)	(12)	(33)	73	(14)
Net profit from realization and adjustment to fair value of bonds*	96	142	178	23	65	66	57
Profit (loss) from investments in shares**	116	7	(8)	5	37	71	10
Adjustment to fair value of derivative instruments	14	18	6	6	(51)	44	(35)
Exchange rate differences, options and other derivatives*	23	36	103	16	47	14	40
Net profit on the sale of loans	-	-	-	-	-	1	6
Total net financing income	**1,777**	**1,739**	**1,872**	**1,624**	**1,593**	**1,825**	**1,593**
*Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	(1)	(7)	55	6	(19)	(5)	(35)
**Of which: income from realizations in Discount Capital in deduction of provision for impairment	18	(3)	-	(1)	14	36	4
**Of which – income from the realization of VISA Inc. shares.	88	--	--	--	--	--	--

Net financing income, amounted to NIS 5,388 million in the first nine months of 2020, compared to NIS 5,011 million in the corresponding period last year, an increase of 7.5%. The increase in financing income stemmed, mostly, from an increase of NIS 79 million in profit from current operations, from an increase of NIS 227 million in profits from the sale and adjustment to fair value of bonds, and from an increase of NIS 80 million in adjustments to the fair value of instruments.

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

Interest spread, including derivatives not for trading reached a rate of 1.91% in the first nine months of 2020, compared with 2.05% in the corresponding period last year.

Net financing income amounted in the third quarter of 2020 to NIS 1,777 million, compared to NIS 1,593 million in the corresponding quarter last year, an increase at the rate of 11.6%, and compared to NIS 1,739 million in the second quarter of 2020, an increase at the rate of 2.2%.

The interest spread including non-trading derivatives reached in the third quarter of 2020 a rate of 1.97%, compared to 2.06% in the corresponding quarter last year and compared to 1.84% in the second quarter of 2020.

Development of the net interest income, by regulatory operating segments

	For the three months ended September 30,			For the nine months ended September 30,		
	2020	2019		2020	2019	
	In NIS millions		Change in %	In NIS millions		Change in %
Domestic operations:						
Households	480	498	(3.6)	1,491	1,462	2.0
Private banking	15	22	(31.8)	55	65	(15.4)
Small and minute businesses	353	398	(11.3)	1,102	1,168	(5.7)
Medium businesses	85	82	3.7	264	241	9.5
Large businesses	205	179	14.5	593	556	6.7
Institutional bodies	5	10	(50.0)	23	28	(17.9)
Financial management	139	(12)		238	195	22.1
Total Domestic operations	**1,282**	**1,177**	**8.9**	**3,766**	**3,715**	**1.4**
Total International operations	**194**	**221**	**(12.2)**	**628**	**699**	**(10.2)**
Total	**1,476**	**1,398**	**5.6**	**4,394**	**4,414**	**(0.5)**

Credit loss expenses. In the first nine months of 2020 credit loss expenses in the amount of 1,518 million were recorded, compared with expenses of NIS 429 million in the corresponding period last year, an increase of 253.8%. The increase stems mostly from the implications of the Corona crisis, and in particular from the increase in the group allowance for credit losses. The said growth is in addition to the credit loss expenses in the amount of approx. NIS 50 million, recorded in the Bank's financial statements as at December 31, 2019, in respect of the implications of the Corona virus outbreak, including the price reduction in the markets.

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

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

- Recognition of expenses on a group basis in the amount of NIS 1,282 million, compared to NIS 339 million in the first nine months of 2019, a growth impacted, mostly, by the increase in the adjustment coefficient of the Bank due to the rise in uncertainty in view of the Corona crisis;
- Recognition of expenses on a specific basis in the amount of NIS 169 million, compared to NIS 69 million in the first nine months of 2019, a growth impacted, mostly, by the expenses of the Bank in respect of a number of borrowers affected by the crisis;
- Recognition of an expense regarding housing loans, in the amount of NIS 67 million, compared with NIS 21 million in the first nine months of 2019, an increase of 219%, impacted, mostly, by the additional allowance made on a group basis, with respect to credit, the mortgage repayment of which had been deferred regarding the Corona crisis.

It is noted that, within the framework of assessment of credit losses inherent in the credit portfolio with respect to borrowers affected by the crisis but not yet identified, use was made, inter alia, in deterioration coefficients based on the risk evaluation for the different economic sectors. Furthermore, the Bank conducted in the third quarter a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, decline in turnover and additional risk characteristics.

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

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

Details of the quarterly development in the credit loss expenses

	For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2019
	In NIS millions		
On a specific basis			
Change in allowance	87	42	126
Gross accounting write-offs	254	197	275
Collection	(172)	(170)	(220)
Total on a specific basis	**169**	**69**	**181**
On a group basis			
Change in allowance	1,118	99	168
Gross accounting write-offs	440	454	602
Collection	(209)	(193)	(261)
Total on a group basis	**1,349**	**360**	**509**
Total	**1,518**	**429**	**690**
Rate of credit loss expenses to the average balance of credit to the public(1)	(2)1.08%	0.33%	0.40%

Footnotes:
(1) On an annual basis.
(2) Including an expense in an immaterial amount in respect of credit to banks and governments.

Quarterly development in the credit loss expenses

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions						
On a specific basis							
Change in allowance	18	10	59	84	34	18	(10)
Gross Accounting Write-offs	78	68	108	78	62	70	65
Collection	(49)	(67)	(56)	(50)	(72)	(46)	(52)
Total on a specific basis	**47**	**11**	**111**	**112**	**24**	**42**	**3**
On a group basis							
Change in allowance	227	432	459	69	44	(2)	57
Gross Accounting Write-offs	124	151	165	148	146	160	148
Collection	(68)	(62)	(79)	(68)	(62)	(64)	(67)
Total on a group basis	**283**	**521**	**545**	**149**	**128**	**94**	**138**
Total	**330**	**532**	**656**	**261**	**152**	**136**	**141**
Rate of credit loss expenses to the average balance of credit to the public(1):							
The rate in the quarter:	(2)0.70%	(2)1.14%	1.42%	0.58%	0.35%	0.32%	0.33%
Cumulative rate since the beginning of the year:	(2)1.08%	(2)1.28%	1.42%	0.40%	0.33%	0.32%	0.33%

Footnotes:
(1) On an annual basis.
(2) Including an expense in an immaterial amount in respect of credit to banks and governments.

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

Fees and commissions in the first nine months of 2020 amounted to NIS 2,087 million, compared to NIS 2,204 million in the corresponding period last year, a decrease of 5.3%.

Distribution of the fees and commissions

	For the three months ended September 30,			For the nine months ended September 30,		
	2020	2019	Change in %	2020	2019	Change in %
	in NIS millions					
Account Management fees	108	118	(8.5)	330	352	(6.3)
Credit cards	331	371	(10.8)	975	1,040	(6.3)
Operations in securities and in certain derivative instruments	86	80	7.5	252	236	6.8
Fees and commissions from the distribution of financial products	34	42	(19.0)	106	113	(6.2)
Handling credit	37	47	(21.3)	130	135	(3.7)
Conversion differences	30	34	(11.8)	90	100	(10.0)
Foreign trade services	12	13	(7.7)	35	43	(18.6)
Net income from credit portfolio services	1	1	-	3	4	(25.0)
Fees and commissions on financing activities	39	43	(9.3)	110	124	(11.3)
Other Fees and commissions	20	16	25.0	56	57	(1.8)
Total Fees and commissions	**698**	**765**	**(8.8)**	**2,087**	**2,204**	**(5.3)**

Credit card fees and commissions. The Corona crisis caused a reduction in credit card activity as from the month of March 2020. The decrease in the second quarter and third quarter amounted to NIS 83 million, which was partly offset by the growth in activity until the outbreak of the crisis.

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

Salaries and related expenses amounted to NIS 2,448 million in the first nine months of 2020, compared with NIS 2,528 million in the corresponding period last year, a decrease of 3.2%. Eliminating the effect of certain components as detailed below, an increase of 2.0% would have been recorded.

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

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions						
Salaries and Related Expenses - as reported	830	794	824	815	824	857	847
Awards	(24)	(17)	(21)	(59)	(64)	(94)	(69)
Subsidiary retirement plan	(38)	-	-	-	-	-	-
Salaries and Related Expenses - Excluding certain components	**768**	**777**	**803**	**756**	**760**	**763**	**778**

Other expenses amounted to NIS 1,565 million in the first nine months of 2020, compared to NIS 1,301 million in the first nine months of 2019, an increase of 20.3%. The increase was mainly affected by increase in the provision for the proceedings in Australia (see Note 10, sections 4.2 and 5.1 to the condensed financial statements) in the amount of NIS 239 million, in the first nine months (an amount of NIS 168 million in the third quarter), by the increase in commission in the amount of NIS 56 million, impacted mostly from the increase in payments by ICC to business partners, and by the increase in computer expenses in the amount of NIS 19 million, partly offset by a reduction in advertising and marketing expenses of NIS 24 million, and a reduction in long-term benefits of NIS 36 million.

Developments in the comprehensive income

Condensed statement of comprehensive income

	For the nine months ended September 30,		
	2020	2019	Change in %
	in NIS millions		
Net Profit attributed to the Bank's shareholders	711	1,377	(48.4)
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss) , before taxes[1]	(271)	298	
Related tax effect	97	(178)	
Other comprehensive income (loss) , attributed to the Bank's shareholders, after taxes	(174)	120	
Comprehensive income, attributed to the Bank's shareholders	**537**	**1,497**	**(64.1)**

Footnote:

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

Other comprehensive loss after taxes amounted to NIS 174 million in the first nine months of 2020. The main items comprising the other comprehensive income (loss) are:

- Net adjustments in respect of the presentation of available-for-sale bonds at fair value – in the first nine months of 2020, the returns on the bonds held by the Bank Group decreased, which resulted in other comprehensive income after attribution of tax in the amount of NIS 114 million. Alongside the impact of the aforesaid increase in the fair value, the other comprehensive income was also affected by the realization of bonds at a profit;
- Adjustments from the translation of the New York subsidiary's financial statements – in the first nine months of 2020, the exchange rate of the shekel against the US dollar appreciated by (0.4)%. Accordingly, other comprehensive loss was recorded due to a decrease in the shekel value of the investments in this subsidiary, in the amount of NIS 14 million;
- Adjustments in respect of employee benefits – employee benefits in respect of their post-retirement rights and other long-term benefits for working employees are calculated, in conformance with the directives of the Supervisor of Banks, using a discount rate derived from the yield of Israeli government bonds plus an average margin of corporate bonds with an (international) rating of AA. In view of the increase that took place in the first nine months of 2020 in return on bonds, the Bank recorded other comprehensive income of NIS 70 million, after attribution of tax, and also recorded other actuarial losses of NIS 344 million, of which – a total of NIS 354 million after attribution of tax, in respect of the 2020 retirement plan.

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

Development of Assets and Liabilities

Total assets as at September 30, 2020, amounted to NIS 287,678 million, compared with NIS 259,823 million at the end of 2019, an increase of 10.7%.

Developments in the principal balance sheet items

	September 30, 2020	December 31, 2019	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	40,469	26,044	55.4
Securities	41,431	37,745	9.8
Net credit to the public	186,656	180,467	3.4
Liabilities			
Deposits from the public	225,108	201,450	11.7
Deposits from banks	9,384	6,419	46.2
Bonds and Subordinated debt notes	11,314	13,129	(13.8)
Shareholders' equity	19,160	18,678	2.6
Total equity	19,699	19,193	2.6

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

Cash and deposits with banks

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

Credit to the public

General. Net credit to the public (after allowance for credit losses) as at September 30, 2020 totaled NIS 186,656 million, compared with NIS 180,467 million at the end of 2019, an increase of 3.4%.

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

Composition of credit to the public by linkage segments

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

	September 30, 2020		December 31, 2019		
	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	138,390	74.2	132,824	73.6	4.2
CPI-linked shekels	18,317	9.8	18,348	10.2	(0.2)
Foreign currency and foreign currency-linked shekels	29,949	16.0	29,295	16.2	2.2
Total net credit to the public	**186,656**	**100.0**	**180,467**	**100.0**	**3.4**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 2.2% compared with December 31, 2019. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$227 million, an increase of 2.7% as compared to December 31, 2019. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 3.5% as compared to December 31, 2019.

Composition of credit to the public by regulatory operating segments

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

	September 30, 2020	December 31, 2019	change
	In NIS millions		in %
Domestic operations:			
Households*	70,974	69,211	2.5
Private banking*	368	326	12.9
Small and minute businesses	36,734	36,837	(0.3)
Medium businesses	13,130	12,628	4.0
Large businesses	43,948	39,529	11.2
Institutional bodies	665	676	(1.6)
Total Domestic operations	**165,819**	**159,207**	**4.2**
Total International operations*	**24,481**	**23,784**	**2.9**
Total credit to the public	**190,300**	**182,991**	**4.0**
Credit loss expenses	(3,644)	(2,524)	44.4
Total net credit to the public	**186,656**	**180,467**	**3.4**
*Of which - Mortgages	41,151	37,159	10.7

The increase in credit to the public in the first nine months of 2020 reflects growth in the focus points determined in the updated strategic plan. Credit to large business grew by NIS 4,419 million (11.2%) and housing credit grew by NIS 3,992 million (10.7%). On the other hand, a reduction was recorded in credit to households, excluding housing loans, in the amount of NIS 2,152 million (6.6%).

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

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

	September 30, 2020		December 31, 2019		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	21,412	7.4	19,982	7.1	7.2
Construction and real estate - construction	33,426	11.3	31,382	11.2	6.5
Construction and real estate - real estate activity	24,652	8.4	22,973	8.2	7.3
Commerce	30,058	10.2	29,056	10.3	3.4
Financial services	27,791	9.4	24,224	8.6	14.7
Private individuals - housing loans	45,730	15.5	41,203	14.7	11.0
Private individuals - other	67,692	23.0	69,385	24.7	(2.4)
Other sectors	43,828	14.8	42,909	15.2	2.1
Total overall credit to the public risk	**294,589**	**100.0**	**281,114**	**100.0**	**4.8**

The data presented above indicates that in the first nine months of 2020, the overall risk regarding credit to the public increased by 4.8% compared with the end of 2019. This growth applied mostly to private individuals – housing loans, financial services, construction and real estate – construction and construction and real estate – real estate activity sectors. On the other hand, a decreased occurred mostly in the private individuals - other sector.

Development of problematic credit risk

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

Impaired credit to the public. The balance sheet impaired credit to the public (accruing interest and non- accruing) amounted at September 30, 2020 to NIS 1,854 million, compared to NIS 1,814 million at December 31, 2019, an increase of 2.2%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at September 30, 2020 to NIS 1,132 million, compared to NIS 1,166 million at December 31, 2019, a decrease at a rate of 2.9%.

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

	September 30, 2020			December 31, 2019		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	21,412	1,052	4.9	19,982	856	4.3
Construction and real estate - construction	33,426	637	1.9	31,382	323	1.0
Construction and real estate - real estate activity	24,652	1,070	4.3	22,973	705	3.1
Commerce	30,058	889	3.0	29,056	1,048	3.6
Financial services	27,791	417	1.5	24,224	359	1.5
Private individuals - housing loans	45,730	377	0.8	41,203	378	0.9
Private individuals - other	67,692	684	1.0	69,385	566	0.8
Other Sectors	43,828	1,585	3.6	42,909	843	2.0
Total Public	**294,589**	**6,711**	**2.3**	**281,114**	**5,078**	**1.8**
Banks	7,038	39	0.6	5,188	37	0.7
Governments	33,690	-	-	29,904	-	-
Total	**335,317**	**6,750**	**2.0**	**316,206**	**5,115**	**1.6**

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

The balances of the allowance for credit losses

The balance of the allowance for credit losses of credit for the public. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totaled NIS 3,644 million as of September 30, 2020. The balance of this allowance constituted 1.91% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,524 million, constituting 1.38% of the credit to the public as of December 31, 2019.

The balance of the specific allowance for credit losses. The outstanding balance of the specific allowance for credit losses in respect of impaired credit to the public, computed on a specific basis, amounted to NIS 419 million on September 30, 2020, compared to NIS 307 million on December 31, 2019, an increase of 36.5%.

The balance of the group allowance for credit losses. The outstanding balance of the group allowance for credit losses, except for the allowance for credit losses in respect of housing loans, computed in accordance with the extent of arrears, amounted on September 30, 2020 to NIS 2,967 million, compared to NIS 2,009 million as of December 31, 2019, comprising an increase in the current allowance in the amount of NIS 958 million, a rate of 47.7%.

The risk characterization of the credit to the public portfolio

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

	For the nine months ended September 30			
	2020		2019	
	Credit loss expense	Rate of expense	Credit loss expense (expense reversal)	Rate of expense (expense reversal)
sectors	In NIS millions	%	In NIS millions	%
Industry	75	1.2	50	0.5
Construction and real estate - construction	108	1.3	47	0.4
Construction and real estate - real estate activity	192	1.8	(75)	(0.5)
Commerce	194	1.7	94	0.6
Hotels, hotel services and food	97	5.6	4	0.2
Transportation and storage	51	1.8	39	0.9
Financial services	25	0.5	(8)	(0.1)
Other Business Services	187	6.1	39	0.8
Public and Community Services	42	0.7	10	0.2
Other Sectors	46	2.5	(28)	0.5
Total Commercial	1,017	1.7	172	0.2
Private Individuals - Housing Loans	68	0.3	21	0.1
Private Individuals - Other	419	2.6	236	1.0
Total credit loss expenses to the public.	1,504	1.6	429	0.3
Total Governments	14	0.7	-	-
Total credit loss expenses	**1,518**	**1.08**	**429**	**0.33**

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

Securities

General. Securities in the Nosrto portfolio totaled NIS 41,431 million as of September 30, 2020, compared with NIS 37,745 million at the end of 2019, an increase of 9.8%. Securities included in the "nostro" portfolio of the Discount Group, the investment in which as of September 30, 2020, amounted to 5% or over of the total amount of the portfolio: "government variable 1121", the "shekel government 0330" and the "shekel government 0324" security types, which amounted to approx. 6.2%, approx. 5.9% and approx. 5.0%, of the total portfolio, respectively.

As of September 30, 2020, approx. 68.4% of the portfolio is invested in Government bonds, and approx. 17.2% of the portfolio is invested in bonds backed by mortgages of different federal agencies (Freddie Mac, Fannie Mae, Ginnie Mae) with an "AAA" rating, (of which - approx. 1.5% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE)). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the quarterly report", appendix 2, sections 1-3. For details regarding the segmentation of the investment in government bonds according to principal governments, see "Appendices to the quarterly report" – appendix 3, section 2.

For details regarding the Nostro portfolios management policy, see 2019 Annual Report (p. 36).

Composition of the securities portfolio by linkage segments

Composition of the securities portfolio by linkage segments

	September 30, 2020	December 31, 2019	Rate of change in %
	In NIS millions		
Non-linked shekels	23,002	20,486	12.3
CPI-linked shekels	1,300	685	89.8
Foreign currency and foreign currency-linked shekels	16,081	15,594	3.1
Shares - non-monetary items	1,048	980	6.9
Total	**41,431**	**37,745**	**9.8**

Securities in foreign currency and in Israeli currency linked to foreign currency increased by 3.1%, compared with December 31, 2019. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency increased by US$161 million, an increase of 3.6% as compared with December 31, 2019. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms, increased by 10.0% as compared with December 31, 2019.

Composition of the securities portfolio according to portfolio classification

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

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

	September 30,2020			December 31 ,2019		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	7,638	7,960	7,638	4,753	4,998	4,753
Available for sale	30,577	31,288	31,288	29,091	29,562	29,562
Trading	1,461	1,457	1,457	2,442	2,450	2,450
Shares						
Available for sale	994	1,047	1,047	935	967	967
Trading	2	1	1	12	13	13
Total Securities	**40,672**	**41,753**	**41,431**	**37,233**	**37,990**	**37,745**

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of September 30, 2020, includes investments in corporate bonds in the amount of NIS 3,596 million (of which an amount of NIS 469 million is held by IDB New York), compared with NIS 3,601 million as of December 31, 2019, a decrease of 0.1%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 5 to the condensed financial statements.

Investments in mortgage and asset backed securities

General. Discount Group's securities portfolio as of September 30, 2020 includes investment in mortgage-backed and asset-backed securities, in the amount of NIS 8,223 million, compared to an amount of NIS 7,444 million as at December 31, 2019, an increase of 10.5%. The amount includes investment in mortgage backed securities in the amount of NIS 7,653 million, which are held by IDB New York, compared to an amount of NIS 6,857 million as at December 31, 2019, an increase at a rate of 11.6%. Approx. 93% of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of September 30, 2020, the portfolio of mortgage and assets backed securities included unrealized net gains of NIS 179 million, compared with NIS 2 million as of December 31, 2019.

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

CLO. IDB New-York holds secured bonds of the CLO class in a total amount of NIS 538 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds secured bonds of the CLO class in a total amount of NIS 565 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 5 to the condensed financial statements.

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

For details regarding the review of impairment of securities, see "Critical accounting policies and critical accounting estimates" in the 2019 Annual Report (pp. 93-94) and Note 1 D 5 to the financial statements as of December 31, 2019 (pp. 125-127). Based on a review of the impairment of the said securities as of September 30, 2020, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.
As of September 30, 2020, September 30, 2019 and December 31, 2019, unrealized accumulated losses on available-for-sale mortgage and asset backed securities amounted to total amounts of NIS 8 million, NIS 19 million and NIS 28 million, respectively. For additional details, see Note 5 to the condensed financial statements.

Customer assets

Deposits from the public as of September 30, 2020, totaled NIS 225,108 million, compared with NIS 201,450 million at the end of 2019, an increase of 11.7%. In the first nine months, during which steep declines were recorded in the capital market due to the Corona crisis, deposits from the public increased considerably as a result of redemptions of retail customers' funds, which were previously invested in the capital market, being invested in deposits with the Bank.

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

	September 30, 2020		December 31, 2019		
	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	154,719	68.8	134,716	66.9	14.8
CPI-linked shekels	4,136	1.8	4,611	2.3	(10.3)
Foreign currency and foreign currency-linked shekels	66,253	29.4	62,123	30.8	6.6
Total deposits from the public	**225,108**	**100.0**	**201,450**	**100.0**	**11.7**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 6.6%, compared with December 31, 2019. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$1,279 million, an increase of 7.1% compared with December 31, 2019. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, increased at a rate of 11.9%, compared with December 2019.

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

	September 30, 2020	December 31, 2019	
	In NIS millions		Change in %
Domestic operations:			
Households	87,493	75,312	16.2
Private banking	18,315	16,368	11.9
Small and minute businesses	41,893	37,022	13.2
Medium businesses	8,491	7,590	11.9
Large businesses	27,061	20,305	33.3
Institutional bodies	13,134	18,076	(27.3)
Total Domestic operations	**196,387**	**174,673**	**12.4**
Total International operations	**28,721**	**26,777**	**7.3**
Total deposits from the public	**225,108**	**201,450**	**11.7**

The ratio of total net credit to the public, to deposits from the public was 82.9% as at September 30, 2020, compared with 89.6% at the end of 2019.

Deposits from the public of the three largest depositor groups amounted as of September 30, 2020, to NIS 3,133 million.

Securities held for customers. On September 30, 2020, the balance of the securities held for customers at the Bank amounted to approx. NIS 176.41 billion, including approx. NIS 1.57 billion of non-marketable securities, compared to approx. NIS 191.5 billion as at December 31, 2019, including approx. NIS 1.61 billion of non-marketable securities, a decrease of approx. 7.9%. For details as to income from security activities, see Note 3 to the condensed financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of September 30, 2020, amounted to NIS 9.59 billion, compared with NIS 11.71 million in December 31, 2019, a decrease of 18.1%. The decrease stems both from both the decline in the investment portfolios and from the decline in prices of securities.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at September 30, 2020, amounting to NIS 20.2 billion, compared with NIS 20.3 as of December 31, 2019, a decrease of 0.5%.

Capital and capital adequacy

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

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

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

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

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

Full premature repayment of deferred capital notes (Series 1). On April 20, 2020, Manpikim redeemed the capital notes by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,448 million, including interest and linkage increments. All as detailed in Manpikim's immediate report of April 16, 2020 (Ref. No. 2020-01-034486). The early repayment, as stated, has reduced the comprehensive capital ratio by 0.43%. It is noted that in October 2019, the Bank, through Manpikim Company, issued debt notes in the amount of NIS 1,231 million.

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

Provisional Instruction mitigating the capital requirements in order to face the Corona crisis. The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction was in effect for a period of six months. On September 22, 2020, the Supervisor of Banks issued a circular whereby the Provisional instruction was extended for a further six months (through March 31, 2021). The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until March 31, 2023), on condition that the Bank’s capital ratios shall not be lower than the capital ratios existing at the end of the temporary directive period, or the capital ratios applying to the Bank prior to the temporary directive, whichever is lower.

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

Common Equity Tier 1 goal

The policy approved by the Board of Directors, which reflects the Bank's risk appetite, is to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test.
On December 22, 2019, the Board of Directors, on the basis of ICAAP and SREP processes, adopted a minimum common equity tier 1 target level of 9.9% for 2020.
On the background of the spreading of the Corona virus and with the aim of supporting the credit needs of customers during this period, the Bank's Board of Directors decided on April 7, 2020, to adjust the goal of the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted under the Provisional Instruction published by the Supervisor of Banks (see above).
For details regarding capital planning, see "Capital Adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for perusal on the internet and in the 2019 Annual Report (p. 41).

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

The activity of the Discount Group during the first nine months of 2020 was conducted under the shadow of the Corona virus crisis, which broke out at the beginning of the first quarter and caused, inter alia, a significant economic crisis. The Corona crisis resulted in a reduction in net profit for the first nine months of the year, which affected the capital ratio.
The first quarter of the year was characterized by steep drop in capital markets in Israel and globally, which were reflected in a reduction in the value of the Bank's marketable assets. The effect on the Bank's capital reserve was moderated by the offsetting effect of the reduction in liabilities for employee rights. The rises in the markets during the second quarter and third quarter, offset the effects observed in the first quarter. In conclusion for the first nine months, the value of the available-for-sale bonds portfolio rose, but this increase was largely offset by the rise in value of liabilities for employee rights, so that no material change occurred in the capital ratio in respect of these changes during the period.

Components of capital

Total capital as at September 30, 2020, totaled NIS 19,699 million, compared with NIS 19,193 million at the end of 2019, an increase of 2.6%.
Shareholders’ equity as at September 30, 2020, totaled NIS 19,160 million, compared with NIS 18,678 million at the end of 2019, an increase of 2.6%. The change in shareholders’ equity in the first nine months of 2020 was affected, among other things, by the net earnings during the period, by an increase of NIS 114 million in the component of net adjustment of available-for-sale bonds presented at fair value, net of the tax effect, and on the other hand from a decrease of NIS 14 million in financial statements transactions adjustments and from the net actuarial loss in the amount of NIS 274 million.

Components of the regulatory capital as of September 30, 2020

Ratio of common equity tier 1 as of September 30, 2020, amounted to 10.10%, compared with 10.31% on December 31, 2019.
Total capital ratio as of September 30, 2020, amounted to 12.96%, compared with 13.86% on December 31, 2019.

Components of the regulatory capital as of September 30, 2020

	September 30,		December 31,
	2020	2019	2019
	in NIS millions		
1. Capital for Calculating ratio of capital			
Common equity tier 1 after deductions	19,725	18,788	19,009
Additional tier 1 capital after deductions	356	534	534
Tier 1 capital	20,081	19,322	19,543
Tier 2 capital	5,237	4,731	6,021
Total capital	**25,318**	**24,053**	**25,564**
2. Weighted risk assets balance			
Credit risk(2)	174,367	161,143	165,883
Market risk	4,313	3,703	2,858
CVA risk	2,023	1,821	1,489
Operational risk	14,656	13,816	14,216
Total weighted risk assets balance	**195,359**	**180,483**	**184,446**
3. Ratio of capital to risk assets			
Ratio of common equity tier 1 to risk assets	10.10	10.41	10.31
Ratio of total capital to risk assets	12.96	13.33	13.86
Ratio of minimum capital required by the Supervisor of Banks			
Ratio of common equity tier 1(1)	8.18	9.20	9.20
Total capital ratio(1)	11.68	12.70	12.70

Footnotes:

(1) With an addition of 0.18% (September 30, 2019 and December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 to the condensed financial statements.

(2) The total weighted balances of the risk assets have been reduced by NIS 463 million (September 30, 2019: NIS 11 million, December 31,2019: NIS 10 million) due to adjustments in respect to the efficiency plan.

The increase in market value as at September 30 arose mainly as a result of the allocation of capital in respect of exchange rate risk.

Raising of resources

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

Subtraction of regulatory capital instruments in 2020. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2022. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2022. Regulatory capital instruments, which are to be subtracted on January 1, 2021, in accordance with the transitional provisions, amount to NIS 234 million. NIS 1,616 million were deducted in the first nine months of 2020.

The Bank may raise additional regulatory capital instruments in accordance with its work plan and market conditions, in order to maintain the total capital targets for the years 2020-2021.

Additional disclosure according to the third pillar of Basel

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

Dividends distribution

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

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

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

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

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

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

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

General

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

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

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

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

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

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

Household Segment (Domestic operations)

The Household segment in the wake of the Corona crisis

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

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

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

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

Discount's Mobile ATM. In October, the Bank launched a new service – Mobile ATM, which goes out to care homes. The service is intended to provide an answer to the needs of the elderly population, which has not had access to banking services during the lockdown period. In the first stage, the service has been operated on a test (pilot) basis in a number of cities throughout the country.

Scale of Operations and Net Profit of the Segment

The segment's loss in the first nine months of 2020 amounted to NIS 76 million, compared to a net gain in the amount of 73 million in the corresponding period last year. The decrease in profit, turning into a loss, has been affected by a steep rise in credit loss expenses.

The credit loss expenses in the first nine months of 2020 amounted to NIS 479 million, compared to NIS 257 million in the corresponding period last year, an increase at a rate of 86.4%. Most of the increase in expenses stemmed from the increase in the group allowance, on the background of the Corona crisis.

Principal data regarding the household segment (Domestic operations)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	849	906	2,606	2,638	3,561
Credit loss expenses	65	98	479	257	339
Total Operating and other expenses	786	(1)767	2,256	(1)2,240	(1)3,018
Net Profit (Loss) Attributed to the bank's shareholders	5	24	(76)	73	104

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

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

Private Banking Segment (Domestic operations)

The Private Banking segment in the wake of the Corona crisis

The crisis continues to follow the activity of the segment. The lack of stability on the capital markets and apprehension following the additional lockdown in the economy caused a setback among customers, who have not yet returned to invest in the capital market.

Scale of Operations and Net Profit of the Segment

The loss in the first nine months of 2020 amounted to NIS 133 million, compared with a net gain in the amount of NIS 12 million in the corresponding period last year. The loss was mainly affected by an increase in the provision of NIS 239 million for claims in the reporting period (NIS 168 million in the third quarter).

Principal data regarding the Private Banking segment (Domestic operations)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	34	38	114	114	152
Credit loss expenses (expenses reversal)	(1)	1	1	1	2
Total Operating and other expenses	197	(1)22	315	(1)95	(1)156
Net Profit (Loss) Attributed to the bank's shareholders	(106)	10	(133)	12	(4)

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

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

Small and minute businesses Segment (Domestic operations)

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

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

- Use of digital services for businesses without having to go to a branch – payment of salaries, transfers of large amounts, payment of bills, deposit of checks via the app and additional operational reliefs that have been made available to customers;
- Business assistance loans – special loan tracks have been opened for businesses that have encountered cash flow difficulties and, as part of this, bridging loans for the payment of salaries and ongoing expenses, as well as assistance loans with a mechanism for the deferral of principal payments for up to six months;
- Deferral of existing loan payments – since the outbreak of the crisis, the Bank allows customers to defer/stay the repayment of loans. The Bank allows Business customers to defer loan repayments for a period of up to six months from the original date.

Small and Medium Businesses Assistance Fund guaranteed by the Government. The State of Israel by means of the Accountant General at the Ministry of Finance has established a Business Assistance Fund helping businesses to confront the spread of the Corona virus. The State guarantees 85% of each single loan granted in the framework of the Fund, provided that the total amount of the guarantees is limited to a rate of 15% of the total loans extended by a bank within this framework. The Fund grants loans under beneficial terms and in accordance with rules determined by the State.
All the banks within the banking system participate in this Fund. The Bank and MDB have received a NIS 4,028 million allocation from the fund. Through November 15, 2020, the two banks approved 8,870 loans, in a total amount of NIS 3,144 million.

A Fund for businesses having intensified risk. On June 21, 2020, the government decided to provide assistance to additional businesses in Israel, which are being rated at a higher risk level than that typifying businesses which obtain loans from the Bank within the framework of the existing channel, and to add a "intensified channel" Fund. In the intensified channel, the State guarantee is divided into two layers, the total amount of the guarantee being limited to a cumulative rate of 60% of total loans extended by the Bank in this intensified channel. In the first layer, a rate of 85% of each single loan extended within the framework of the fund, but the total amount of the guarantee is limited to up to a rate of 15% of total loans extended by the Bank in this framework. In the second layer, in respect of that part exceeding 15%, as stated, the guarantee of the State amounts to 95%.
The Bank and MDB were allotted by the Fund an amount of NIS 246 million. Loans out of the Fund, approved by the two banks until November 15, 2020, amounted to NIS 112 million.

Scale of Operations and Net Profit of the Segment

The net profit in the first nine months of 2020 amounted to 30 million, compared to an amount of NIS 323 million in the corresponding period last year. The reduction in profit was affected by a steep increase in credit loss expenses.
The credit loss expenses in the first nine months of 2020 amounted to NIS 531 million, compared to NIS 139 million in the corresponding period last year, an increase at a rate of 282.0%. The increase in expenses stemmed, almost completely, from the increase in the group allowance, on the background of the Corona crisis.

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

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	491	550	1,515	1,610	2,153
Credit loss expenses	160	40	531	139	234
Total Operating and other expenses	312	(1)313	936	(1)967	(1)1,301
Net Profit Attributed to the bank's shareholders	16	124	30	323	397

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

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

Medium businesses Segment (Domestic operations)

The medium business segment in the wake of the Corona crisis

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

Scale of Operations and Net Profit of the Segment

The net profit in the first nine months of 2020 amounted to NIS 19 million, compared with NIS 82 million in the corresponding period last year. The decline in profit was affected by a steep increase in credit loss expenses, which was partly offset by a slight increase in total income.
The credit loss expenses in the first nine months of 2020 amounted to NIS 135 million, compared to NIS 40 million in the corresponding period last year, an increase at a rate of 237.5%. The increase in expenses stemmed, almost completely, from the increase in the group allowance, on the background of the Corona crisis.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	115	114	354	335	451
Credit loss expenses	18	6	135	40	107
Total Operating and other expenses	65	(1)54	191	(1)167	(1)229
Net Profit Attributed to the bank's shareholders	22	33	19	82	75

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

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

Large businesses Segment (Domestic operations)

The large business segment in the wake of the Corona crisis

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

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

Large businesses fund guaranteed by the State. The State of Israel, via the Accountant General at the Ministry of Finance has established a support fund for large businesses hit by the Corona crisis, and which comply with the terms determined by the State, including an annual business turnover exceeding NIS 200 million and employing over one-hundred workers in Israel. The State guarantees 75% of each individual loan extended within the framework of the fund, however, the total amount of guarantees is limited to up to 12% of the total amount of the loans granted by the Bank within this framework. The loans granted by the fund are in accordance with the rules determined by the State. Each single loan is limited in amount to 8% of the turnover of the business and to not more than NIS 100 million.
Additional banks in the banking system participate in the fund. Discount Bank was allocated an amount of NIS 450 million within the framework of the fund. On April 30, 2020, the Bank signed the agreement with the fund and began operations within the framework thereof at the beginning of May. Until November 15, 2020, the Bank had approved 8 loans in a total amount of NIS 256 million.

Scale of Operations and Net Profit of the Segment

The net profit in the first nine months of 2020 amounted to NIS 142 million, compared to NIS 313 million in the corresponding period last year, a decrease at a rate of 54.6%. The reduction in profit was affected by a steep increase in credit loss expenses.
The credit loss expenses in the first nine months of 2020 amounted to NIS 258 million, compared to expenses reversal of NIS 33 million in the corresponding period last year. The increase in expenses stemmed, almost completely, from the increase in the group allowance, on the background of the Corona crisis, and partly due to the increase in the specific allowance.

Principal data regarding the Large businesses segment (Domestic operations)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	289	276	852	830	1,114
Credit loss expenses (expenses reversal)	49	(2)	258	(33)	(21)
Total Operating and other expenses	127	(1)116	379	(1)382	(1)529
Net Profit Attributed to the bank's shareholders	79	104	142	313	399

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

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

Institutional bodies Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The segment's loss in the first nine months of 2020 amounted to NIS 10 million, compared to NIS 4 million in the corresponding period last year.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	7	12	30	32	48
Credit loss expenses (expenses reversal)	5	(1)	4	(3)	(5)
Total Operating and other expenses	13	(1)13	41	(1)40	(1)54
Loss Attributed to the bank's shareholders	(8)	-	(10)	(4)	-

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

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

Financial management Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Total income of the segment in the first nine months of 2020 amounted to NIS 1,201 million, compared to NIS 802 million in the corresponding period last year. This growth stems from the increase in noninterest financing income of the Bank, resulting mostly from the rise in gains on realization of bonds, from the rise in income from exchange rate differences, from operations in derivatives as well as from the realization of VISA Inc. shares (see Note 5 J to the condensed financial statements).
The net profit in the first nine months of 2020 amounted to NIS 575 million, compared to an amount of NIS 336 million in the corresponding period last year, an increase at a rate of 71.1%.
Credit loss expenses for the first nine months of 2020 amounted to NIS 14 million, compared to a negligible amount in the corresponding period last year. The increase in expenses stemmed from the allowance in respect of credit to foreign governments.

Principal data regarding the Financial management segment (Domestic operations)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	453	180	1,201	802	1,041
Credit loss expenses	-	-	14	-	-
Total Operating and other expenses	93	(1)88	270	(1)260	(1)359
Net Profit attributed to the bank's shareholders	214	52	575	336	427

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

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

International operations Segment

Scale of Operations and Net Profit of the Segment

The net profit in the first nine months of 2020 amounted to NIS 164 million, compared to NIS 242 million in the corresponding period last year, a decrease at a rate of 32.2%.
The credit loss expenses in this segment in the first nine months of 2020 amounted to NIS 96 million, compared to NIS 28 million in the corresponding period last year, an increase at a rate of 242.9%. The increase in expenses stemmed mostly from the Corona crisis.

Principal data regarding the International operations segment

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Total income	244	292	818	873	1,144
Credit loss expenses	34	10	96	28	34
Total Operating and other expenses	154	160	473	482	653
Net Profit attributed to the bank's shareholders	36	80	164	242	304

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

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

Main Investee Companies

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit				
	For the nine months ended September 30,				
	2020		2019		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	287	40.4	767	55.7	(62.6)
Mercantile Discount Bank	171	24.1	228	16.6	(25.0)
Overseas - Discount Bancorp	163	22.9	228	16.6	(28.5)
Other Activities:					
Israel Credit Cards	52	7.3	91	6.6	(42.9)
Discount Capital	27	3.8	49	3.6	(44.9)
Other financial services	11	1.5	14	0.9	(21.4)
Net profit	**711**	**100.0**	**1,377**	**100.0**	**(48.4)**

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 424 million in the first nine months of 2020, compared to NIS 610 million in the corresponding period last year, and an income of NIS 796 million in all of 2019.
Following are the major developments in the Bank's main investee companies.

Discount Bancorp, Inc.

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

Discount Bancorp, Inc. – principal data

	Third Quarter		Nine Months		Year
	2020	2019	2020	2019	2019
	In US$ millions				
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	14	30	57	79	100
Net interest income	57	62	178	189	250
Credit loss expenses	9	4	27	8	9
Non-financing income	14	25	57	58	77
Operating and other expenses	44	47	136	139	190
Principal balance sheet data for the end of the reporting period:					
Total assets	10,669	9,702	10,669	9,702	9,777
Net credit to the public	6,963	6,718	6,963	6,718	6,778
Securities	2,676	2,432	2,676	2,432	2,440
Deposits from the public	8,774	7,905	8,774	7,905	8,164
Total equity	1,149	1,061	1,149	1,061	1,078
	In %				
Main performance indicators:					
Return on equity	4.6	11.2	6.7	10.5	9.8
Efficiency ratio	62.0	54.0	57.9	56.3	58.1
Ratio of total capital to risk assets	15.8	15.2	15.8	15.2	15.2
Ratio of credit loss expenses to the average balance of credit to the public	0.58	0.25	0.53	0.16	0.14
Total net return on interest bearing assets	2.37	2.70	2.47	2.79	2.74

The principal factors affecting the business results. The Corona crisis had a material impact on Bancorp's business results. The main factor affecting this was the credit loss expense in an amount of US$27 million (an increase of US$19 million, 237.5%) mostly in the first quarter, as a result of a worsening in several economic indicators related to the Corona crisis. In addition, net interest income recorded a decrease of US$11 million (5.8%), as a result of cutting interest rates in the United States.

The contribution of Bancorp to the Bank's business results reached a profit of NIS 163 million in the first nine months of 2020 (after deducting a provision for taxes of NIS 31 million), compared with NIS 228 million in the first nine months of 2019 (after deducting a provision for taxes of NIS 47 million).

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

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

Mercantile Discount Bank Ltd.

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

Mercantile Discount Bank – principal data

	Third Quarter		Nine Months		Year
	2020	2019	2020	2019	2019
	In NIS millions				
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	64	79	171	228	305
Net interest income	302	305	918	888	1,201
Credit loss expenses	77	39	274	130	188
Non-financing income	114	82	336	270	367
Operating and other expenses	241	226	717	680	913
Principal balance sheet data for the end of the reporting period:					
Total assets	49,498	37,383	49,498	37,383	44,434
Net credit to the public	32,839	27,250	32,839	27,250	31,967
Securities	5,850	4,809	5,850	4,809	4,806
Deposits from the public	39,529	31,465	39,529	31,465	36,232
Total equity	3,199	2,996	3,199	2,996	3,058
	In %				
Main performance indicators:					
Return on equity	8.2	11.1	7.3	10.8	10.5
Efficiency ratio	57.9	58.4	57.2	58.7	58.2
Ratio of total capital to risk assets	13.58	13.97	13.58	13.97	13.65
Ratio of credit loss expenses to the average balance of credit to the public	0.94	0.57	1.13	0.65	0.69
Total net return on interest bearing assets	2.71	3.57	2.81	3.46	3.40

The principal factors affecting the business results. The Corona crisis has materially affected the business results of MDB. The profit in the first nine months of 2020, compared to the corresponding period last year, was affected, inter alia, from an increase of NIS 30 million in net interest income; from an increase of NIS 73 million in non-interest financing income, from an increase of NIS 144 million in credit loss expenses and from a growth of NIS 37 million in other expenses.

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

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

Israeli Police investigation. On October 27, 2020, Israeli police investigators arrived at the offices of MDB, seized documents and computer material, and detained employees for questioning, including a member of Management, who serves as the head of the commercial banking division. According to what is known to the Bank, these investigation measures were conducted within the framework of the investigation being conducted, inter alia, also against a member of Management of the said bank. No information has been provided to the Bank regarding the details of the investigation, including the substance of the alleged suspicions. Nevertheless, to the best of the Bank's knowledge, no suspicions have been raised against MDB itself and the investigation is not focused on it.

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

Strategic plan for the years 2021-2025. In October 2020, MDB, with the assistance of external consultants, began to form a strategic plan for the years 2021-2025, which is to include in the first stage an efficiency and savings plan at the Bank's Head Office.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits and for details regarding additional proceedings, see Note 26 C to the financial statements as of December 31, 2019, sections 12.2, 12.8 and 13.1 (pp. 206-208) and Note 10 B to the condensed financial statements, sections 5.1, 5.5 and 5.6.

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

Israel Credit Cards Ltd.

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

Israel Credit Cards – principal data

	Third Quarter		Nine Months		Year
	2020	2019	2020	2019	2019
	In NIS millions				
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	71	58	87	149	201
[(1)]The contribution to the Bank's business results	43	35	52	91	123
Income from credit card transactions	315	358	931	1,004	1,356
Net interest income	134	125	402	375	505
Non-financing income	68	2	74	-	2
Total expenses	430	408	1,301	1,175	1,587
Of which: Credit loss expenses	25	54	190	117	147
Principal balance sheet data for the end of the reporting period:					
Total assets	18,431	18,837	18,431	18,837	19,159
Interest bearing credit to the public	6,129	6,217	6,129	6,217	6,502
Total equity	1,908	1,826	1,908	1,826	1,821
	In %				
Main performance indicators:					
Return on equity	16.1	13.5	6.3	11.0	11.0
Efficiency ratio	78.3	73.0	79.0	76.7	77.3
Ratio of total capital to risk assets	14.6	14.3	14.6	14.3	14.0
Turnover of credit card transactions – in NIS millions	28,760	28,364	79,824	78,925	107,096
Number of active cards – in thousands	2,928	2,835	2,928	2,835	2,877

Footnote:

(1) Differences between net income and the contribution to the Bank's business results is derived from recognition of current tax liability in respect of the investment in the company.

Outbreak of the Corona virus. The activity of ICC is directly affected by the activity on the Israeli economy, accordingly, the measures adopted by the Government following the outbreak of the virus, as well as the changes occurring in consumer behavior, have materially affected the volume of transaction turnover of the company, and are expected to continue and affect it also in the foreseeable future. ICC estimates, that due to the implications stemming from the spreading of the virus and the measures adopted in consequence thereof, material decline may be caused to the company's income and profitability in 2020. ICC is active in reducing nonessential expenses in order to minimize the expected impairment to the financial results of the company. Within this framework, ICC has decided on an early retirement plan (see Note 8 D (3) to the condensed financial statements).

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

The principal factors affecting the business results. The results for the first nine months were mostly affected by an increase in the allowance for credit losses, in order to reflect the estimated growth in credit losses for the period with respect to borrowers hit by the crisis though not yet identified. Furthermore, the results were adversely affected in the first nine months as a result of the reduction in collecting commission on foreign operations of Israelis (and respectively, the goals set by the international organizations may not be reached in the future, being dependent on the volume of impairment), the reduction in cross-commission income stemming from the volume of operation, and the reduction in clearing commission income on transactions of tourists in Israel. At this stage, in view of the uncertainty regarding the length of the recovery period of the Israeli economy, it is not possible predict the day on which the company would resume the scope of activity and profit, that had existed prior to the outbreak of the crisis.

The financial results in the period were affected by non-recurring income of NIS 64 million (pre-tax) from the sale of VISA Inc. shares, and on the other hand by a non-recurring expense of NIS 38 million (pre-tax) due to the expenses of the voluntary retirement plan. On the other hand, the operating expenses in the corresponding period were affected by the reversal, of a non-recurring nature, of certain provisions in a scope of NIS 13 million, net of tax.

The business results of ICC for the reported period, compared to the corresponding period last year, were mainly affected by an increase in expenses, affected mostly by the growth in credit loss expenses, amounting to NIS 190 million, compared to NIS 117 million in the corresponding period last year (NIS 3 million; 62.4%), in addition, a growth occurred in sales and marketing expenses (NIS 31 million; 8.9%).

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

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

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

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

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

Discount Capital Ltd.

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

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the first nine months:	2020	2019	Change in %
Net profit attributed to the shareholders	29.7	57.9	(48.7)
The contribution to the Bank's business results[1]	26.9	48.5	(44.5)
Principal balance sheet data for the end of the reporting period:	September 30, 2020	December 31, 2019	Change in %
Total assets	1,629.6	1,621.0	0.5
Total equity	852.7	829.7	2.8

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

For details regarding realization of investments, see "Non-financial companies" below under "Activity of the Group by regulatory operating segments – additional details".
In the first nine months of 2020, Discount Capital participated, via its subsidiary, in 40 public offerings and in 16 private transactions, amounting to approx. NIS 15.9 billion. This, compared with 37 public offerings and 14 private transactions, amounting to approx. NIS 12.3 billion, in the corresponding period last year.

CHAPTER "C" – RISKS REVIEW

General description of the risks and manner of management thereof

Risk profile of the Discount Group

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

Disclosures in accordance with the third Pillar of Basel

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

Credit Risks

General

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

Adoption of updates to the generally accepted accounting principles at banks in the U. S. – allowances for credit losses – the Bank's preparations. It is noted, that due to the Corona crisis, the planned progress in the assignments of the project has been delayed. The technological solution was chosen in the third quarter of 2020, and the characterization and implementation stage has begun, though later than the originally planned date.

The Bank is taking all required steps in order that the primary application of the principle would be made at the required date.

Credit risks and the manner of management thereof

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

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

The application of the Second Lockdown reduced the scope of business activity, unemployment is rising and economic growth is at low ebb. The crisis may affect the condition of borrowers and their repayment ability and at this stage considerable uncertainty exists as to the force of the crisis and the length of time in which it is expected to have an effect.

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

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

On April 21, 2020, the Supervisor of Banks issued a letter regarding the main supervisory emphasis with regard to the handling of debts, within the framework of the supervision policy for encouraging banking corporations to operate cautiously in order to support borrowers that are unable or that are likely to be unable to meet their contractual payment obligations due to the impact of the Corona virus outbreak. The letter specifies the terms which, when met, a change in terms for borrowers not in arrears, due to the Corona crisis, will not be considered a troubled debt restructuring. For further details, see Note 1 E 2 to the condensed financial statements. The letter specifies, inter alia, with regard to debts that were in arrears prior to granting a deferral, that the state of the calculated arrears will be frozen for the repayments deferral period, except in the case of a debt classified as an impaired debt or a debt subject to an accounting write-off. It is noted that, possibly, were it not for the stay in the count of the default days regarding the deferred repayments, as stated above, the balance of debts in arrears as of September 30, 2020, would have been higher. It is further noted that in light of the contribution made by the different Government support measures for households and businesses (such as: unpaid leave, grants and credit) and even the deferral of repayments itself, all in aid of the economic survival of households and businesses, any changes in the scope of such measures may affect the repayment ability of borrowers in the future.

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

Deferral applications by monthly distribution

	2020							
in NIS millions	March	April	May	June	July	August	September	October
Deferral requests, in thousands	48,616	31,861	7,212	4,370	4,601	2,675	4,540	3,623
Balance of loans in deferral, in millions	8,861	16,388	17,771	18,341	18,852	19,385	19,445	19,673

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

Presented below are details regarding the balance of debts whose terms have been changed, in accordance with the Supervisor of Banks' letters, for September 30, June 30 and March 31, 2020.

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

	September 30, 2020											
	in NIS millions											
	Debts with repayments deferral, as of the reporting date[1][2]			Additional details regarding the recorded amount of debts with repayments deferral					Additional details of debts with repayments deferral, according to the timespan of the repayments deferral[3]		Debts whose repayments deferral period had terminated, as of the reporting date	
					Non-problematic debts				Non-problematic debts			
Credit to the public	Outstanding debt	Number of loans	The amount of deferred payments	Problematic debts	Debts not in credit granting rating	Debts in credit granting rating, in arrears of 30 days or more	Debts in credit granting rating, not in arrears	Total non-problematic debts	Debts for which a deferral of more than 3 and up to 6 months has been granted	Debts for which a deferral of more than 6 months has been granted	Outstanding debt	Of which: in arrears of 30 days or more
Large businesses	722	36	92	3	34	-	685	719	549	2	791	-
Medium businesses	257	89	33	37	2	-	218	220	124	13	611	-
Small businesses	1,887	8,276	292	441	108	-	1,338	1,446	995	42	3,718	34
Private individuals – without housing loans	903	23,798	97	136	131	-	636	767	374	27	899	11
Housing loans	3,248	4,953	177	89	337	5	2,817	3,159	1,440	1,176	5,123	79
Total as at 30.9.2020	**7,017**	**37,152**	**691**	**(4)706**	**612**	**5**	**5,694**	**6,311**	**3,482**	**1,260**	**11,142**	**124**
Total as at 30.6.2020	**15,743**	**73,770**	**1,061**	**(4)259**	**1,437**	**7**	**14,040**	**15,484**	**1,235**	**70**	**2,404**	**10**
Total as at 31.3.2020	**8,225**	**37,351**	**700**	**92**	**676**	**3**	**7,454**	**8,133**	**264**	**12**	**1**	**-**

Footnotes:
(1) Debts – balance of debts before accounting write-offs.
(2) The balance of debts with repayments deferral as of October 31, 2020 amounts to NIS 6,691 million.
(3) The repayments deferral period is the aggregate period of deferrals granted for the debt from the beginning of dealing with Corona virus and does not include deferrals to which the borrower is entitled under the law.
(4) Of which: impaired debts not accruing interest income in the amount of NIS 40 million (as of June 30, 2020 – NIS 32 million).

In the course of the crisis period and until September 30, 2020, the Bank and MDB allowed the deferral of loan repayments in respect of credit in the amount of NIS 18,159 million, of which, housing loans in the amount of NIS 8,371 million.
Until September 30, 2020, in respect of 61.4% of all loans, and in respect of 61.2% of housing loans, the deferral period had ended and repayment of the principal sum had begun. Of the outstanding balance of the loans, the deferral period in respect of which had ended, loans in the amount of NIS 306 million were classified as problematic (10.1%). Of the outstanding balance of the loans, the deferral period in respect of which had ended, NIS 124 million are in arrears for over 30 days, as of that date. The segment that has the highest rate of loans classified as problematic and loans in arrears is the small business segment.
It is noted that borrowers, in respect of whom, as of September 30, the deferral period regarding their loans had ended, may apply for an additional deferral. It is also noted that the deferral period in respect of loans in a considerable amount, ended in the period of June to September 2020. The short period of time that has passed since the end of the deferral period, cannot serve, at this stage, as a basis for unequivocal conclusions regarding trends. In view of the force of the economic crisis and the uncertainty regarding anticipated economic developments, it is possible that the volume of debts that would end up as problematic and the volume of debts that would end up as debts in arrears, might be higher than the volumes indicated at this stage.
For details regarding Credit risks and the manner of management thereof, see the 2019 annual report (pp. 58-73).

Monitoring the exposure of the credit portfolio to the Corona crisis

As stated, since the outbreak of the crisis, the business divisions have increased monitoring and control operations regarding the condition of the Bank's credit portfolio. The monitoring and control operations are conducted in congruence with the assessed risk level of customers and the sectors in which they operate. The products of monitoring and control, as stated, serve the Management and the Board of Directors in their discussions regarding the Bank's credit portfolio in the shadow of the Corona crisis.
The Bank estimates that the Crisis has impacted nearly all economic sectors, though there are differences in the level of vulnerability of the different sectors to the Corona crisis.
The economic sectors, in which the Bank is involved, have been classified in accordance with the assessment of their vulnerability to the Corona crisis: high, moderate and low.

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

Economic sector	Vulnerability characteristics resulting from the Corona crisis
Diamond industry	A sector highly exposed to the global supply chain from the import and export aspects, which have been significantly affected by the impact on global economic activity. Additionally, global recession causes a reduction in demand for diamond products.
Real estate activity	The income producing real estate sector (office premises and commercial centers) experienced a lengthy shutdown leading to initiated discounts granted by property owners, and to the growing change process in the balance of power between property owners and tenants.
Commerce	The reduction in consumer buying power, stemming from the negative economic sentiment, alongside the unemployment rate (including employees on unpaid leave) that had increased to a historically high level in correlation with the performance of the sector over a period of time as well as a negative effect stemming from the social distancing policy.
Trade in building material	An import inclined sector exposed to the effect of the global supply chain, alongside local stores for the sale of building materials that may be affected mostly by the demand aspect and by the reduction in the buying power of consumers, as stated.
Conveying services, storage and transportation	This sector suffered an impact both from airline companies, the operation of which has been suspended for a long time, and from public transportation companies that experience a considerable reduction in the number of passengers due to traffic restrictions and increasing morbidity.
Hotels, hospitality and catering services	The crisis is harming the demand for hotel services and hospitality and catering services, both as a result of the blow to incoming tourism and also as a result of the social distancing policy.
Other business services	This sector includes providers of services, such as: travel agents, lawyers, accountants, business consultants, advertisers, marketing agents, etc., the deterioration/shutdown of economic activity on the part of users of such services, reduces their scope of operation and increases the risk level.
Private individuals	The high unemployment rate increases uncertainty regarding the ability of repayment of debts, alongside the impact on buying power.
Financial services	This sector includes, inter alia, companies engaged in providing off-banking credit services and financial leasing, which may suffer from shortage of credit from the financing bodies. In addition, there is an increase in the level of risk applying to financed customers, who even before the crisis applied to these companies due to the difficulty to receive finance from the more traditional sources.
Oil products industry	A steep decline in demand for oil products led to impairment in profitability of the refining sector. Even after the removal of restrictions and resumption of activity in the "Corona routine", low refining margins and low demand for a part of the products, might adversely affect profits of the sector.

Furthermore, in the Bank's opinion, the level of vulnerability of small businesses is relatively higher than that of large businesses.
It is noted that, within the framework of assessment of credit losses inherent in the credit portfolio with respect to borrowers affected by the crisis but not yet identified, use was made, inter alia, in deterioration coefficients based on the risk evaluation for the different economic sectors. Furthermore, the Bank conducted in the third quarter a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, decline in turnover and additional risk characteristics.
It is noted that the classification of the different sectors in accordance with the level of vulnerability is based on internal assessments of the Bank. The classification of sectors according to the different levels of vulnerability is used to focus attention on the more vulnerable areas, although a given sector may include credit having different levels of vulnerability, a significant part thereof may be different from the estimated level of vulnerability, namely: there are credits of a low risk level in sectors classified as highly vulnerable, while on the other hand, there are credits highly sensitive to the crisis in sectors of a low vulnerability classification.

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

See below "Credit risk by economic sectors".

Credit quality and problematic credit risk

Problematic credit risk and non performing assets

	September 30, 2020				December 31, 2019			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	In NIS millions							
Credit risk in Credit Granting Rating[1]								
Balance sheet credit risk	121,609	39,582	29,118	190,309	119,625	34,684	31,778	186,087
Off-balance sheet credit risk	46,735	4,058	35,661	86,454	44,021	3,344	35,466	82,831
Total credit risk in Credit Granting Rating	**168,344**	**43,640**	**64,779**	**276,763**	**163,646**	**38,028**	**67,244**	**268,918**
Credit risk not in Credit Granting Rating:								
1. Not problematic	5,518	1,192	1,933	8,643	2,178	2,097	1,450	5,725
2. Problematic								
Special Mention[3]	2,333	153	396	2,882	1,476	153	235	1,864
Substandard	941	222	94	1,257	653	225	136	1,014
Impaired	[4]1,679	2	184	1,865	[4]1,635	-	189	1,824
Total problematic[2]	4,953	377	674	6,004	3,764	378	560	4,702
Total balance sheet credit risk	**10,471**	**1,569**	**2,607**	**14,647**	**5,942**	**2,475**	**2,010**	**10,427**
Off-balance sheet credit risk	2,352	521	306	3,179	938	700	131	1,769
Total credit risk not in Credit Granting Rating	**12,823**	**2,090**	**2,913**	**17,826**	**6,880**	**3,175**	**2,141**	**12,196**
Of which: non-impaired debts in arrears of 90 days or more[3]	66	357	28	451	62	359	57	478
Total overall credit risk of the public	**181,167**	**45,730**	**67,692**	**294,589**	**170,526**	**41,203**	**69,385**	**281,114**
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	[4]1,049	2	92	1,143	[4]1,068	-	108	1,176

Footnotes:

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

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

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

(4) Including non-accruing corporate bonds in the amount of NIS 11 million (December 31, 2019 – non-accruing corporate bonds of NIS 10 million).

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

Changes in balances of impaired debts

	Three months ended September 30					
	2020			2019		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the period	1,840	199	2,039	1,530	171	1,701
Debts classified as impaired during the period	188	62	250	81	70	151
Debts no longer classified as impaired	(2)	-	(2)	-	-	-
Impaired debts written off	(83)	(57)	(140)	(45)	(52)	(97)
Impaired debts settled	(275)	(18)	(293)	(82)	(11)	(93)
Other	-	-	-	(4)	-	(4)
Balance of impaired debts as of end of the period	**1,668**	**186**	**1,854**	**1,480**	**178**	**1,658**
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the period	790	156	946	1,009	147	1,156
Debt restructurings performed during the period	201	23	224	37	18	55
Debts that have again been classified to unimpaired due to a following restructuring	(2)	-	(2)	-	-	-
Restructured troubled debt written off	(11)	(10)	(21)	(5)	(6)	(11)
Restructured troubled debt settled	(120)	(12)	(132)	(81)	(6)	(87)
Other	(10)	-	(10)	(16)	-	(16)
Balance of restructured troubled debts at the end of the period	**848**	**157**	**1,005**	**944**	**153**	**1,097**
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the period	308	70	378	173	60	233
Increase in allowances	134	60	194	47	36	83
Collections and write-offs	(104)	(49)	(153)	(35)	(31)	(66)
Balance of allowance for credit losses as of end of the period	**338**	**81**	**419**	**185**	**65**	**250**

Changes in balances of impaired debts (continued)

	Nine months ended September 30					
	2020			2019		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the year	1,625	189	1,814	1,478	155	1,633
Debts classified as impaired during the period	1,118	231	1,349	454	223	677
Debts no longer classified as impaired	(71)	-	(71)	(3)	-	(3)
Impaired debts written off	(210)	(178)	(388)	(153)	(159)	(312)
Impaired debts settled	(786)	(56)	(842)	(285)	(41)	(326)
Other	(8)	-	(8)	(11)	-	(11)
Balance of impaired debts as of end of the period	**1,668**	**186**	**1,854**	**1,480**	**178**	**1,658**
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the year	885	158	1,043	1,094	131	1,225
Debt restructurings performed during the period	408	82	490	176	82	258
Debts that have again been classified to unimpaired due to a following restructuring	(12)	-	(12)	-	-	-
Restructured troubled debt written off	(38)	(43)	(81)	(21)	(34)	(55)
Restructured troubled debt settled	(372)	(40)	(412)	(263)	(26)	(289)
Other	(23)	-	(23)	(42)	-	(42)
Balance of restructured troubled debts at the end of the period	**848**	**157**	**1,005**	**944**	**153**	**1,097**
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the year	241	66	307	169	54	223
Increase in allowances	379	159	538	184	119	303
Collections and write-offs	(282)	(144)	(426)	(168)	(108)	(276)
Balance of allowance for credit losses as of end of the period	**338**	**81**	**419**	**185**	**65**	**250**

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

	September 30, 2020	September 30, 2019	December 31, 2019
Ratio of balance of impaired credit to the public to balance of credit to the public	0.97%	0.94%	0.99%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.24%	0.29%	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)]	1.91%	1.35%	1.38%
The ratio of the balance of the group allowance for credit loss, to the balance of credit to the public	1.56%	1.09%	1.10%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public[(1)]	196.55%	143.12%	139.14%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.28%	1.64%	1.81%
Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms)[(2)]	1.08%	0.33%	0.40%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms)	0.22%	0.22%	0.23%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public (in annualized terms)[(3)]	11.45%	16.18%	15.69%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over[(1)]	158.09%	109.76%	110.12%
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.21%	1.23%	1.25%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.59%	0.60%	0.64%

Footnotes:

(1) The increase in the ratios stems, mostly, from the increase in the allowance for credit losses, in light of the impact of the Corona virus on businesses and households in Israel.

(2) The increase in the ratio of the expense to the average balance stems, mostly, from a sharp rise in the allowance for credit loss expense, in light of the impact of the Corona virus on businesses and households in Israel.

(3) The decrease in the rate stems from the increase in the balance of the allowance for credit losses.

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

Credit risk by economic sectors

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

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

Credit risk by economic sectors – consolidated

	September 30, 2020							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Performance Rating[4]	Of Which: Problematic[5]	Non-problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired[10]	Periodic Loss Expenses	Net Accounting Write-Offs	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	14,780	13,694	697	389	171	70	(8)	313
Construction and Real Estate - Construction'[6]	33,253	31,932	637	684	151	109	35	340
Construction and Real Estate - Real Estate Activity	13,026	12,359	342	325	145	102	(6)	194
Commerce	22,793	21,334	601	858	202	192	44	548
Hotels, Hotel Services and Food	2,075	1,815	182	78	45	64	(3)	83
Transportation and Storage	6,257	5,646	390	221	132	48	6	162
Financial Services[7]	16,823	16,118	390	315	327	17	2	106
Other Business Services	7,769	7,003	318	448	77	182	26	256
Public and Community Services	9,679	9,476	134	69	11	22	-	51
Other Business Services	8,232	7,803	241	188	196	46	12	173
Total Commercial	**134,687**	**127,180**	**3,932**	**3,575**	**1,457**	**852**	**108**	**2,226**
Private Individuals - Housing Loans	45,479	43,398	371	1,710	2	67	18	254
Private Individuals - Other	65,730	62,829	677	2,224	184	413	163	959
Total Public Activity in Israel	**245,896**	**233,407**	**4,980**	**7,509**	**1,643**	**1,332**	**289**	**3,439**
Banks in Israel and Government of Israel	32,320	32,320	-	-	-	-	-	-
Total Lending Activity in Israel	**278,216**	**265,727**	**4,980**	**7,509**	**1,643**	**1,332**	**289**	**3,439**
Total Public - Lending Activity Outside of Israel	**48,693**	**43,356**	**1,731**	**3,606**	**282**	**172**	**24**	**498**
Banks and Governments Outside of Israel	8,408	8,369	39	-	39	14	-	15
Total Lending Activity Outside of Israel	**57,101**	**51,725**	**1,770**	**3,606**	**321**	**186**	**24**	**513**
Total	**335,317**	**317,452**	**6,750**	**11,115**	**1,964**	**1,518**	**313**	**3,952**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 198,526 million, NIS 40,383 million, NIS 679 million, NIS 5,451 million, NIS 90,278 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 213 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 6,500 million, issued by GNMA and in the amount of NIS 616 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,375 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 214 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)

	September 30, 2019							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Performance Rating[4]	Of Which: Problematic[5]	Non-problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	14,060	13,024	545	491	164	29	26	245
Construction and Real Estate - Construction'[6]	30,743	30,116	320	307	174	52	3	242
Construction and Real Estate - Real Estate Activity	11,910	11,390	291	229	250	(24)	(16)	91
Commerce	20,655	19,842	305	508	185	69	49	350
Hotels, Hotel Services and Food	1,910	1,707	135	68	110	4	3	18
Transportation and Storage	6,515	6,315	119	81	73	38	17	86
Financial Services[7]	15,375	14,908	299	168	298	(7)	1	89
Other Business Services	7,677	7,055	86	536	42	39	30	84
Public and Community Services	5,066	4,923	18	125	10	9	3	20
Other Business Services	7,681	7,453	97	131	70	(25)	7	133
Total Commercial	**121,592**	**116,733**	**2,215**	**2,644**	**1,376**	**184**	**123**	**1,358**
Private Individuals - Housing Loans	39,326	36,163	349	2,814	-	21	6	199
Private Individuals - Other	65,589	63,241	555	1,793	178	237	190	694
Total Public Activity in Israel	**226,507**	**216,137**	**3,119**	**7,251**	**1,554**	**442**	**319**	**2,251**
Banks in Israel and Government of Israel	28,097	28,095	-	2	-	-	-	-
Total Lending Activity in Israel	**254,604**	**244,232**	**3,119**	**7,253**	**1,554**	**442**	**319**	**2,251**
Total Public - Lending Activity Outside of Israel	**44,554**	**41,413**	**1,338**	**1,803**	**183**	**(13)**	**(31)**	**320**
Banks and Governments Outside of Israel	7,960	7,924	38	(2)	38	-	-	1
Total Lending Activity Outside of Israel	**52,514**	**49,337**	**1,376**	**1,801**	**221**	**(13)**	**(31)**	**321**
Total	**307,118**	**293,569**	**4,495**	**9,054**	**1,775**	**429**	**288**	**2,572**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 182,782 million, NIS 36,281 million, NIS 464 million, NIS 5,601 million, NIS 81,990 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 113 million.

(7) Including mortgage backed securities in the amount of NIS 5,560 million, issued by GNMA and in the amount of NIS 772 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,237 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 256 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit risk by economic sectors – consolidated (continued)

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

Footnotes:

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

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

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

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy 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 91 million.

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

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

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

Exposure to Foreign Countries - consolidated

	As of September 30						As of December 31		
	2020			2019			2019		
	exposure			exposure			exposure		
The Country	balance sheet[2]	Off-balance sheet[2][3]	Total	balance sheet[2]	Off-balance sheet[2][3]	Total	balance sheet[2]	Off-balance sheet[2][3]	Total
	In NIS millions								
United States	17,557	7,585	25,142	[8]15,648	6,609	22,257	[8]16,236	8,094	24,330
Other	7,528	[5]5,290	12,818	6,373	[5][7]5,456	11,829	5,966	[5]5,451	11,417
Total exposure to foreign countries[1]	**25,085**	**12,875**	**37,960**	**22,021**	**12,065**	**34,086**	**22,202**	**13,545**	**35,747**
Of which - Total exposure to the PIGS countries[4]	18	160	178	14	287	301	19	340	359
Of which - Total exposure to LDC countries[6]	568	52	620	580	176	756	577	203	780
Of which - Total exposure to countries having liquidity problems	35	15	50	34	37	71	16	34	50

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, as of September 30 2020 in the following countries: Switzerland – an amount of NIS 2,157 million and Germany – an amount of NIS 1,975 million, as of September 30 2019 in the following countries: Switzerland – an amount of NIS 2,232 million and Germany – an amount of NIS 1,851 million, and as of December 31 2019 in the following countries: Switzerland – an amount of NIS 2,098 million and Germany – an amount of NIS 1,830 million.

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

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

(8) Reclassified – improvement of data.

Credit Exposure to Foreign Financial Institutions

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

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

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

Distribution of the Bank's exposures in the third quarter is not affected by the Corona crisis. The Bank maintains routine monitoring of the scope of exposures, and concentrate the credit exposures at banks with a high rating.

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

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

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

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

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

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

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of September 30, 2020		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	733	8	741
A+ to A-	4,232	509	4,741
BBB+ to BBB-	301	74	375
BB+ to B-	2	19	21
Not rated	162	27	189
Total present credit exposure to foreign financial institutions	**5,430**	**637**	**6,067**
Balance of problematic bonds	39	-	39
	As of December 31, 2019		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	667	102	769
A+ to A-	2,750	468	3,218
BBB+ to BBB-	401	6	407
BB+ to B-	3	8	11
Not rated	155	27	182
Total present credit exposure to foreign financial institutions	**3,976**	**611**	**4,587**
Balance of problematic bonds	37	-	37

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

In addition to the exposure presented in the above table, as of September 30, 2020 and December 31, 2019 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 111 million and NIS 94 million, respectively.

Credit risk in housing loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 195 million as of September 30, 2020 and NIS 184 million as of December 31, 2019).

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

The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income, together with a scenario of a rise in unemployment and in interest rates, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. Notwithstanding the above, there are indications on the local market regarding a moderation in demand for new residential units not included in the "price for the house purchaser" program. At the same time, with the progress made by the "price for the house purchaser" program, an increase is noted in mortgage loans granted in this segment, which is reflected in the general increase in new mortgage loans in the third quarter of 2020, compared to the third quarter of 2019, at a rate of approx. 26%. For details regarding the measures taken by the Group, see 2019 Annual Report (p. 66).

The volume of the Group's housing loan portfolio as of September 30, 2020, amounted to NIS 41,365 million (December 31, 2019 - NIS 37,392 million).

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

Certain risk characteristics of the Group's housing loans portfolio

	September 30, 2020	December 31, 2019
	%	
Rate of housing loans financing over 75% of the value of the property	1.6	2.0
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	8.5	8.8
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	59.0	59.2

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

Amount of loans and average financing ratios

	For the nine months ended September 30,2020	For the year ended December 31,2019
Average amount of loan (in NIS thousands)	861	800
Average financing ratio for housing loans (in %)	55.1	54.7
Average financing ratio for general purpose loans (in %)	25.0	28.2

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

	September 30, 2020		December 31, 2019	
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	31,797	77.4	29,342	78.9
Between 1,200 and 4,000	8,783	21.4	7,408	19.9
Over 4,000	527	1.2	434	1.2
Total	**41,107**	**100.0**	**37,184**	**100.0**
Of which:				
Housing loans that were granted abroad	195		184	

Footnotes:
(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 258 million (31.12.2019: NIS 208 million).
(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 214 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2019:NIS 233 million).

Volume of problematic debts in housing credit

As at	Balance of credit to the public[(1)(5)]	Balance of the problematic credit[(1)]	Balance of allowances for credit losses[(2)(3)]	Ratio of problematic debt
	In NIS millions			Change in %
September 30, 2020	41,365	[(4)]378	72	0.9
December 31, 2019	37,392	[(4)]378	78	1.0

Footnotes:

(1) Recorded amount.

(2) As at September 30, 2020 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 71 million, and also an allowance over the extent of arrears in an amount of NIS 1 million (as of December 31, 2019: NIS 74 million and NIS 4 million, respectively).

(3) Not including group allowance in a percentage of 0.45% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 184 million (as at December 31, 2019: NIS 129 million) as well as NIS 2 million in respect of other group allowance.

(4) Including an amount of NIS 18 million, defined as problematic credit, which is not in arrears (December 31, 2019: NIS 19 million).

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 214 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2019:NIS 233 million).

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

	For the nine months ended September 30,				For the year ended December 31,	
	2020		2019			
Loan to value (LTV) ratio[(1)]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	2,000	27.6	1,695	28.3	2,265	27.8
Between 45% and 60%	2,520	34.8	2,146	36.0	2,906	35.6
Over 60%	2,724	37.6	2,131	35.7	2,980	36.6
Total	**7,244**	**100.0**	**5,972**	**100.0**	**8,151**	**100.0**

Footnote:

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

Data regarding developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
	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)]
As at September 30, 2020	11,750	16,526	68.8	4,652	8,002	30.8	46	131	0.4	41,107
As at December 31, 2019	10,199	14,889	67.5	4,597	7,332	32.1	21	146	0.4	37,184

Footnotes:

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 214 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2019:NIS 233 million).

(2) The balance of credit is after deduction of allowance for credit losses of NIS 258 million (December 31,2019: NIS 208 million).

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

The outstanding balance as of September 30, 2020 of the housing loans portfolio according to the present period to maturity of over 20 years, amounted to approx. NIS 5,236 million, and comprised 12.7% of the total housing loans portfolio (as of December 31, 2019, the balance amounted to NIS 4,798 million, comprising 12.9% of the total housing loans portfolio).

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

	For the nine months ended September 30,				For the year ended December 31,	
	2020		2019		2019	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	6,564	99.5	5,369	99.5	7,266	99.6
Over 40%	34	0.5	28	0.5	31	0.4
Total	**6,598**	**100.0**	**5,397**	**100.0**	**7,297**	**100.0**

Footnote:

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

Credit risk of private individuals (excluding housing credit risk)

General. The data presented in 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				
	September 30, 2020				
Level of income to the account					
Excluding permanent income to the account	1,388	102	1,490	542	2,032
Less than NIS 10 thousand	4,406	889	5,295	3,251	8,546
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,935	1,554	5,489	3,485	8,974
Greater than NIS 20 thousand	2,925	2,592	5,517	4,380	9,897
Total	**12,654**	**5,137**	**17,791**	**11,658**	**29,449**
	December 31, 2019				
Level of income to the account					
Excluding permanent income to the account	1,507	198	1,705	541	2,246
Less than NIS 10 thousand	5,072	948	6,020	3,379	9,399
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,394	1,567	5,961	3,251	9,212
Greater than NIS 20 thousand	3,692	2,442	6,134	3,909	10,043
Total	**14,665**	**5,155**	**19,820**	**11,080**	**30,900**

Additional quantitative characteristics

Distribution by the average remaining period to maturity

	September 30,	December 31,
	2020	2019
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,511	1,591
Over 1 year and up to 3 years	4,868	5,210
Over 3 years and up to 5 years	4,284	4,648
Over 5 years	2,241	2,482
Total	**12,904**	**13,931**

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

Distribution by size of credit to the borrower

	September 30,	December 31,
	2020	2019
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	3,578	3,942
Between 40 and 150	9,368	10,227
Over 150	4,845	5,651
Total	**17,791**	**19,820**

Distribution by exposure to changes in interest rates

	September 30,	December 31,
	2020	2019
	in NIS million	
Fixed interest credit	5,144	6,071
Variable interest credit	12,647	13,749
Total	**17,791**	**19,820**

Distribution of collateral securing the credit

	September 30,	December 31,
	2020	2019
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,426	1,514
Other collateral	1,035	821
Total	**2,461**	**2,335**

Development of problematic credit risk in respect of private individuals

	September 30, 2020	December 31, 2019	Change in	Rate from total balance-sheet to credit to the public September 30, 2020	December 31, 2019
	in NIS million		%	%	
Problematic credit risk	336	262	28.3	1.9	1.3
Of which: impaired credit risk	130	133	(2.0)	0.7	0.7
Debts in arrears of 90 days or more	28	57	(50.9)	0.2	0.3
Net accounting write-offs	72	150	(1)(35.6)	(1) 0.5	0.8
Balance of allowance for credit losses	570	401	42.3	3.2	2.0

Footnote:
(1) On an annual basis.

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles, pledged (in the Bank and MDB), amounted to NIS 1,090 million at September 30, 2020, as compared to NIS 956 million, as of December 31, 2019.

Quantitative data regarding credit granted to private individuals in ICC

A growth at the rate of 0.2% was recorded in the first nine months of 2020 in the balance of interest bearing credit granted to private individuals, compared to an increase of 15.1% in the corresponding period last year. This credit amounted as of September 30, 2020, to NIS 5,326 million, and comprises 61.0% 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 3,398 million, as compared to NIS 3,653 million as of December 31, 2019 (a decrease of approx. 7.0%), reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.
Credit losses expenses in respect of private individuals amounted in the first nine months to NIS 172 million, compared to NIS 111 million in the corresponding period last year. The growth in credit losses stemmed, mainly, from the expected implications of the spreading of the Corona virus on the quality of the credit portfolio.

Additional details

Background

Credit products. The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans.
The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short periods (mostly up to five years). The market share of loan operations conducted outside the branch premises rises gradually year by year and constitutes a central layer of the total consumer credit activity.
Credit underwriting. Over the years, the Bank has developed advanced models for the assessment of risk relating to a customer seeking credit. The underwriting processes in respect of consumer credit at the Bank are accompanied by wide use of the model products and are conducted in accordance with the Bank's credit policy, carefully modifying the product to the needs of the customer.
Credit underwriting at the branches is comprised of two layers: the one – underwriting under authority, performed at the discretion of an authorized factor using indications and products of models as to the risk rating of the customer, his repayment ability, as well as additional indications required in accordance with the customer's risk and the amount of the loan. The other – automatic underwriting, being performed generally in the case of loans in relatively small amounts and in accordance with the recommendation of the model, which takes into consideration the risk level of the customer, his repayment ability and the past experience of the Bank with the borrower.

Development of the risk

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

Confronting the Corona crisis. With the outbreak of the crisis, the Bank has made the necessary adjustments to the automated models of risk, to the credit decision supporting models and to the credit policy.
In order to assist customers, the Bank has devised processes for the deferral/freezing of loan repayments, while granting a sweeping exemption from operating fees and commissions charged for such actions. At the same time, singular credit products have been structured, adapted to this crisis period and to the uncertainty in the market.

Risk mitigating measures

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

The fairness principle

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

Monitoring and control

The Bank performs on a current basis, control over the quality of underwriting, adherence to policy rules and proper disclosure rules. Control is performed by means of compliance officers in the business units, credit controllers and the internal audit. Current monitoring is also performed with respect to the quality of the consumer credit portfolio at the Bank.
With the outbreak of the Corona crisis, the Bank increased the monitoring and control of the portfolio, including the ongoing monitoring of the deferral/freezing of loan repayments.
The collection centers have been guided to reduce to the extent possible debt collection operations, including the instigating of collection proceedings against new debtors, to be renewed following the return to normal.

Credit risk in relation to the construction and real estate sector

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

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

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

	September 30, 2020			December 31, 2019		
	Credit for the public[(1)(2)]	Of which: problematic credit[(1)(2)]	Rate of problematic credit	Credit for the public[(1)(2)]	Of which: problematic credit[(1)(2)]	Rate of problematic credit
Sector	in NIS million		%	in NIS million		%
Income generating real estate	12,043	319	2.6	11,363	244	2.1
Construction – general building contracting	2,331	161	6.9	2,186	126	5.8
Residential projects financing	25,146	190	0.8	24,294	55	0.2
Acquisition of building land	7,116	80	1.1	5,605	26	0.5
Subcontracting	2,375	42	1.8	2,615	137	5.2
Civil engineering work	2,617	86	3.3	2,858	30	1.0
Other	4,920	157	3.2	4,602	83	1.8
Total[(2)]	**56,548**	**1,035**	**1.8**	**53,523**	**701**	**1.3**

Footnotes:
(1) Balance-sheet and off-balance-sheet credit to the public, excluding financial derivatives.
(2) The data in this table are more expansive than the data reported according to economic sectors, in conformity with the Bank's internal reporting, and include additional activities correlating largely with the activities in the construction and real estate sector. The data in the table include activity in Israel only.

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

Credit risk in respect of leveraged finance

Definition of leveraged finance. Defined as credit for the finance of capital transactions by corporations, granted at a high financing ratio and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.
Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.
Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.
Following are data regarding credit risk pertaining to leveraged finance as of September 30, 2020. The disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

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

	September 30, 2020				December 31, 2019			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Construction and real estate	393	-	393	-	78	62	140	-
Communication and Computer Services	527	1	528	-	-	-	-	-
Other Business Services	-	-	-	-	147	-	-	-
Financial services	159	2	161	-	-	-	-	-
Total	**1,079**	**3**	**1,082**	**-**	**225**	**62**	**140**	**-**

Exposure to leveraged finance as of September 30, 2020 amounted to NIS 1,079 million, compared to NIS 225 million at December 31, 2019, an increase of 379.6%. The said increase stemmed, mainly, from changes in financial ratios causing present credit to be defined as leveraged finance.

The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts.

The off-balance sheet exposure in respect of leverage finance transactions as of September 30, 2020, amounted to NIS 3 million (December 31, 2019 – NIS 62 million).

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

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

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

Market Risks

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

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

Financial crisis in the markets

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

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments

	September 30 2020			September 30 2019			December 31 2019		
	Israeli currency	Foreign currency[2]	Total	Israeli currency	Foreign currency[2]	Total	Israeli currency	Foreign currency[2]	Total
	In NIS millions								
Net adjusted fair value[1][3]	9,636	5,676	15,312	10,348	5,269	15,617	10,885	5,375	16,260
Of which: the banking book	9,352	5,567	14,919	9,625	5,580	15,205	11,087	5,862	16,949

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

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

	September 30 2020			September 30 2019			December 31 2019		
	Israeli currency	Foreign currency[4]	[5]Total	Israeli currency	Foreign currency[4]	[5]Total	Israeli currency	Foreign currency[4]	[5]Total
	In NIS millions								
Parallel changes									
A parallel increase of 1%	86	478	564	139	(73)	66	70	(89)	(19)
Of which: the banking book	68	495	563	122	(51)	71	61	(76)	(15)
A parallel decrease of 1%	56	(464)	(408)	44	(400)	(356)	99	(74)	25
Of which: the banking book	73	(481)	(408)	50	(424)	(374)	98	(93)	5
Non-parallel changes									
Curving[2]	(328)	201	(127)	(124)	53	(71)	(256)	(13)	(269)
Flattening[3]	351	(106)	245	172	(174)	(2)	217	(47)	170
Interest rise in the short-term	333	131	464	205	(74)	131	217	(144)	73
Interest decline in the short-term	(328)	(189)	(517)	(127)	18	(109)	(202)	25	(177)

Footnotes:

(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.

(2) Curving – decline in interest in the short-term and increase in interest in the long-term.

(3) Flattening – increase in interest in the short-term and decline in interest in the long-term.

(4) Including Israeli currency linked to foreign currency.

(5) After offsetting effects.

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

A parallel increase of 1% in foreign currency. As of September 30, 2020, the estimated effect of an increase of 100 basis points on the capital in foreign currency amounted to a profit of approx. NIS 478 million, as compared to a loss of approx. NIS 89 million at December 31, 2019. Most of the difference stems from the change in the interest environment in the U.S. and its impact on sensitivity to a rise in the interest rate at IDB New York. In view of the steep decrease in the interest rate in the U.S., which occurred in the beginning of the year, a part of the deposits reached the "interest floor" - the minimum rate of interest paid on certain deposits with no relation to the market rate. In view of the fact that the market rate of interest at the end of the third quarter was found below the "interest floor", the assumption is that in a scenario of a rise in interest, the interest on such deposits does not rise and does not increase the interest expense in a manner creating growth in the net interest income.

A parallel decrease of 1% in foreign currency. As of September 30, 2020, the estimated effect of a decrease of 100 basis points on the capital in foreign currency amounted to a loss of approx. NIS 464 million, as compared to a loss of approx. NIS 74 million at December 31, 2019.

The change results mostly from the "interest floor" on a part of the IDB New York deposits described above. In view of the steep decrease in interest occurring in the U.S. in the first half, in a scenario of a decrease in the interest rate, the interest on a part of the deposits remains fixed at the "interest floor" level, while the interest on loans decreases in full.

Changes in Israeli currency. The change in the Israeli currency is not material in relation to the end of 2019, though during the year, several changes were made to the models, part of which offset one another. During the first quarter, in light of the change in the interest environment, the Bank updated the minimum interest rates used in calculating interest scenarios, whereby, starting from the calculation as of March 31, 2020, the minimum interest rate for balance-sheet items is -1% and, for off-balance-sheet items, the minimum interest rate has been canceled in relation to a minimum interest rate of 0%, which was used in the representative calculations for the comparative data. This change, in a scenario of a decrease, reduced the sensitivity to a decline in the interest rate by an amount of approx. NIS 100 million, in relation to the sensitivity that had existed prior to the said change. Namely, the change in sensitivity to a decline in the interest rate at September 30, 2020, as compared to the sensitivity at the end of 2019, was higher by approx. NIS 100 million.

In addition, during the third quarter, the Bank updated some of the parameters in the current account spread model and in the model that calculates the rate of early repayment of mortgages. These models affect the Bank's interest exposure and the changes resulted in a reduction in sensitivity to interest exposure in an amount of approx. NIS 250 million.

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

	September 30 2020			September 30 2019			December 31 2019		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions								
Parallel changes									
A parallel increase of 1%	956	58	1,014	637	74	711	682	76	758
Of which: the banking book	946	56	1,002	625	86	711	662	75	737
A parallel decrease of 1%	(1,125)	(60)	(1,185)	(789)	(75)	(864)	(862)	(82)	(944)
Of which: the banking book	(1,118)	(56)	(1,174)	(781)	(87)	(869)	(851)	(81)	(932)

Sensitivity of the income is calculated on the basis of various assumptions regarding the effect of a change in interest on the return on assets and the cost of the deposits (Beta) and application of minimum interest levels for pricing.
The rise in sensitivity of the income to changes in interest in the first nine months of 2020 stemmed from an increase in the volume of current account deposits, which were used to increase credit, to acquire securities and to enlarge liquidity balances, and due to the minimum interest levels becoming effective whereby, in a rising interest scenario, the increase in expenses would have been partial.
For additional quantitative and qualitative details about the interest risks, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd.

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

Fair value of financial instruments. Most of the Bank's balance sheet financial instruments do not have a quoted "market price" as they are not traded on an active market. Accordingly, in accordance with the directive, the fair value is estimated using accepted pricing models, and in particular through the calculation of the present value of the discounted cash flows using a discount interest rate appropriate to the level of risk embodied in the instrument.
The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.
The assessment of the present value of future cash flows was done in accordance with the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.
It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.
In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.
Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.
Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.
For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements as of December 31, 2019 (pp. 268-269).
Following are certain updates as of September 30, 2020:
- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 2 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 1 million (compared to NIS 2 million and NIS 1 million, respectively, as of June 30, 2020);

- Cash flows in respect of mortgages have been evaluated on the basis of an early redemption forecast based on a statistical model. Discounting the said cash flows in accordance with expected redemption dates instead of the contractual redemption dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 273 million (compared to a decrease of NIS 264 million as at June 30, 2020);
- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 4.15 years on September 30, 2020, compared to 3.55 years, taking into consideration the forecast for early redemptions (compared to 4.10 years and 3.49 years, respectively, as of June 30, 2020);
- Cash flows in respect of deposits were evaluated on the basis of an early redemption forecast based on a statistical model. Discounting the said cash flows in accordance with expected redemption dates instead of the contractual redemption dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 22 million (compared to NIS 21 million at June 30, 2020);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 2.83 years on September 30, 2020, compared to 2.64 years, taking into consideration the forecast for early redemption (compared to 2.96 years and 2.76 years, respectively, as of June 30, 2020).

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 C to the financial statements as of December 31, 2019 (pp. 268-269).
The net changes in fair value, in the different linkage segments, stem from the active management of the active capital and the decision to move it in accordance with returns expected in the different linkage segments.
No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

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

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

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

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			September 30, 2020		
An increase of 100BP in interest rates	(127)	(91)	370	54	207
A decrease of 100BP in interest rates	188	70	(343)	(41)	(126)
			December 31, 2019		
An increase of 100BP in interest rates	(263)	(107)	(136)	(25)	(481)
A decrease of 100BP in interest rates	441	93	(40)	(8)	485

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

Value at Risk (VaR)

The VaR for the overall balance sheet. The VaR serves as one of the evaluation tools for measuring the Group’s banking book exposure to market risks. The VaR for the Group’s entire portfolio (the banking book and the trading portfolio) is calculated at monthly intervals. The Bank uses the historic method as a basis for measuring the Value at Risk, at a confidence level of 99% and with a horizon of one month.
Following the specific rise in levels of volatility, which is expected to affect the results of the model in the coming years, the Board of Directors approved the updating of the model, so that the VaR would be computed on the basis of the volatility values, net of the observations of March. No deviations from the limits were recorded during the second quarter, net of the month of March.
Furthermore, in July 2020, the Board of Directors approved the change in the VaR limits status for the alert levels (alert levels are design to warn decision makers as to a high/exceptional risk level, though in contrast to limits, deviation there from indeed requires discussion but does not require a change in exposure).
During the third quarter, no deviations were observed in the model as against the internal alert levels determined.

Details of the exposure in terms of Total VaR

	For the period ended on			
	30.09.2020		30.06.2020*	
	End of reporting quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
	In %			
Actual exposure	1.7%	1.8%	4.2%	5.9%
Threshold	3.0%	3.0%	3.0%	3.0%

Note:
* The values include the effect of the Corona crisis.

It is noted that VaR on the trading portfolio did not record any deviation from the Board of Directors limit.
For further details, see the document “Disclosure according to the third pillar of Basel and additional information regarding risks”, which was published as part of the 2019 annual report and which is available for perusal as aforesaid (pp. 61-62).

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

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

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

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

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

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

	September 30, 2020		December 31, 2019	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	2,303	12,874	2,204	10,108
Deposits	-	-	12	43
Securities	35	1,093	16	548
Total	**2,338**	**13,967**	**2,232**	**10,699**
Derivatives (volume transactions)	1,649	70,294	1,269	72,699

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

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

Inflation and exchange rate risk

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

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

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

The Bank's capital sensitivity of changes in exchange rates

	September 30, 2020			
	in NIS millions			
Segment	10%	5%	5%-	10%-
USD	411	204	(201)	(403)
EUR	20	10	(6)	(9)
Other Foreign Currencies	28	13	(11)	(22)

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 September 30, 2020.

Sensitivity of the capital to changes in the CPI

	September 30, 2020	
	in NIS millions	
Scenario	Increase 3%	Decrease 3%
	91	(103)

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

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

Liquidity and financing risks

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

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

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

Liquidity coverage ratio

As of the third quarter of 2020, the liquidity coverage ratio of the Discount Group, on the basis of 75 observations average, stood as of September 30, 2020, at 146.9%, compared with 121.2% as of December 31, 2019, higher than the minimum requirements according to the instructions. The growth in the liquidity ratio in the third quarter stemmed, mainly, from the growth in the Bank's liquidity surplus.

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

Liquidity and the raising of resources in the Bank

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

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

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

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

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

Deposits from the public

	September 30, 2020	September 30, 2019	December 31, 2019	Change compared to September 30, 2019		Change compared to December 31, 2019	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	124,089	105,706	107,645	18,383	17.4	16,444	15.3
CPI-linked shekels	4,319	4,715	5,446	(396)	(8.4)	(1,127)	(20.7)
Foreign currency and foreign currency linked shekels	34,960	30,921	33,068	4,039	13.1	1,892	5.7
Total	**163,368**	**141,342**	**146,159**	**22,026**	**15.6**	**17,209**	**11.8**
Foreign currency and foreign currency linked shekels - In US$ millions	10,160	8,880	9,568	1,280	14.4	592	6.2

Deposits from Banks

	September 30, 2020	September 30, 2019	December 31, 2019	Change compared to September 30, 2019		Change compared to December 31, 2019	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	3,320	1,085	1,330	2,235	206.0	1,990	149.6
CPI-linked shekels	30	54	36	(24)	(44.4)	(6)	(16.7)
Foreign currency and foreign currency linked shekels	728	458	396	270	59.0	332	83.8
Total	**4,078**	**1,597**	**1,762**	**2,481**	**155.4**	**2,316**	**131.4**

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

Operational Risks

For details regarding operational risks and the manner of management thereof, including in the matter of business continuity, see the 2019 Annual Report (pp. 84-85) and the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.
Malfunction in the PayBox Application. Following a malfunction in the installation of a server for the PayBox payment application ("PayBox"), partial information regarding users of PayBox has leaked out. The malfunction was rectified within a few hours since discovery.
Based on the enquiry made, the said information included a part of the items of information existing in PayBox, though it did not include items of information the use thereof might cause users direct financial damage.
PayBox is being operated separately from the Bank's computer systems and from the Bank's regular banking services. The server, in which the malfunction had been discovered, is not connected to the operation of the Bank, and the malfunction as a whole has no relation to the accounts held with the Bank and to other information existing in the hands of the Bank with respect to customers holding accounts with the Bank. The Bank estimates that no material effect on the Bank is expected as a result of the malfunction.
A notice regarding this event has been delivered to users of PayBox.
All as detailed in an immediate report dated January 29, 2020 (reference no. 2020-01-009258), the information provided in it is included herewith by way of reference.
For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 10 B section 5.3 to the condensed financial statements.
The Bank has conducted a conclusion drawing process in order to ensure that a failure of this kind is not repeated, and its implementation is at an advanced stage.
For details regarding the Privacy Protection Authority, see “Proceedings regarding Authorities” below.

Compliance risks

Prohibition of money laundering and terror financing

Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity and indemnity letters signed by the State of Israel.
Following extension, the letter of indemnity and letter of immunity shall continue in effect until May 31, 2021. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

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

Legal risks

The Bank has recently formed an updated policy for the management of the legal risk, in which the management of the legal risk is differentiated from the regulatory risk management, which is to be conducted by the Group Management and Regulation Division of the Bank. Regulatory risk focuses on identifying and monitoring legislation processes and drafts issued by the Bank of Israel, bringing them on time to the attention of the relevant functions at the Bank, in order to appropriately analyze the effect of such processes upon the Bank, and ensure the existence of the required preparations by the Group. The updated policy was approved by the Bank's Board of Directors on September 30, 2020.

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

Other risks

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

Risk Factors Table

The Corona crisis and its domestic and global implications have led to an increase in risk in most of the managed risk areas.
With respect to the credit risk and the operational risk, the evaluation of the effect of the risk has been raised from "medium" to "medium-high", mostly due to the following factors:

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

In addition, evaluation of the risk environment has been raised from "Medium-high" to "High", on the background of the present estimate regarding the prolongation of the crisis and its impact on the global economy and in the domestic plane, the high likelihood for the imposition of further lockdowns, and in consequence thereof, the possible implications of the prolonged recovery period of the domestic economy. Likewise, evaluation of the reputation risk has been raised from "Low-Medium" to "Medium", on the background of the high public sensitivity.
As stated, an increase is also identified in the remaining risk areas, though no changes have been made to the evaluated risk level, which remained at the level presented in the risk factor table shown in the 2019 Annual Report (pp. 90-92).
It is noted that the Management and the Risk Management Division are conducting an ongoing and tight follow-up of developments in the crisis and the risks stemming there from, while modifying the risk appetite, operations, risk management processes and controls.

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

Critical Accounting Policies and Critical Accounting Estimates

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2019, pp. 117-135) and according to instructions and guidelines of the Supervisor of Banks.
The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.
Implementation by management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, sometimes requires various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.
Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.
The Bank's Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its knowledge and professional judgment.
A summary review of evaluations and assessments made regarding "critical" matters is included in the 2019 Annual Report (pp. 92-97).

Allowance for credit losses – allowances on a group basis

As stated in the 2019 annual report (pp. 92-93), the process of assessing the loss inherent in the credit portfolio is based on significant assessments involving uncertainty and on subjective assessments. Accordingly, a change in the estimates or assessments might have a significant effect on the allowance for credit losses presented in the Bank's financial statements.
The Corona crisis has created an extreme situation of uncertainty: the force of the crisis and the period of time in which it is expected to have an effect; concerns regarding further waves of the outbreak of the pandemic and its implications, including changes in the form and scope of the preventive measures; long-term changes in the labor market, in consumption patterns and scope; changes in scope of government support (such as: unpaid leave, assistance to households and the business sector); changes in the fiscal policy, etc.
In light of the said uncertainty, the evaluation process has become complex and challenging in the reported period. This, inter alia, in view of the lack of valid models and reliable past data, such as those used in the evaluation process in conventional periods.
These matters are particularly relevant in relation to the group allowance, due to the necessity to assess the inherent credit losses with respect to borrowers harmed by the crisis but not yet identified – by means of updating the adjustment coefficient, so as to reflect the damage assessment, under exceptional conditions of uncertainty.
Within the framework of the assessment, the parameters used in the calculation were made tighter, in accordance with the latest macroeconomic data evaluations (an unemployment average of 15% at the end of 2020 and a decline in the GDP at the rate of 7%[1] in 2020) and with deterioration coefficients that are based on an assessment of the risk of the various economic sectors. Also conducted in the first and second quarters was a study of the possible effect on segments of business customers and a study of the effect of possible deferral of credit repayments on borrowers, and a certain additional allowance has been recorded regarding the inherent risk, based on a subjective assessment. Furthermore, the Bank conducted in the third quarter a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, decline in turnover and additional risk characteristics.

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

It is noted that in view of the uncertainty and in order to challenge the allowance, use has been made of scenarios, tested by the Bank in computations for the purpose of capital allocation and credit losses, using a methodology that connects macro-economic indices to losses of the Bank. The basis used by the methodology for the calculation of the loss, is the internal risk assessments of the Bank with the addition of the effect of the change in the macro-economic indices.

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

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

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

As stated, in computing the allowance actually made, an annual unemployment average rate of 15% and a reduction in the product of 7%, had been assumed.

The Bank estimates that a growth of 1.5% in the rate of unemployment in December 2020 and a reduction of additional 2% in the rate of the GDP at the end of 2020, would cause an increase of between NIS 160 and 210 million in the allowance for credit losses.

The Bank estimates that a decrease of 1.5% in the average unemployment rate in December 2020 and an increase of 2% in the rate of the GDP at the end of 2020, would cause a reduction of between NIS 120 and 160 million in the allowance for credit losses.

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

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

Measurement of financial instruments according to their fair value

The credit risk. The Group recorded an expense of NIS 21 million in the first nine months of 2020, compared to a negligible income in the corresponding period last year. The increase in the amount of the adjustment stems from the increase in risk following the Corona crisis and adjustments made to the calculation model.

Adjustments made to assets and liabilities in respect of derivative instruments

	September 30, 2020	December 31, 2019
	in NIS millions	
Assets in respect of derivative instruments	5,460	4,558
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(15)	(10)
Liabilities in respect of derivative instruments	5,597	4,866
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	22	6

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

Employee Rights

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of September 30, 2020. For details regarding the computation of the actuarial provision amount that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority's "deep market" guideline, see the actuarial assessment appended to the annual report for 2019.
Presenting the actuary's opinion for perusal. The opinion of the Actuary[2] is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the 2020 Third Quarter Report (this Report).
The actuarial opinion as of September 30, 2020, compared to the opinion as of June 30, 2020, was mainly affected by a slight rise in the discount rate resulting in the recording of actuarial profits in immaterial amounts. With regard to the first nine months of 2020, there is a balance of actuarial profit resulting from the discount rates being higher than the discount rates that existed at the end of 2019.

Controls and Procedures

Disclosure controls and procedures

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

Changes in Internal Control

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

Shaul Kobrinsky	Uri Levin	
Chairman of the Board of Directors	President & Chief Executive Officer	November 23, 2020

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

Internal Control over Financial Reporting

Certification

I, Uri Levin, certify that:

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

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

Uri Levin

November 23, 2020 — President & Chief Executive Officer

Certification

I, Joseph Beressi, certify that:

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

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

Joseph Beressi
Senior Executive Vice President
Chief Accountant

November 23, 2020

Condensed Financial Statements

Somekh Chaikin

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

Introduction

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

Scope of Review

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

Conclusion

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

Emphasis of a matter

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

Somekh Chaikin Certified Public Accountants (Isr.)	Ziv Haft Certified Public Accountants (Isr.)

November 23, 2020

Condensed Consolidated statement of profit and loss

		Unaudited				Audited
		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	Notes	2020	2019	2020	2019	2019
		in NIS millions				
Interest income		1,730	1,751	5,263	5,707	7,567
Interest expenses		254	353	869	1,293	1,674
Net interest income	2	1,476	1,398	4,394	4,414	5,893
Credit loss expenses	6,14	330	152	1,518	429	690
Net interest income after credit loss expenses		**1,146**	**1,246**	**2,876**	**3,985**	**5,203**
Non-interest Income						
Non-interest financing income	3	301	195	994	597	742
Fees and commissions		698	765	2,087	2,204	2,972
Other income		7	10	15	19	57
Total non-interest income		**1,006**	**970**	**3,096**	**2,820**	**3,771**
Operating and other Expenses						
Salaries and related expenses		830	824	2,448	2,528	3,343
Maintenance and depreciation of buildings and equipment		289	272	848	804	1,098
Other expenses		628	437	1,565	1,301	1,858
Total operating and other expenses		**1,747**	**1,533**	**4,861**	**4,633**	**6,299**
Profit before taxes		405	683	1,111	2,172	2,675
Provision for taxes on profit		134	240	390	764	932
Profit after taxes		271	443	721	1,408	1,743
Bank's share in profit of associates, net of tax effect		6	-	14	11	16
Net profit:						
Before attribution to Non-controlling interests		277	443	735	1,419	1,759
Attributed to the Non-controlling interests		(19)	(16)	(24)	(42)	(57)
Net Profit Attributed to the Bank's Shareholders		**258**	**427**	**711**	**1,377**	**1,702**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**3A**	**0.22**	**0.37**	**0.61**	**1.18**	**1.46**

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

Shaul Kobrinsky
Chairman of the Board of Directors

Uri Levin
President & Chief Executive Officer

Joseph Beressi
Senior Executive Vice President,
Chief Accountant

Date of approval of the financial statements:
November 23, 2020

Condensed Consolidated statement of comprehensive Income

	Unaudited				Audited
	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Net profit before attribution to Non-controlling interests	277	443	735	1,419	1,759
Net profit attributed to Non-controlling interests	(19)	(16)	(24)	(42)	(57)
Net profit attributed to the Bank's shareholders	**258**	**427**	**711**	**1,377**	**1,702**
Other comprehensive income (loss), before taxes:					
Net adjustments for presentation of available-for- sale bonds at fair value	11	250	159	817	790
Net adjustments from translation of financial statement	(28)	(81)	(14)	(259)	(283)
Adjustments of liabilities in respect of employee benefits[(2)]	(124)	(216)	(416)	(268)	(259)
Net income in respect of cash flows hedge	-	1	-	5	4
Other comprehensive income (loss), before taxes	**(141)**	**(46)**	**(271)**	**295**	**252**
Related tax effect	40	(10)	97	(177)	(176)
Other comprehensive income (loss) before attribution to Non-controlling interests, after taxes	(101)	(56)	(174)	118	76
Other comprehensive income (loss) attributed to Non-controlling interests	1	-	-	(2)	(4)
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**(102)**	**(56)**	**(174)**	**120**	**80**
Comprehensive income, before attribution to non-controlling interests holders	176	387	561	1,537	1,835
Comprehensive income, attributed to non-controlling interests holders	(20)	(16)	(24)	(40)	(53)
Comprehensive income, attributed to the Bank's shareholders[(1)]	**156**	**371**	**537**	**1,497**	**1,782**

Footnotes:

(1) See Note 4.

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

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

Condensed Consolidated Balance Sheet

		Unaudited		Audited
	Note	September 30, 2020	September 30, 2019	December 31, 2019
		in NIS millions		
Assets				
Cash and deposits with banks		40,469	21,746	26,044
Securities (of which: 9,117 ,3,926 , 2,897 respectively, pledged to lenders)	5	41,431	37,303	37,745
Securities borrowed or purchased under agreements to resell		679	464	531
Credit to the public	6,14	190,300	175,810	182,991
Allowance for credit losses	6,14	(3,644)	(2,373)	(2,524)
Net credit to the public		186,656	173,437	180,467
Credit to Governments		4,276	3,478	3,515
Investments in associates		269	172	171
Buildings and equipment		2,805	2,496	2,577
Intangible assets and goodwill		164	160	164
Assets in respect of derivative instruments	11	5,451	5,601	4,545
Other assets		5,478	3,921	4,064
Total assets		**287,678**	**248,778**	**259,823**
Liabilities and Equity				
Deposits from the public	7	225,108	194,462	201,450
Deposits from banks		9,384	5,980	6,419
Deposits from the Government		226	186	181
Securities lent or sold under agreements to repurchase		-	1,481	346
Bonds and Subordinated debt notes		11,314	8,131	13,129
Liabilities in respect of derivative instruments	11	5,586	6,079	4,839
Other liabilities (1)		16,361	13,486	14,266
Total liabilities		267,979	229,805	240,630
Shareholders' equity		19,160	18,457	18,678
Non-controlling interests		539	516	515
Total equity		19,699	18,973	19,193
Total Liabilities and Equity		**287,678**	**248,778**	**259,823**

Footnote:

(1) Of which NIS 293 million, NIS 198 million and NIS 223 million, as of September 30, 2020, September 30, 2019 and December 31, 2019, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

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

Condensed Statement of Changes in Equity

		Capital reserves							
	Paid up Share capital	Share premium	Other reserves	Total paid up share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity	Non-controlling interests holders in consolidated subsidiaries	Total equity
	in NIS millions								
A. For the three months ended September 30, 2020 and 2019 (unaudited)									
Balance at June 30, 2020	676	4,174	209	5,059	(553)	14,498	19,004	519	19,523
Net Profit for the period	-	-	-	-	-	258	258	19	277
Other comprehensive loss , net after tax effect	-	-	-	-	(102)	-	(102)	1	(101)
Balance at September 30, 2020	**676**	**4,174**	**209**	**5,059**	**(655)**	**14,756**	**19,160**	**539**	**19,699**
Balance at June 30, 2019	676	4,174	215	5,065	(385)	13,488	18,168	500	18,668
Net Profit for the period	-	-	-	-	-	427	427	16	443
Dividend paid	-	-	-	-	-	(82)	(82)	-	(82)
Other comprehensive loss , net after tax effect	-	-	-	-	(56)	-	(56)	-	(56)
Balance at September 30, 2019	**676**	**4,174**	**215**	**5,065**	**(441)**	**13,833**	**18,457**	**516**	**18,973**
B. For the nine months ended September 30, 2020 and 2019(unaudited)									
Balance at December 31, 2019 (audited)	676	4,174	215	5,065	(481)	14,094	18,678	515	19,193
Net Profit for the period	-	-	-	-	-	711	711	24	735
Dividend paid	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	(6)	(6)	-	-	(6)	-	(6)
Other comprehensive loss, net after tax effect	-	-	-	-	(174)	-	(174)	-	(174)
Balance at September 30, 2020	**676**	**4,174**	**209**	**5,059**	**(655)**	**14,756**	**19,160**	**539**	**19,699**
Balance at December 31, 2018 (audited)	676	4,174	215	5,065	(561)	12,647	17,151	518	17,669
Net Profit for the period	-	-	-	-	-	1,377	1,377	42	1,419
Dividend paid	-	-	-	-	-	(191)	(191)	-	(191)
Dividend to non-controlling interests holders in consolidated companies	-	-	-	-	-	-	-	(42)	(42)
Other comprehensive income, net after tax effect	-	-	-	-	120	-	120	(2)	118
Balance at September 30, 2019	**676**	**4,174**	**215**	**5,065**	**(441)**	**13,833**	**18,457**	**516**	**18,973**
C. For the year of 2019 (audited)									
Balance at December 31, 2018	676	4,174	215	5,065	(561)	12,647	17,151	518	17,669
Net Profit for the year	-	-	-	-	-	1,702	1,702	57	1,759
Dividend paid	-	-	-	-	-	(255)	(255)	-	(255)
Dividend to non-controlling interests holders	-	-	-	-	-	-	-	(56)	(56)
Other comprehensive income net after tax effect	-	-	-	-	80	-	80	(4)	76
Balance at December 31, 2019	**676**	**4,174**	**215**	**5,065**	**(481)**	**14,094**	**18,678**	**515**	**19,193**

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

Condensed Consolidated Statement of Cash Flows

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	in NIS millions				
Cash Flows from Operating Activities					
Net profit before attribution to Non-controlling interests in consolidated companies	277	443	735	1,419	1,759
Adjustments necessary to present cash flows from current operations:					
Bank's share in undistributed (profits) loss of associates.	(6)	1	(15)	(9)	(14)
Depreciation of buildings and equipment (including impairment in value)	128	114	364	333	466
Provision for impairment in value of securities	3	2	20	11	31
Credit loss expenses	330	152	1,518	429	690
Net gain on sale of credit portfolio	-	-	-	(7)	(7)
Profit on sale of available-for-sale bonds and shares not for trading	(184)	(63)	(466)	(212)	(250)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(5)	(2)	(101)	13	2
Non realized gain on adjustment to fair value of shares no for trading	(24)	(18)	(24)	(36)	(39)
Gain from realization at an investment in investee companies	-	-	-	(13)	(13)
Gain on realization of buildings and equipment	(5)	-	(10)	(8)	(42)
Net deferred taxes	(78)	(75)	(461)	(51)	(115)
Severance pay – increase in excess of provision over the deposits	177	213	530	307	336
Net change in current assets:					
Assets in respect of derivative instruments	405	(1,338)	(906)	(1,875)	(816)
Trading securities	(199)	(319)	1,090	(35)	(252)
Other assets	(52)	245	71	(21)	(40)
Effect of changes in exchange rate on cash and cash equivalent balances	72	(31)	3	(140)	(145)
Accrual differences included in investment and financing activities	268	338	204	1,246	1,440
Net change in current liabilities:					
Liabilities in respect of derivative instruments	(479)	1,734	746	2,830	1,590
Other liabilities	1,001	(107)	288	315	1,049
Adjustments in respect of exchange rate differences on current assets and liabilities	(20)	(37)	33	(163)	(185)
Dividends received from associates	-	-	9	7	13
Net Cash Flows from Operating Activities	**1,609**	**1,252**	**3,628**	**4,340**	**5,458**

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

Condensed Consolidated Statement of Cash Flows (continued)

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	in NIS millions				
Cash Flows to Investing Activities					
Net change in Deposits with banks	(2,274)	(56)	(2,908)	(42)	42
Net change in Net credit to the public	(1,750)	(2,520)	(5,394)	(6,987)	(8,930)
Net change in Credit to the Governments	214	60	941	417	571
Net change in Securities borrowed or purchased under agreements to resell	153	219	(148)	310	243
Acquisition of held-to-maturity bonds	-	-	(3,536)	(612)	(766)
Proceeds from redemption of held-to-maturity bonds	47	23	528	1,046	1,715
Purchase of available-for-sale bonds and shares not for trading	(4,060)	(3,035)	(14,522)	(10,173)	(13,133)
Proceeds of sale of available-for-sale bonds and shares not for trading	1,962	1,693	11,540	9,208	10,739
Purchased credit portfolios	(1,761)	(442)	(5,836)	(3,281)	(4,162)
Gain on sale of credit portfolio	-	658	121	860	940
Proceeds of redemption of available-for-sale bonds	770	376	2,927	1,932	3,197
Purchase of shares in associates	(109)	-	(109)	(62)	(62)
Net cash flow from the merger with Municipal Bank	-	-	-	-	449
Net Proceeds of the sale of investments in associates	-	-	-	26	27
Acquisition of buildings and equipment	(287)	(148)	(602)	(397)	(592)
Proceeds from sale of buildings and equipment	9	-	18	20	65
Net Cash Flows to Investing Activities	**(7,086)**	**(3,172)**	**(16,980)**	**(7,735)**	**(9,657)**
Cash Flows from Financing Activities					
Net change in Deposits from banks	1,666	(436)	2,965	(906)	(488)
Net change in Deposits from the public	2,770	1,975	24,163	4,470	7,453
Net change in Deposits from the Government	(6)	(4)	45	(71)	(76)
Net change in Securities borrowed or purchased under agreements to resell	(174)	945	(346)	355	(780)
Issuance of subordinated debt notes	-	-	541	-	3,899
Redemption of subordinated debt notes	(122)	(22)	(2,407)	(425)	(1,327)
Dividend paid to the shareholders	-	(82)	(49)	(191)	(255)
Dividend to Non-controlling interests	-	-	-	(42)	(56)
Net cash flows from Financing Activities	**4,134**	**2,376**	**24,912**	**3,190**	**8,370**
Increase (decrease) in cash	(1,343)	456	11,560	(205)	4,171
Cash balance at beginning of period	38,706	20,950	25,777	21,549	21,549
Effect of changes in exchange rate on cash and cash equivalent balances	(71)	(12)	(45)	51	57
Cash balance at end of period	**37,292**	**21,394**	**37,292**	**21,395**	**25,777**
Interest and taxes paid and/or received					
Interest received	1,784	1,867	5,382	5,661	7,576
Interest paid	(294)	(466)	(1,017)	(1,227)	(1,712)
Dividends received	1	1	16	16	26
Taxes on income paid	(372)	(372)	(832)	(949)	(1,265)
Taxes on income received	5	-	207	36	37

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

Appendix A – merger with Municipal Bank

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

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

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	in NIS millions				
Recognition of a right-of-use asset in consideration for a leasing liability	91	-	852	-	-
Purchase of fixed assets	3	-	6	13	9
Securities sold	(71)	-	(71)	-	-
Lending of securities	310	(907)	(1,699)	206	173

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

Notes to the Condensed Financial Statements

1. Accounting Policies

A. **General.** Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of September 30, 2020, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in associates. The interim financial statements do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2019 and the accompanying notes. The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2019 except as detailed in section E hereunder.

B. The interim financial statements were approved for publication by the Bank's Board of Directors on November 23, 2020.

C. **Principles of financial reporting.** The interim financial statements are prepared in accordance with accounting principles determined in directives of the Supervisor of Banks applying to the preparation of an annual financial report of a banking corporation, with required changes in the circumstances of the matter, and in accordance with U.S. GAAP applying to financial reporting for interim periods, and the reporting principles determined in directives and guidelines of the Supervisor of Banks. In most of the subjects, the Supervisor's instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).

D. **Use of assessments and discretion.** In preparing the interim financial statements in accordance with the rules, instructions and guidelines, as stated, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments. Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

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

Starting with the period beginning January 1, 2020, the Bank implements accounting standards and instructions as detailed hereunder:

(1) Leasing (see section 1 below);

(2) The Corona virus outbreak –supervisory emphasis (see section 2 below).

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

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

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

   The initial implementation and its effect. The Standard is being applied as from January 1, 2020 and thereafter. Application of the Standard has resulted in a NIS 837 million increase in the balance of right-of-use assets and to a corresponding increase in the balance of lease liabilities at date of initial implementation. Moreover, the adoption of the Standard has resulted in a decrease in the common equity tier 1 ratio by 0.05%.

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

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

1. Accounting Policies (continued)

Inter alia, the letter included the following guidelines:

- Classification of troubled debt restructurings due to changes in the loan terms – when a banking corporation acts to stabilize borrowers that are not in arrears on their existing loans, but are encountering financial or operational difficulties in the short term as a result of the Corona outbreak; such action will generally not be considered a restructuring of a troubled debt, particularly if all the following conditions are met: the change was made due to the Corona virus outbreak, the borrower was not in arrears on the date when the plan for changing the terms was implemented and the change is for a short time.
  For this purpose, it was clarified that borrowers will be considered to be borrowers that are not in arrears if they are in arrears of less than 30 days in relation to the contractual terms at the time of implementing the plan for the changes.
- Housing loans – For housing loans for which a minimal allowance has to be calculated in accordance with the extent of arrears method, the deferral of principal or interest payments for a short time, in respect of such a loan that was not a problematic debt prior to the deferral date, in general, does not require the debt to be classified as a restructured debt.
- Determining the state of the arrears – with regard to debts that were not in arrears prior to this and for which a deferral has been granted due to the Corona virus outbreak, these will not be required to be classified as debts in arrears due to the deferral. For debts that were in arrears prior to granting the aforesaid deferral, the state of the calculated arrears will be frozen during the payment deferral period, unless the debt has been classified as an impaired debt or unless it was subject to an accounting write-off.
- Classification of problematic debts, including impaired debts not accruing interest income, and accounting write-offs – during the period of short-term arrangements, these loans will generally not be reported as non-performing impaired loans. The exception to this will be debts regarding which new information has come to hand regarding a deterioration in the chances of their settlement; with respect to these, the Bank will act in accordance with the Public Reporting Directives with regard to the classification of problematic debts and accounting write-offs.

In continuation of the above stated, the Supervisor of Banks published a letter on October 11, 2020, in the matter of the "Corona virus event – regulatory focal points regarding additional changes in loan terms".

- It is clarified that an additional change in loans has to be examined on a cumulative basis, in order to determine whether the additional change comprises restructuring of a troubled debt. If the cumulative changes regarding the loan are all related to the Corona virus event, and on a cumulative basis represent short-term changes (for instance: six months or less on a cumulative basis), and the borrower is not in default with respect to the contractual terms (default of less than thirty days with respect to all contractual payments) at date of the following change, Management may continue to assume that the borrower has no financial difficulties at date of the change, for the purpose of deciding whether the debt should be classified as a troubled debt restructuring, and the consequential change in the terms of the loan shall not be considered as a troubled debt restructuring.
- Deferral of repayments of a loan granted in the period to December 31, 2020, within the framework of the transverse program for the deferral of repayments, with respect to a loan that was not in default of thirty days or more at date of deferral of repayments, shall not require the classification of the loan as a troubled debt restructuring, even if the cumulative deferral exceeds six months.
  Notwithstanding the above, even in such circumstances, the banking corporation has to verify that it identifies and properly classifies the loans in reports to the public in accordance with the risks inherent therein. Furthermore, despite the fact that the said deferral of the loan repayments does not require classification as a troubled debt restructuring, it is reasonable to assume that the credit quality of a part of these loans has deteriorated, and it is required to examine the proper classification thereof in reports to the public in accordance with existing rules.
  For practical reasons, with respect to relatively small loans, a banking corporation may conduct the said examination at the level of a group of debts having similar risk characteristics, and does not have to conduct the examination at the level of the individual loan. Such characteristics may include, for instance, the length of time of the granted cumulative deferral in relation to the original period of the loan, as well as indications existing at the banking corporation being relevant to the repayment ability and value of the collateral.

1. Accounting Policies (continued)

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

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

   Furthermore, the Supervisor of Banks published a draft "FAQ file in the matter of application of the new rules regarding expected credit losses", which is intended to assist banking corporations in the process of preparation for the implementation of the new rules.

   The Supervisor of Banks published updated drafts on October 15, 2020.

   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 initial implementation would be by way of cumulative effect, recorded in retained earnings. The draft included a relief, according to which a banking corporation would be entitled to add to the Common Equity Tier 1 the amount of the reduction recorded on date of initial implementation, spread over a period of three years: on January 1, of the first year of implementation – 75%; of the second year – 50%; and of the third year – 25%.

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

2. **Changes in disclosure requirements for fair value measurements and employee benefits.** 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 December 31, 2021. The Bank estimates that the implementation of the said provisions is not expected to have a material impact, except for changes in disclosure.

2. Interest Income and Expenses

	Unaudited			
	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	in NIS millions			
A. Interest Income[2]				
Credit to the public	1,571	1,564	4,716	5,082
Credit to the Governments	19	21	60	69
Deposits with the Bank of Israel and cash	8	10	29	31
Deposits with Banks	-	13	15	38
Bonds[1]	128	138	428	474
Other assets	4	5	15	13
Total interest income	**1,730**	**1,751**	**5,263**	**5,707**
B. Interest Expenses[2]				
Deposits from the public	(162)	(272)	(595)	(912)
Deposits from the Government	(1)	(1)	(2)	(2)
Deposits from the Bank of Israel	(1)	-	(1)	-
Deposits from banks	(7)	(16)	(41)	(52)
Securities lent or sold under agreements to repurchase	-	(6)	(5)	(16)
Bonds and subordinated debt notes	(82)	(57)	(223)	(308)
Other liabilities	(1)	(1)	(2)	(3)
Total interest expenses	**(254)**	**(353)**	**(869)**	**(1,293)**
Net interest income	**1,476**	**1,398**	**4,394**	**4,414**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:				
Interest Income	(8)	-	7	(1)
Interest expenses	3	-	9	(4)
D. Accrual basis, interest income from bonds:				
Held-to-maturity	24	23	68	103
Available-for-sale	100	112	350	350
Trading	4	3	10	21
Total included in interest income	128	138	428	474

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	9	11	31	33
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	32	38	108	120

(2) Including the impact of hedge relations.

(3) Details of the effect of hedge derivative instruments on subsection A+B.

3. Non-interest Financing Income

	Unaudited			
	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	in NIS millions			
A. Non-interest financing income (expenses) from operations not for trading purposes				
From operations in derivative instruments				
Net expenses in respect of derivative instruments[4]	(66)	[8](463)	(117)	[8](1,231)
Total from operations in derivative instruments	(66)	(463)	(117)	(1,231)
From investments in bonds:				
Gains on sale of available-for-sale bonds[3]	90	46	366	147
Provision for impairment of available-for-sale bonds[3]	-	-	(5)	-
Total from investments in bonds	90	46	361	147
Net exchange rate differences	106	505	320	1,292
Net profit (losses) from investments in shares:				
Gains on sale from non trading shares	94	17	102	65
Losses on sale from non trading shares	-	-	(2)	-
Provision for impairment of non trading shares	(3)	(2)	(15)	(11)
Dividends from non trading shares	1	2	7	10
Unrealized profits [7]	24	18	24	36
Profit on sale of shares and activities of associates	-	-	-	13
Total from investment in shares	116	35	116	113
Net profit in respect of loans sold	-	-	-	7
Total non-interest financing income from operations not for trading purposes	**246**	**123**	**680**	**328**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:				
Net income in respect of non trading derivative instruments	50	[8]70	213	[8]282
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	5	[8]-	102	[8](18)
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	-	2	(1)	5
Total from trading operations[6]	**55**	**72**	**314**	**269**
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:				
Interest rate exposure	44	[8]110	147	[8]331
Foreign currency exposure	10	[8](41)	168	[8](68)
Share exposure	1	3	(1)	6
Total according to risk exposure	55	72	314	269
Total non-interest financing income	**301**	**195**	**994**	**597**

Footnotes:

(1) Of which, a part of the profit (loss) relating to trading bonds that are still on hand at balance sheet date	(18)	9	(4)	16
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	-	-	(1)	1
(3) Reclassified from accumulated other comprehensive income, see Note 4:				
Of which, profit, from investments in bonds, net	90	43	361	144

(4) Excluding the impact of hedge relations.
(5) Including exchange rate differences from trading operations.
(6) For interest income on investments in trading bonds, see Note 2, above.
(7) Including profits and losses on measurement at fair value of shares with readily determinable fair value, as well as upward or downward adjustments of shares without readily determinable fair value.
(8) Reclassified – classification of exchange differences in respect of derivatives.

3A. Earnings Per Share

	Unaudited				Audited
	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	in NIS millions				
Earnings per share					
Total net income, attributed to bank's shareholders	258	427	711	1,377	1,702
	In Thousand				
Earnings per share:					
Weighted average of shares of NIS 0.1 par value:					
Balance at the beginning and end of the period	1,164,017	1,164,017	1,164,017	1,164,017	1,164,017
Weighted average of shares of NIS 0.1 par value, used for earnings per share	**1,164,017**	**1,164,017**	**1,164,017**	**1,164,017**	**1,164,017**
Earnings per share of NIS 0.1 (in NIS)	**0.22**	**0.37**	**0.61**	**1.18**	**1.46**

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

4. Accumulated other comprehensive income (loss)

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

	Other comprehensive income (loss), before attribution to Non-controlling interests					Other comprehensive income (loss) attributed to Non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for- sale bonds at fair value	Financial statements translation adjustments[(1)]	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
				in NIS millions			
A. For the three months ended September 30, 2020 and 2019 (unaudited)							
Balance at June 30, 2020	479	(330)	2	(716)	(565)	(12)	(553)
Net change during the period	9	(28)	-	[(2)](82)	(101)	1	(102)
Balance at September 30, 2020	**488**	**(358)**	**2**	**(798)**	**(666)**	**(11)**	**(655)**
Balance at June 30, 2019	227	(239)	2	(384)	(394)	(9)	(385)
Net change during the period	167	(81)	1	(143)	(56)	-	(56)
Balance at September 30, 2019	**394**	**(320)**	**3**	**(527)**	**(450)**	**(9)**	**(441)**
B. For the nine months ended September 30, 2020 and 2019 (unaudited)							
Balance at December 31, 2019 (audited)	374	(344)	2	(524)	(492)	(11)	(481)
Net change during the period	114	(14)	-	[(2)](274)	(174)	-	(174)
Balance at September 30, 2020	**488**	**(358)**	**2**	**(798)**	**(666)**	**(11)**	**(655)**
Balance at December 31, 2018 (audited)	(157)	(61)	(1)	(349)	(568)	(7)	(561)
Net change during the period	551	(259)	4	(178)	118	(2)	120
Balance at September 30, 2019	**394**	**(320)**	**3**	**(527)**	**(450)**	**(9)**	**(441)**
C. For the year of 2019 (audited)							
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 an amount of NIS 354 million for the nine months and NIS 188 million for the three months in respect of the 2020 retirement plan, see Note 8 D.

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

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

	Unaudited					
	For the three months ended					
	September 30, 2020			September 30, 2019		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions					
Changes in components of accumulated other comprehensive income, before attribution to Non-controlling interests:						
Adjustments for presentation of available-for- sale bonds at fair value						
Net unrealized income from adjustments to fair value	101	(22)	79	293	(96)	197
Income on available-for-sale bonds reclassified to the statement of income[2]	(90)	20	(70)	(43)	13	(30)
Net change during the period	**11**	**(2)**	**9**	**250**	**(83)**	**167**
Translation adjustments						
Financial statements translation adjustments[1]	(28)	-	(28)	(81)	-	(81)
Net change during the period	**(28)**	**-**	**(28)**	**(81)**	**-**	**(81)**
Cash flow hedging						
Net income (loss) in respect of cash flow hedging	4	(2)	2	1	-	1
Net income in respect of cash flow hedging reclassified to the statement of income	(4)	2	(2)	-	-	-
Net change during the period	**-**	**-**	**-**	**1**	**-**	**1**
Employee benefits						
Net actuarial loss	(168)	58	[4](110)	(245)	83	(162)
loss reclassified to the statement of income[3]	44	(16)	28	29	(10)	19
Net change during the period	**(124)**	**42**	**(82)**	**(216)**	**73**	**(143)**
Total net changes during the period	**(141)**	**40**	**(101)**	**(46)**	**(10)**	**(56)**
Changes in components of accumulated other comprehensive loss attributed to Non-controlling interests:						
Total net changes during the period	**1**	**-**	**1**	**-**	**-**	**-**
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:						
Total net changes during the period	**(142)**	**40**	**(102)**	**(46)**	**(10)**	**(56)**

For footnotes see next page.

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

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

	Unaudited						Audited		
	For the nine months ended						For the year ended		
	2020			2019			2019		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of accumulated other comprehensive income , before attribution to Non-controlling interests:									
Adjustments for presentation of available-for- sale bonds at fair value									
Net unrealized income from adjustments to fair value	520	(156)	364	961	(313)	648	951	(312)	639
Income on available-for-sale bonds reclassified to the statement of income(2)	(361)	111	(250)	(144)	47	(97)	(161)	53	(108)
Net change during the period	**159**	**(45)**	**114**	**817**	**(266)**	**551**	**790**	**(259)**	**531**
Translation adjustments									
Financial statements translation adjustments(1)	(14)	-	(14)	(259)	-	(259)	(283)	-	(283)
Net change during the period	**(14)**	**-**	**(14)**	**(259)**	**-**	**(259)**	**(283)**	**-**	**(283)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	2	(1)	1	5	(1)	4	4	(1)	3
Net income in respect of cash flow hedging reclassified to the statement of income	(2)	1	(1)	-	-	-	-	-	-
Net change during the period	**-**	**-**	**-**	**5**	**(1)**	**4**	**4**	**(1)**	**3**
Employee benefits									
Net actuarial (loss)	(496)	170	(4)(326)	(338)	114	(224)	(362)	117	(245)
loss reclassified to the statement of income(3)	80	(28)	52	70	(24)	46	103	(33)	70
Net change during the period	**(416)**	**142**	**(274)**	**(268)**	**90**	**(178)**	**(259)**	**84**	**(175)**
Total net change during the period	**(271)**	**97**	**(174)**	**295**	**(177)**	**118**	**252**	**(176)**	**76**
Changes in components of accumulated other comprehensive loss attributed to Non-controlling interests:									
Total net change during the period	**-**	**-**	**-**	**(3)**	**1**	**(2)**	**(6)**	**2**	**(4)**
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the period	**(271)**	**97**	**(174)**	**298**	**(178)**	**120**	**258**	**(178)**	**80**

Footnotes:

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

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

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

(4) Including an amount of NIS 354 million for the nine months and NIS 188 million for the three months in respect of the 2020 retirement plan, see Note 8 D.

5. Securities

A. Composition

	Unaudited				
	September 30,2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	7,248	7,248	312	-	7,560
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	215	215	7	1	221
Of others abroad[(5)]	175	175	6	2	179
Total held-to-maturity bonds	**7,638**	**7,638**	**325**	**3**	**7,960**

	Unaudited				
	September 30,2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[(1)]
	In NIS millions				
(2) Available- for- sale bonds					
Of the Israeli Government	18,896	18,461	490	55	18,896
Of foreign governments	837	811	33	7	837
Of Israeli financial institutions	138	138	1	1	138
Of foreign financial institutions	833	817	20	4	833
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,959	7,788	179	8	7,959
Of others in Israel	389	379	13	3	389
Of others abroad[(5)]	2,236	2,183	65	12	2,236
Total Available- for- sale bonds	**31,288**	**30,577**	**[(2)]801**	**[(2)]90**	**31,288**

	Unaudited				
	September 30,2020				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)(3)]
	In NIS millions				
(3) Investment in not for trading shares	1,047	994	[(4)]54	[(4)]1	1,047
Of which: shares, the fair value of which is not readily available	930	930	-	-	930
Total not for trading securities	**39,973**	**39,209**			**40,295**

For footnotes see next page.

5. Securities (continued)

A. Composition (Continued)

	Unaudited				
	September 30,2020				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,350	1,350	5	5	1,350
Of foreign governments	26	26	-	-	26
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	49	47	2	-	49
Of others in Israel	18	24	-	6	18
Of others abroad	14	14	-	-	14
Total bonds	1,457	1,461	7	11	1,457
Shares	1	2	-	1	1
Total trading securities	**1,458**	**1,463**	[(4)]**7**	[(4)]**12**	**1,458**
Total securities	**41,431**	**40,672**			**41,753**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Included in "Accumulated other comprehensive income".

(3) 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.

(4) Recorded in the statement of profit and loss.

(5) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

A. Composition (continued)

	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[1]
	Unaudited				
	September 30, 2019				
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	4,744	4,744	246	-	4,990
Of foreign governments	18	18	-	-	18
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	352	352	4	4	352
Of others abroad[6]	186	186	7	2	191
Total held-to-maturity bonds	**[2] 5,300**	**5,300**	**257**	**6**	**5,551**

	Book value	Amortized cost	Accumulated other comprehensive income: Profits	Accumulated other comprehensive income: Losses	Fair value[1]
	Unaudited				
	September 30, 2019				
	In NIS millions				
(2) Available- for- sale bonds					
Bonds and loans:					
Of the Israeli Government	17,493	17,131	371	9	17,493
Of foreign governments	1,006	978	29	1	1,006
Of Israeli financial institutions	91	90	1	-	91
Of foreign financial institutions	957	947	15	5	957
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	6,873	6,843	49	19	6,873
Of others in Israel	222	209	13	-	222
Of others abroad[6]	2,121	2,085	44	8	2,121
Total Available- for- sale bonds	**[2] 28,763**	**28,283**	**[3]522**	**[3]42**	**28,763**

	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[1][4]
	Unaudited				
	September 30, 2019				
	In NIS millions				
(3) Investment in not for trading shares	1,007	978	[5]30	[5]1	1,007
Of which: shares, the fair value of which is not readily available	884	884	-	-	884
Total not for trading securities	**35,070**	**34,561**			**35,321**

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

	Unaudited				
	September 30, 2019				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[1]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,083	2,069	15	1	2,083
Of foreign governments	16	16	-	-	16
Of Israeli financial institutions	17	16	1	-	17
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	64	63	1	-	64
Of others in Israel	38	38	2	2	38
Total bonds	2,218	2,202	19	3	2,218
Shares	15	14	2	1	15
Total trading securities	**2,233**	**2,216**	**(5)21**	**(5)4**	**2,233**
Total securities	**37,303**	**36,777**			**37,554**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consolidated subsidiary under repurchase terms from held to maturity portfolio at an amortized cost of NIS 159 million (approx. US$ 46 million) and from the available for sale portfolio with a market value of NIS 1,525 million (approx. US$ 438 million).

(3) Included in "Accumulated other comprehensive income".

(4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.

(5) Recorded in the statement of profit and loss.

(6) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

A. Composition (continued)

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

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

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

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

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

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consolidated subsidiary under repurchase terms from the available for sale portfolio with a market value of NIS 380 million (approx. US$ 110 million).

(3) Included in "Accumulated other comprehensive income".

(4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.

(5) Recorded in the statement of profit and loss.

(6) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

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

	Unaudited							
	September 30, 2020							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	46	(1)-	-	-	20	1	-	1
Of others abroad	-	-	-	-	34	2	-	2
Total held-to-maturity bonds	**46**	**-**	**-**	**-**	**54**	**3**	**-**	**3**

	Unaudited							
	September 30, 2019							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	638	(1)-	-	-	-	-	-	-
Of foreign governments	-	-	-	-	17	(1)-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	15	(1)-	-	-	162	4	-	4
Of others abroad	-	-	-	-	35	2	-	2
Total held-to-maturity bonds	**653**	**-**	**-**	**-**	**214**	**6**	**-**	**6**

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

Footnote:
(1) An amount lower than NIS 1 million.

5. Securities (continued)

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

	Unaudited							
	September 30, 2020							
	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								
Bonds and loans:								
Of the Israeli Government	3,882	53	-	53	1,109	2	-	2
Of foreign governments	441	7	-	7	-	-	-	-
Of Israeli financial institutions	70	1	-	1	-	-	-	-
Of foreign financial institutions	180	3	-	3	40	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	812	2	-	2	428	6	-	6
Of others in Israel	70	3	-	3	-	-	-	-
Of others abroad	658	9	-	9	92	3	-	3
Total available-for-sale bonds	**6,113**	**78**	**-**	**78**	**1,669**	**12**	**-**	**12**

	Unaudited							
	September 30, 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								
Bonds and loans:								
Of the Israeli Government	1,124	9	-	9	-	-	-	-
Of foreign governments	202	1	-	1	59	(1)-	-	-
Of Israeli financial institutions	30	(1)-	-	-	-	-	-	-
Of foreign financial institutions	106	1	-	1	277	4	-	4
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	1,204	6	-	6	1,347	13	-	13
Of others in Israel	54	(1)-	-	-	-	-	-	-
Of others abroad	553	7	-	7	33	1	-	1
Total available-for-sale bonds	**3,273**	**24**	**-**	**24**	**1,716**	**18**	**-**	**18**

5. Securities (continued)

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

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

Footnote:
(1) An amount lower than NIS 1 million.

D. The securities portfolio, as of September 30, 2020, includes investments in asset backed securities, primarily investment in mortgage-backed-securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed- securities - MBS", A real estate mortgage investment conduit (REMIC), a stripped MBS, "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 12 to the financial statements as of December 31, 2019.

E. Most of the unrealized losses as at September 30, 2020 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or 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 September 30, 2020.

F. **Fair value presentation.** The balances of securities as of September 30, 2020, September 30, 2019, and December 31, 2019, include securities amounting to NIS 32,863 million, NIS 31,119 million and NIS 32,153 million, respectively, that are presented at fair value.

5. Securities (continued)

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

	Unaudited			
	September 30, 2020			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	730	22	-	752
of which:				
Bonds guaranteed by GNMA	495	13	-	508
Bonds issued by FHLMC and FNMA	235	9	-	244
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,948	154	2	6,100
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,948	154	2	6,100
Total available-for-sale MBS bonds	**6,678**	**176**	**2**	**6,852**
Held-to-maturity bonds				
Mortgage pass-through bonds:	18	2	-	20
of which:				
Bonds guaranteed by GNMA	13	1	-	14
Bonds issued by FHLMC and FNMA	5	1	-	6
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	197	5	1	201
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	197	5	1	201
Total held-to-maturity MBS bonds	**215**	**7**	**1**	**221**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	47	2	-	49
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	47	2	-	49
Total mortgage-backed trading bonds (MBS)	**47**	**2**	**-**	**49**
Total mortgage-backed bonds (MBS)	**6,940**	**185**	**3**	**7,122**
2.Total Asset-backed available-for-sale bonds (ABS)	1,110	3	6	1,107
Of which collaterized bonds CLO	1,106	3	6	1,103
Of which Asset-backed bond (ABS)	4	-	-	4
Total mortgage and asset-backed bonds	**8,050**	**188**	**9**	**8,229**

Footnote:

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

5. Securities (continued)

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

	Unaudited			
	September 30, 2019			
	Amortized cost	Unrealized gains from adjustment to fair value[(1)]	Unrealized losses from adjustment to fair value[(1)]	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	1,023	8	3	1,028
of which:				
Bonds guaranteed by GNMA	711	5	3	713
Bonds issued by FHLMC and FNMA	312	3	-	315
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	4,857	41	10	4,888
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	4,857	41	10	4,888
Total available-for-sale MBS bonds	**5,880**	**49**	**13**	**5,916**
Held-to-maturity bonds				
Mortgage pass-through bonds:	25	2	-	27
of which:				
Bonds guaranteed by GNMA	18	1	-	19
Bonds issued by FHLMC and FNMA	7	1	-	8
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	327	2	4	325
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	327	2	4	325
Total held-to-maturity MBS bonds	**352**	**4**	**4**	**352**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	63	1	-	64
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	63	1	-	64
Total mortgage-backed trading bonds (MBS)	**63**	**1**	**-**	**64**
Total mortgage-backed bonds (MBS)	**6,295**	**54**	**17**	**6,332**
2.Total Asset-backed available-for-sale bonds (ABS)	963	-	6	957
Of which collaterized bonds CLO	948	-	6	942
Of which Asset-backed bond (ABS)	15	-	-	15
Total mortgage and asset-backed bonds	**7,258**	**54**	**23**	**7,289**

Footnote:

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

5. Securities (continued)

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

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

5. Securities (continued)

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

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

	Unaudited			
	September 30, 2020			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
B. Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	658	1	27	1
Total other mortgage-backed bonds	**658**	**1**	**27**	**1**
Total available-for-sale MBS	**658**	**1**	**27**	**1**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	46	(1)-	19	1
Total other mortgage-backed bonds	**46**	**-**	**19**	**1**
Total held-to-maturity MBS bonds	**46**	**-**	**19**	**1**
Total mortgage-backed bonds (MBS)	**704**	**1**	**46**	**2**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	150	1	401	5
Of which Asset-backed bond (ABS)	4	(1)-	-	-
Total asset-backed available-for-sale bonds (ABS)	**154**	**1**	**401**	**5**
Total mortgage and asset-backed bonds	**858**	**2**	**447**	**7**

Footnote:
(1) Amount lower than NIS 1 million

5. Securities (continued)

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

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

	Unaudited			
	September 30, 2019			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A.Mortgage pass through bonds:				
Bonds guaranteed by GNMA	-	-	329	3
Bonds issued by FHLMC and FNMA	-	-	105	(1)-
Total mortgage backed pass through bonds	**-**	**-**	**434**	**3**
Other mortgage backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	567	2	828	8
Total other mortgage backed bonds	**567**	**2**	**828**	**8**
Total available-for-sale MBS bonds	**567**	**2**	**1,262**	**11**
Held-to-maturity securities				
Other mortgage backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	15	(1)-	158	4
Total other mortgage backed bonds	**15**	**-**	**158**	**4**
Total held-to-maturity MBS bonds	**15**	**-**	**158**	**4**
Trading bonds				
Other mortgage backed bonds(including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	-	-	14	(1)-
Total mortgage-backed trading bonds (MBS)	**-**	**-**	**14**	**-**
Total mortgage-backed bonds (MBS)	**582**	**2**	**1,434**	**15**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	637	4	85	2
Total asset backed available-for-sale bond (ABS)	**637**	**4**	**85**	**2**
Total mortgage and asset backed bond	**1,219**	**6**	**1,519**	**17**

Footnote:
(1) Amount lower than NIS 1 million

5. Securities (continued)

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

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

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

I. Information regarding impaired bonds

	September 30, 2020	September 30, 2019	December 31, 2019
	In NIS millions		
Recorded amount of non accruing interest income impaired bonds	50	49	47

J. VISA Inc. shares

On November 2, 2015, VISA Inc. Company (hereinafter: "VISA Inc.") and VISA Europe Ltd. (hereinafter: "VISA Europe") announced the signing of an agreement, according to which, VISA Inc. would acquire VISA Europe from the principal members holding its shares (hereinafter: "the transaction").

On June 21, 2016, the consideration for the transaction was received, which included, inter alia, preferred shares blocked for periods of between four and twelve years, convertible into VISA Inc. shares. The consideration for the transaction was divided between ICC (approx. 68% of the consideration of the transaction), and Discount Bank (approx. 24.9% of the consideration of the transaction) and the First International Bank (hereinafter: "the parties"), all having the status of "Principal Member" of VISA.

Upon receipt of the preferred shares, they were recognized at their fair value as of that date (being the market value of the VISA Inc. shares that would be received after conversion of the preferred shares, net of a 50% coefficient, based on the estimate of the Bank regarding the effect of the blocking of the shares and of the effect of certain uncertainties relating to the conversion mechanism).

5. Securities (continued)

J. VISA Inc. shares (continued)

The first tranche of the preferred shares was converted in September 2020, into marketable shares in a total value of NIS 121 million (of which, the share of ICC – NIS 82 million, and the share of the Bank – NIS 30 million). Following the above stated, income was recorded on realization of the shares sold and on the revaluation of a part of the shares (unrealized gains) in the amount of NIS 88 million, before tax (amount of NIS 44 million after tax and after attribution to the non-controlling interest in ICC). The said income was recognized in the item "Non-interest financing income". Remaining with ICC are nonmarketable preferred shares, the total value of which (including the share of the ICC owner banks) at the reporting date is assessed at approx. NIS 121 million ("naïve value"). The equity value of these shares, which are stated at the cost method, is NIS 27 million. The balance of the shares, in the value of NIS 20 million, is stated at their market value at the reporting date. It is clarified that the conversion ratio of the preferred shares may decrease in the future, depending on pending claims existing against VISA, relating to the operations of VISA Europe.
The division is made and would be made in the future in accordance with an agreed division mechanism established by the parties.

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

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

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

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

	Unaudited					
	September 30, 2020					
	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)	89,394	2	599	89,995	7,198	97,193
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)214	40,952	-	41,166	-	41,166
Group - other	27,821	197	31,121	59,139	1,028	60,167
Total debts*	**117,429**	**41,151**	**31,720**	**190,300**	**8,226**	**198,526**
* Of which:						
Restructured troubled debts	848	-	157	1,005	-	1,005
Other Impaired debts	820	2	27	849	-	849
Total balance of impaired debts	**1,668**	**2**	**184**	**1,854**	**-**	**1,854**
Debts in arrears of 90 days or more	66	357	28	451	-	451
Other problematic debts	3,194	21	459	3,674	-	3,674
Total Problematic debts	**4,928**	**380**	**671**	**5,979**	**-**	**5,979**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	1,964	-	99	2,063	-	2,063
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)1	(3)255	-	256	-	256
Group - other	536	2	787	1,325	15	1,340
Total allowance for Credit Losses	**2,501**	**257**	**886**	**3,644**	**15**	**3,659**
Of which: in respect of impaired debts	338	-	81	419	-	419

Footnotes:
(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 95,339 million and the allowance in its respect in an amount of NIS 1,644 million computed on a group basis.
(2) The balance of commercial debts includes housing loans in the amount of NIS 214 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 1 million, computed on a group basis, in amount of NIS 184 million.

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

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

	Unaudited					
	September 30, 2019					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis[1]	79,585	-	658	80,243	6,872	87,115
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]252	35,861	-	36,113	-	36,113
Group - other	[2]26,848	172	32,434	59,454	99	59,553
Total debts*	**106,685**	**36,033**	**33,092**	**175,810**	**6,971**	**182,781**
* Of which:						
Restructured troubled debts	944	-	153	1,097	-	1,097
Other Impaired debts	536	-	25	561	-	561
Total balance of impaired debts	**1,480**	**-**	**178**	**1,658**	**-**	**1,658**
Debts in arrears of 90 days or more	118	334	52	504	-	504
Other problematic debts	1,590	21	320	1,931	-	1,931
Total Problematic debts	**3,188**	**355**	**550**	**4,093**	**-**	**4,093**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,156	-	78	1,234	-	1,234
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]200	-	201	-	201
Group - other	366	2	570	938	1	939
Total allowance for Credit Losses	**1,523**	**202**	**648**	**2,373**	**1**	**2,374**
Of which: in respect of impaired debts	185	-	65	250	-	250

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 85,457 million and the allowance in its respect in an amount of NIS 984 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 256 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 129 million.

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

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

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

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 89,986 million and the allowance in its respect in an amount of NIS 1,060 million computed on a group basis.

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

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million, computed on a group basis, in amount of NIS 130 million.

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

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

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Three months ended September 30, 2020					
Balance of allowance for credit losses, as at June 30, 2020	2,484	292	918	3,694	15	3,709
Expenses for credit loss	263	(23)	90	330	-	330
Accounting write-offs	(89)	(12)	(101)	(202)	-	(202)
Collection of debts written-off in previous years	51	-	66	117	-	117
Net accounting write-offs	(38)	(12)	(35)	(85)	-	(85)
Financial statements translation adjustments	(2)	-	-	(2)	-	(2)
Balance of allowance for credit losses, as at September 30, 2020	**2,707**	**257**	**973**	**3,937**	**15**	**3,952**
Of which: In respect of off-balance sheet credit instruments	206	-	87	293	-	293
	Three months ended September 30, 2019					
Balance of allowance for credit losses, as at June 30, 2019	1,631	197	672	2,500	1	2,501
Expenses for credit loss	50	6	96	152	-	152
Accounting write-offs	(88)	(1)	(119)	(208)	-	(208)
Collection of debts written-off in previous years	81	-	53	134	-	134
Net accounting write-offs	(7)	(1)	(66)	(74)	-	(74)
Financial statements translation adjustments	(7)	-	-	(7)	-	(7)
Balance of allowance for credit losses, as at September 30, 2019	**1,667**	**202**	**702**	**2,571**	**1**	**2,572**
Of which: In respect of off-balance sheet credit instruments	144	-	54	198	-	198
	Nine months ended September 30, 2020					
Balance of allowance for credit losses, as at December 31, 2019 (audited)	1,823	207	717	2,747	1	2,748
Expenses for credit loss	1,017	68	419	1,504	14	1,518
Accounting write-offs	(320)	(18)	(356)	(694)	-	(694)
Collection of debts written-off in previous years	188	-	193	381	-	381
Net accounting write-offs	(132)	(18)	(163)	(313)	-	(313)
Financial statements translation adjustments	(1)	-	-	(1)	-	(1)
Balance of allowance for credit losses, as at September 30, 2020	**2,707**	**257**	**973**	**3,937**	**15**	**3,952**
Of which: In respect of off-balance sheet credit instruments	206	-	87	293	-	293
	Nine months ended September 30, 2019					
Balance of allowance for credit losses, as at December 31, 2018 (audited)	1,606	187	657	2,450	1	2,451
Expenses for credit loss	172	21	236	429	-	429
Accounting write-offs	(282)	(6)	(363)	(651)	-	(651)
Collection of debts written-off in previous years	190	-	173	363	-	363
Net accounting write-offs	(92)	(6)	(190)	(288)	-	(288)
Financial statements translation adjustments	(19)	-	(1)	(20)	-	(20)
Balance of allowance for credit losses, as at September 30, 2019	**1,667**	**202**	**702**	**2,571**	**1**	**2,572**
Of which: In respect of off-balance sheet credit instruments	144	-	54	198	-	198

7. Deposits from the public

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

	Unaudited		Audited
	September 30		December 31
	2020	2019	2019
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	47,422	35,327	38,364
Interest bearing	54,948	44,552	43,493
Total demand deposits	**102,370**	**79,879**	**81,857**
Time deposits	94,017	88,637	92,816
Total deposits in Israel*	**196,387**	**168,516**	**174,673**
* Of which:			
Private individuals deposits	105,808	91,448	91,680
Institutional bodies deposits	13,134	16,412	18,076
Corporations and others deposits	77,445	60,656	64,917
Outside Israel			
Demand deposits:			
Non-interest bearing	6,032	3,828	4,391
Interest bearing	17,493	12,301	13,569
Total demand deposits	**23,525**	**16,129**	**17,960**
Time deposits	5,196	9,817	8,817
Total deposits outside Israel	**28,721**	**25,946**	**26,777**
Total deposits from the public	**225,108**	**194,462**	**201,450**

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

	Unaudited		Audited
	September 30		December 31
	2020	2019	2019
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	84,648	74,054	74,205
Over 1 up to 10	63,072	52,582	53,834
Over 10 up to 100	35,763	28,296	31,404
Over 100 up to 500	24,202	21,251	19,208
Over 500	17,423	18,279	22,799
Total	**225,108**	**194,462**	**201,450**

8. Employee Benefits

A. Details regarding the benefits

	Unaudited		Audited
	September 30		December 31
	2020	2019	2019
	in NIS millions		
Severance pay, retirement and pension :			
The liability amount	3,639	3,234	3,213
Fair value of the plan's assets	1,559	1,678	1,625
Excess liabilities over the plan's assets	**2,080**	**1,556**	**1,588**
Excess liabilities of the program included in the item "other liabilities"	**2,080**	**1,556**	**1,588**
Excess assets of the program included in the item "other assets"	**-**	**-**	**-**
Amounts included in the other liabilities item:			
Long-service ("jubilee") awards	284	300	338
Post retirement benefits to retirees	639	656	673
Vacation	169	137	130
Illness	8	8	8
Total Excess liabilities of the program included in the item "other liabilities"	**3,180**	**2,657**	**2,737**
Of which – in respect of benefits to employees abroad	27	37	28
Total Excess assets of the program included in the item "other assets"	**-**	**-**	**-**
Of which – in respect of benefits to employees abroad	-	-	-

B. Defined benefit plan

1. Commitment and financing status

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	Unaudited								Audited	
	For the three months ended September 30,				For the nine months ended September 30,				For the year ended December 31,	
	2020	2019	2020	2019	2020	2019	2020	2019	2019	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions									
Commitment in respect of anticipated benefits at the beginning of the period	3,453	3,168	653	618	3,213	3,093	673	577	3,093	577
Cost of service	25	20	1	1	70	59	4	3	78	4
Cost of interest	18	23	4	6	60	73	12	17	92	22
Actuarial loss (profit)	(4)216	213	(10)	41	(3)444	345	(23)	87	384	109
Changes in foreign currency exchange rates	1	(4)	-	(1)	-	(13)	-	(2)	(14)	(2)
Benefits paid	(74)	(50)	(9)	(9)	(148)	(187)	(27)	(26)	(244)	(36)
Settlements	-	(2)(136)	-	-	-	(2)(136)	-	-	(2)(200)	(2)(2)
An addition stemming from the merger of Municipal Bank	-	-	-	-	-	-	-	-	24	1
Commitment at the end of the period in respect of anticipated benefits	**3,639**	**3,234**	**639**	**656**	**3,639**	**3,234**	**639**	**656**	**3,213**	**673**
Commitment at the end of the period in respect of accumulated benefits(1)	**3,243**	**2,841**	**639**	**656**	**3,243**	**2,841**	**639**	**656**	**2,806**	**673**

Footnotes:
(1) The commitment in respect of a cumulative benefit differs from the commitment in respect of a contractual benefit in that it does not include any assumptions with regard to the future remuneration levels.
(2) In 2019 the Bank settled completely the liability – reduction in liability for defined benefits against a reduction in the assets of the plan, as detailed in Note 23 item A (15) to the financial statements as of December 31, 2019.
(3) Including an amount of NIS 545 million in respect of the 2020 retirement plan.
(4) Including an amount of NIS 288 million in respect of the 2020 retirement plan.

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

1. Commitment and financing status (continued)

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

	Unaudited				Audited
	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
	Severance pay, retirement and pension payments				
	in NIS millions				
Fair value of the plan's assets at the beginning of the period	1,513	1,825	1,625	1,815	1,815
Actual return on the plan's assets	51	21	(33)	131	178
Changes in foreign currency exchange rates	-	(4)	-	(14)	(16)
Deposits by the Bank to the plan	6	6	18	18	35
Benefits paid	(11)	(34)	(51)	(136)	(194)
Settlements	-	(136)	-	(136)	(200)
An addition stemming from the merger of Municipal Bank	-	-	-	-	7
Fair value of the program's assets at the end of the period	**1,559**	**1,678**	**1,559**	**1,678**	**1,625**
Financing status - liability, net, recognized at the end of the period	**(2,080)**	**(1,556)**	**(2,080)**	**(1,556)**	**(1,588)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	Unaudited				Audited	
	September 30				December 31	
	2020	2019	2020	2019	2019	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions					
Amounts recognized in the item "other assets"	-	-	-	-	-	-
Amounts recognized in the item "other liabilities"	(2,080)	(1,556)	(639)	(656)	(1,588)	(673)
Net liability recognized at the end of the period	**(2,080)**	**(1,556)**	**(639)**	**(656)**	**(1,588)**	**(673)**

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

	Unaudited				Audited	
	September 30				December 31	
	2020	2019	2020	2019	2019	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions					
Net actuarial loss	(1,172)	(763)	(33)	(32)	(734)	(54)
Net cost in respect of prior service	-	-	2	3	-	3
Closing balances of accumulated other comprehensive income	**(1,172)**	**(763)**	**(31)**	**(29)**	**(734)**	**(51)**

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

1. Commitment and financing status (continued)

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

	Unaudited		Audited
	September 30		December 31
	2020	2019	2019
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of anticipated benefits	3,426	3,045	3,014
Commitment in respect of cumulative benefits	3,098	2,750	2,671
Fair value of the plan's assets	1,378	1,508	1,457

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

	Unaudited		Audited
	September 30		December 31
	2020	2019	2019
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of anticipated benefits	3,639	3,234	3,213
Fair value of the plan's assets	1,559	1,678	1,625

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

2. Expense for the period

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

	Unaudited				Audited
	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December,
	2020	2019	2020	2019	2019
	in NIS millions				
Severance pay, retirement and pension payments					
Cost of service	25	20	70	59	78
Cost of interest	18	23	60	73	92
Anticipated return on assets of the plan	(15)	(13)	(44)	(41)	(53)
Amortization of unrecognized amounts:					
Net actuarial loss	20	11	43	34	49
Total amortization of unrecognized amounts	**20**	**11**	**43**	**34**	**49**
Other, including loss from reduction or settlement	25	18	40	40	58
Total net cost of benefits	**73**	**59**	**169**	**165**	**224**
Total expense regarding defined deposits pension plans	**52**	**54**	**151**	**149**	**201**
Total expenses included in respect Severance pay, retirement and pension payments	**125**	**113**	**320**	**314**	**425**
Of which: expenses included in salaries and related expenses	77	74	221	208	279
Of which: expenses included in other expenses	48	39	99	106	146
Post retirement retiree benefits					
Cost of service	1	1	4	3	4
Cost of interest	4	6	12	17	22
Amortization of unrecognized amounts:					
Net actuarial income	-	(1)	(2)	(4)	(4)
Cost of prior service	(1)	-	(1)	(1)	(1)
Total amortization of unrecognized amounts	**(1)**	**(1)**	**(3)**	**(5)**	**(5)**
Total net cost of benefits	**4**	**6**	**13**	**15**	**21**
Of which: expenses included in salaries and related expenses	1	1	4	3	4
Of which: expenses included in other expenses	3	5	9	12	17

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

2. Expense for the period (continued)

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

	Unaudited								Audited	
	For the three months ended September 30,				For the nine months ended September 30,				For the year ended December 31,	
	2020	2019	2020	2019	2020	2019	2020	2019	2019	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions									
Net actuarial loss (income) for the period	180	205	(10)	41	521	255	(23)	87	259	109
Amortization of actuarial (loss) income	(20)	(11)	-	1	(43)	(34)	2	4	(49)	4
Amortization of credit in respect of prior service	-	-	1	-	-	-	1	1	-	1
Changes in foreign currency exchange rates	-	1	-	-	-	2	-	-	2	-
Other, including profit from reduction or settlement	(25)	(18)	-	-	(40)	(40)	-	-	(58)	-
Total recognized in other comprehensive loss (income)	**135**	**177**	**(9)**	**42**	**438**	**183**	**(20)**	**92**	**154**	**114**
Total net cost of benefits[1]	**73**	**59**	**4**	**6**	**169**	**165**	**13**	**15**	**224**	**21**
Total amount recognized in net cost of benefits and in other comprehensive income	**208**	**236**	**(5)**	**48**	**607**	**348**	**(7)**	**107**	**378**	**135**

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 DURING THE REMAINDER OF 2020 AS AN EXPENSE, BEFORE TAX EFFECT

	Unaudited	
	October - December 2020	
	Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions	
Net actuarial loss	22	-
Settlements	[1]344	-
Total amount expected to be amortized from other comprehensive income	**366**	**-**

Footnote:
(1) The assessment of the amount of settlements is mostly affected by the 2020 retirement plan (see Section D below).

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

3. Assumptions

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

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

	Unaudited		Audited	Unaudited		Audited
	September 30		December 31	September 30		December 31
	2020	2019	2019	2020	2019	2019
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	0.47%-1.14%	0.21%-1.22%	0.11%-0.93%	0.51%-1.33%	0.04%-1.53%	-0.13%-1.15%

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

	Unaudited		Audited	Unaudited		Audited
	September 30		December 31	September 30		December 31
	2020	2019	2019	2020	2019	2019
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	0.76%-1.41%	1.28%-2.16%	1.01%-1.93%	0.69%-1.61%	0.75%-2.16%	0.55%-2.00%

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

	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
	Increase of one percentage point						Decrease of one percentage point					
	Severance pay, retirement and pension payments			Post retirement retiree benefits			Severance pay, retirement and pension payments			Post retirement retiree benefits		
	September 30		December 31	September 30		December 31	September 30		December 31	September 30		December 31
	2020	2019	2019	2020	2019	2019	2020	2019	2019	2020	2019	2019
	in NIS millions											
Discount rate	(312)	(262)	(297)	(42)	(36)	(44)	322	264	315	42	36	45

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

4. Cash flow

4.1 DEPOSITS

	Unaudited					Audited
	Forecast[1]	Actual deposits				
		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2020	2019	2020	2019	2019
	Severance pay, retirement and pension payments					
	in NIS millions					
Deposits	8	6	6	18	18	35

Footnote:

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

C. A new remuneration policy for Officers of the Bank

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

8. Employee Benefits (continued)

D. The 2020 retirement plan

(1) **Discount Bank.** On August 26, 2020, the Bank's Board of Directors approved an efficiency plan, according to which, about 300 permanent employees of the Bank, belonging to the defined target population (ages 50-66), would be able to take early retirement under preferential terms. In light of the success of the retirement plan and the interest shown by many additional employees in retiring in accordance with the terms and conditions of the plan, the Bank's Board of Directors approved, on October 19, 2020, enlarging the retirement plan by up to an additional 200 employees.

This plan increased the liability recorded in the Bank's books by NIS 495 million (before the tax effect; in excess of the cost of severance pay in accordance with the law and the surplus balance from a previous retirement plan).

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

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

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

(2) **Mercantile Discount Bank.** Within the efficiency measures adopted by MDB, the Board of Directors of this bank approved on September 15, 2020, an early retirement plan for employees, including preferential retirement terms, which would be implemented in the last quarter of the year, at an estimated total cost of approx. NIS 92 million. Following the above stated, MDB added an amount of approx. NIS 50 million to its severance pay liabilities as of September 30, 2020. The said increase has been classified as an actuarial loss recorded in the item "Other comprehensive income" being part of shareholders' equity (net of tax savings of NIS 17 million).

(3) **ICC.** On September 30, 2020, ICC's board of directors approved a one-time retirement plan, following the drawing up of an outline by the company's management, against the background of the Corona crisis and the desire to significantly increase the number of retirees beyond the number of employees expected to retire due to natural retirement. In light of the aforesaid, it was decided to make an exceptional and one-time change to the retirement outline at the company, and to offer retirees preferred terms and conditions compared to the usual retirement terms and conditions.

In accordance with the plan, approx. 80 permanent employees of the company, belonging to the target population defined, will be eligible for early retirement under preferred terms and conditions. The retirees will be offered enlarged severance pay at a rate of up to 200%.

The total cost of the retirement plan is estimated at NIS 38 million, before tax effect. This cost was recognized in the third quarter's results as a non-recurring expense.

(4) As assessed by the Bank's Management, 500 retirees within the framework of the retirement plans at the Bank and MDB will complete the retirement process prior to the end of 2020. The remainder of the retirees will complete the process in 2021. Accordingly, the amount of the settlement that was charged to profit and loss in the first nine months of 2020 (including in respect of the previous retirement plans) amounted to NIS 40 million. The amount of the settlement to be charged in the fourth quarter of 2020, in respect of the Bank and MDB, will amount to approx. NIS 344 million. An additional settlement amount will be recognized in 2021, in respect of employees retiring in this year. The balance will be spread over the average duration of the liability, which currently stands at approx. 13 years, in accordance with the accounting principles applicable to the Bank.

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

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

A. **Adoption of Basel III instructions.** Details in this matter were brought in Note 25, section 1, in the 2019 Annual Report.

B. **Additional capital requirements in respect of housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and the total capital target by a rate which expresses 1% of the outstanding housing loans. The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.18%. It is noted that in accordance to the Provisional Instruction from April 27, 2020, the said requirement shall not apply to housing loans approved as from March 19, 2020 and until date of expiry of the Provisional Instruction.

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

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

C. **Relief regarding the retirement plan 2016.** The Supervisor of Banks granted the Bank relief regarding its 2016 retirement plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis; an amount of NIS 245 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 196 million have been amortized to September 30, 2020. Additional details regarding this matter are given in Note 25 section 1 c to the 2019 annual report.

D. **Relief regarding the retirement plan 2018.** The Supervisor of Banks granted the Bank a relief regarding its 2018 retirement plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 43 million have been amortized to September 30, 2020. Additional details regarding this matter are given in Note 25 section 1 d to the 2019 annual report.

E. **Relief regarding the retirement plan 2020.** The Supervisor of Banks granted the Bank a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 257 million (before taxes; an amount of NIS 169 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2020, and are gradually amortized, as from the third quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 8 million have been amortized to September 30, 2020. Additional details regarding the retirement plan are given in Note 8 D (1).

F. **Relief regarding the expanding of the retirement plan 2020.** The Supervisor of Banks granted the Bank a relief regarding the expanding of its 2020 retirement plan. Costs in a total amount of approx. NIS 238 million (before taxes; an amount of NIS 157 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2020, and will be gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Additional details regarding the retirement plan are given in Note 8 D (1).

G. **Relief regarding the retirement plan 2020 - MDB.** The Supervisor of Banks granted MDB a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 50 million (before taxes; an amount of NIS 33 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2020, and will be gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Additional details regarding the retirement plan are given in Note 8 D (2).

H. **Provisional Instruction mitigating the capital requirements in order to face the Corona crisis.** The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction remained in effect for a period of six months, and in September 2020 it was extended for an additional period of six month, until March 31, 2021. The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until March 31, 2023), on condition that the Bank's capital ratios shall not be lower than the capital ratios existing at the end of the temporary directive period, or the capital ratios applying to the Bank prior to the temporary directive, whichever is lower.

I. **An early redemption in full of the subordinate capital notes (Series 1).** On April 20, 2020, Manpikim redeemed the capital notes by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,448 million, including interest and linkage increments.

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

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

J. Capital for calculating ratio of capital

	Unaudited		Audited
	September 30,		December 31,
	2020	2019	2019
	in NIS millions		
Common equity tier 1 after deductions	(1)19,725	(1)18,788	(1)19,009
Additional tier 1 capital after deductions	356	534	534
Tier 1 capital	20,081	19,322	19,543
Tier 2 capital after deductions	5,237	4,731	6,021
Total capital	**25,318**	**24,053**	**25,564**

Footnote:
(1) See item "C" to "G" above.

K. Weighted risk assets balance

	Unaudited		Audited
	September 30,		December 31,
	2020	2019	2019
	in NIS millions		
Credit risk(1)	174,367	161,143	165,883
Market Risk	4,313	3,703	2,858
CVA risk	2,023	1,821	1,489
Operational risk	14,656	13,816	14,216
Total weighted risk assets balance	**195,359**	**180,483**	**184,446**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 463 million (September 30, 2019: NIS 11 million, December 31,2019: NIS 10 million) due to adjustments in respect to the efficiency plan.

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

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

L. Ratio of capital risk assets

	Unaudited		Audited
	September 30,		December 31,
	2020	2019	2019
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	10.10	10.41	10.31
Ratio of total capital to risk assets	12.96	13.33	13.86
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(3)(5)	8.18	9.20	9.20
Minimum total capital adequacy ratio required by the Supervisor of Banks(3)(5)	11.68	12.70	12.70
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	11.2	11.8	11.0
Ratio of total capital to risk assets	13.6	14.0	13.7
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(4)(5)	8.2	9.2	9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks(4)(5)	11.7	12.7	12.7
2. Discount Bancorp Inc. (1)			
Ratio of common equity tier 1 to risk assets	14.5	14.1	14.1
Ratio of total capital to risk assets	15.8	15.2	15.2
Ratio of minimum common equity tier 1 required in accordance with local regulation(2)	4.5	4.5	4.5
Minimum total capital adequacy ratio required in accordance with local regulation(2)	8.0	8.0	8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	13.6	13.3	12.9
Ratio of total capital to risk assets	14.6	14.4	14.0
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	11.5	11.5	11.5

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) IDB New York is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) With an addition of 0.18% (September 30, 2019 and December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(4) With an addition of 0.20% (September 30, 2019 and December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) .For details regarding provision instruction mitigating the capital requirements in order to face the Corona crisis, see section H above

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

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

M. Capital components for calculating ratio of capital

	Unaudited		Audited
	September 30,		December 31,
	2020	2019	2019
	in NIS millions		
A. Common Equity Tier 1			
Common equity	19,699	18,973	19,193
Difference between common equity and common equity tier 1	(241)	(189)	(178)
Total common equity tier 1 before supervisory adjustments and deductions	19,458	18,784	19,015
Supervisory adjustments and deductions			
Goodwill and other intangible assets	207	160	164
Supervisory adjustments and other deductions	(22)	6	(6)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	185	166	158
Total adjustments in respect to the efficiency plan	452	170	152
Total common equity tier 1 after supervisory adjustments and deductions	**19,725**	**18,788**	**19,009**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	356	534	534
Total additional tier 1 capital after deductions	**356**	**534**	**534**
C. Tier 2 capital			
Instruments before deductions	2,946	2,612	3,844
Allowance for credit losses before deductions	2,205	2,037	2,092
Minority interests in a subsidiary	86	82	85
Total tier 2 capital before deductions	5,237	4,731	6,021
Deductions	-	-	-
Total tier 2 capital	**5,237**	**4,731**	**6,021**

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

	Unaudited		Audited
	September 30,		December 31,
	2020	2019	2019
	In %		
Ratio of common equity tier 1 to risk assets before the effect of the adjustments in respect to the efficiency plan	9.85	10.32	10.22
Effect of the adjustments in respect to the efficiency plan	0.25	0.09	0.09
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.10	10.41	10.31

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

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

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

	Unaudited		Audited
	September 30,		December 31,
	2020	2019	2019
	in NIS millions		
A. Consolidated			
Tier 1 capital[(1)]	20,081	19,322	19,543
Total exposures	313,877	272,349	284,621
	In %		
Leverage ratio	6.4	7.1	6.9
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Leverage ratio	6.1	7.6	6.5
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
2. Discount Bakcorp Inc.			
Leverage ratio	10.8	11.0	10.9
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0	4.0
3. Israel Credit Cards LTD.			
Leverage ratio	8.6	8.2	8.0
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0

Footnote:

(1) For the effect of the adjustments in respect to the efficiency plans, see items 1 M ,N.

Temporary Directive to ease requirements in light of the Corona crisis. On November 15, 2020, a circular was issued updating Proper Conduct of Banking Business Directive No. 250, "Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Corona virus – Temporary Directive". In accordance with the amendment, with effect from the date of the Directive's publication, the Bank is required to comply with a leverage ratio of not less than 4.5% on a consolidated basis. At the end of the Temporary Directive's validity (March 31, 2021), the relief regarding the leverage ratio shall continue to apply for a further 24 months, provided that the leverage ratio shall not be less than the leverage ratio on the dates of the end of the Directive's validity or the minimum liquidity ratio applicable to the banking corporation prior to the Temporary Directive, whichever is the lower.

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

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

General. Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio. The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

	Unaudited		Audited
	For the three months ended		
	September 30,		December 31,
	2020	2019	2019
	In %		
A. Consolidated			
Liquidity coverage ratio	146.9	123.5	121.2
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
B. The Bank			
Liquidity coverage ratio	167.3	133.6	129.6
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
C. Significant subsidiaries[(1)]			
Mercantile Discount Bank LTD. and its consolidated companies			
Liquidity coverage ratio	143.1	147.1	136.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0

Footnotes:

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

10. Contingent liabilities and special commitments

A. Contingent liabilities and other special commitments

	Unaudited		Audited
	September 30		December 31
	2020	2019	2019
	in NIS millions		
1. Commitment to acquire buildings and equipment[1]	671	153	151
2. Commitment to invest in private investment funds and in venture capital funds	776	515	488

Footnote:
(1) Mainly due to the Discount campus establishment, see item 6 (b).

B. Contingent liabilities and other special commitments

4. Various actions against the Bank and its consolidated subsidiaries:

As detailed in Note 26 C 12 to the financial statements as at December 31, 2019, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 760 million as of September 30, 2020.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 26 C sections 12-13 to the financial statements as at December 31, 2019. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 16 to the financial statements as at December 31, 2019.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

4.1 Note 26 C 12.1 to the financial statements as of December 31, 2019, described a lawsuit together with a motion for its approval as a class action suit against ICC and other credit card companies, filed on April 28, 2014 with the District Court Central Region. The motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid").

A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion.

On December 23, 2018, the Appellants submitted a motion to the Supreme Court, sitting as a High Court of Justice, against the Competition Commissioner. It is requested in the motion that the Court instructs the Competition Commissioner to act in order to clarify, or annul, or change the verdict of the Competition Court, which approved the cross-commission arrangement. A hearing of the Plea was held on July 16, 2020, and on that day the Court ruled for the rejection of the Plea. Accordingly, the proceedings are to continue at the District Court. A pre-trial hearing has been scheduled for January 24, 2021.

4.2 Different legal proceedings have been and are conducted in Australia and in Israel against the Bank and against MDB, relating to accounts held with these two banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims are based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia. The possibility exists that an additional claim would be submitted in the same matter by an additional related company (additional details are presented in section 5.1 hereunder). The Bank acts in order to conclude the proceedings in an out of Court arrangement.

(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.

10. Contingent liabilities and special commitments (continued)

On January 31, 2020, the parties signed a compromise agreement and the claim against the banks was deleted. The amount payable under this agreement is not material to the Bank.

(b) On December 4, 2016, the Bank received notice of a legal action against the Bank and against additional Defendants, which had been filed with the Federal Court in Australia. The action was served by the Liquidators of three Australian companies, which had held accounts with the Bank. The action relates to different transactions recorded in the said accounts in the years 1992 to 2009. At date of service of the action, the amount claimed was AUD 100 million. According to the Plaintiffs, the amount claimed includes interest in accordance with Australian law of an annual rate of 8%. In February 2017 the Bank filed motions for the cancellation of the permit for serving outside the jurisdiction and for the stay of proceedings, inter alia, on grounds of arguments claiming lack of authority and an improper forum. Hearing of the preliminary arguments of the Bank was held on November 12, 2019. An amended action brief was filed on November 14, 2019, according to which, the Liquidators and the Tax Authorities were attached as additional Plaintiffs in respect of one of the causes of action. On August 20, 2020, the Court decided to dismiss the preliminary arguments of the Bank. In addition, the Judge instructed the fixing of a date for a hearing for the fixing of dates regarding the continuation of the proceedings. On September 3, 2020, the Bank filed a motion for leave to appeal the decision rejecting the Bank's preliminary arguments. On October 23, 2020, the Bank filed its statement of defense. In accordance with the ruling from the hearing on September 21, 2020, no further proceedings are to be undertaken, including document disclosure proceedings, until a decision has been taken regarding the motion for leave to appeal filed by the Bank.

(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. On October 10, 2020, the Court decided to admit the motion and issued an Order for the delivery of the documents. The Bank filed with the Supreme Court a motion for permission to appeal the decision as well as a motion for the stay of execution. On November 17, 2020, the Supreme Court ordered the stay of execution of the decision for the delivering of documents until another decision is given.

An action in the amount of approx. AUD 50 million, was filed on July 29, 2020, with the Court in Australia in the matter of the four additional companies. On September 3, 2020, the statement of claim was delivered to the Bank by email. Service of the statement of claim itself was made to the Bank on October 4, 2020.

On September 14, 2020, the Bank filed an objection to approval of service being made outside of jurisdiction. In a hearing held at the Court in Australia on September 21, 2020, it was decided that this case would be heard only after receiving a decision on the appeal filed by the Bank in the case described in section (b) above.

The Bank assess that the total amount of such actions together with the proceeding described in section 5.1 hereunder, may reach approx. AUD 200 million. An examination performed at the banks did not identify additional related accounts, in respect of which additional actions, as stated above, might be lodged.

For details pertaining to an additional proceeding conducted in a similar matter, see section 5.1 hereunder.

4.3 Note 26 C 12.6 to the financial statements as of December 31, 2019, described an action together with a motion for approval of the action as a class action suit filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Custodian General Act, 1978, and the provisions of the Protection of Deposited Assets Act, 1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million.

10. Contingent liabilities and special commitments (continued)

On December 25, 2019, a petition to amend the approval motion was filed. On March 17, 2020, the Bank submitted its response, according to which it opposes the motion for the amendment of the motion for approval, which comprises an attempt to broadening the scope claim. On May 26, 2020, the Court resolution was given, according to which the motion for amendment of the motion for approval would be heard at the preliminary hearing meeting. A preliminary hearing was fixed for February 3, 2021.

4.4 Note 26 C 12.7 to the financial statements as of December 31, 2019, described a claim and a petition for the claim's approval as a class action against ICC and two other credit card companies, filed on July 22, 2018 in the Tel Aviv District Court. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group.

A preliminary hearing was held on January 7, 2020. At the end of the hearing, the Court ordered the representative of the Plaintiffs to edit, while reducing, the list of documents requested for disclosure and perusal thereof, as well as the questionnaire. On January 26, 2020, the Appellants filed an amended motion for the disclosure of documents. On March 8, 2020, the Defendants filed a response brief to the motion and on October 7, 2020, the Appellants submitted their response to the response of the Responders.

4.5 Note 26 C 13.2 to the financial statements as of December 31, 2019, described a legal action against the Bank and against five additional banks, together with a motion for approval of the action as a class action suit filed with the Tel Aviv District Court on June 5, 2019.

The subject matter of the motion is foreign currency conversion operations. As alleged by the petitioners, in addition to the activity commission that the Bank legally collects, the Bank collects an additional commission, which as claimed is an exchange differences commission, which according to the Plaintiff is not properly disclosed neither in the pricelists nor in the transaction statement issued to the customer. It is therefore argued that the charging of such a commission fee is in contradiction of the law. It is further claimed that whereas such charge is hidden from the eyes of the customers, they have no way of knowing the actual cost of currency conversion services.

As to the operation commission, it is claimed that the Bank and two other banks compute such commission on the transaction amount including the exchange difference increment, thus charging an excessive operation commission.

The Plaintiff has stated the amount of the claim against the Bank in respect of all class members at NIS 1,486 million.

On 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 which the Bank filed. On June 21, 2020, the Court instructed the in limine rejection of the motion for approval and charged the Appellants with expenses. On July 6, 2020, the Appellant submitted an appeal against the said verdict, as well as a motion for exemption from depositing collateral and for the stay of execution of the verdict of the District Court. The motions of the Appellant had been rejected.

On August 16, 2020, the Claimant deposited the amount of the surety. The hearing of the appeal has been scheduled for July 28, 2021.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

5.1 The Bank has been informed, that on June 15, 2017, following a motion filed with an Australian Court, in proceedings being conducted regarding the Australian Tax Authorities and a company related to the companies mentioned in subsection 4.2 above, the Magistrate Court in Tel Aviv issued an order permitting an Israeli lawyer to collect testimonies and evidence from three employees of MDB (some of them already retired), and this in accordance with a motion for obtaining legal assistance between States (judicial inquiry process).

On January 30, 2020, the motion that had been filed by MDB for permission to appeal the decision of the District Court ordering MDB to deliver docments to an Israeli lawyer, was rejected, and accordingly, the documents have been delivered. The judicial inquiry process has been completed.

For details regarding additional proceedings in a similar matter, see Section 4.2 above.

10. Contingent liabilities and special commitments (continued)

5.2 Note 26 C 13.3 to the financial statements as of December 31, 2019, described a claim brief together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants on December 19, 2019.

The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Private Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the claim brief.

As argued in the claim brief, the controlling stockholders of the Plaintiff had acted for the granting of loans by the Plaintiff to entities under their control, such loan monies being later transferred through bank accounts in order to hide their source, and finally usurped for the personal benefit of the controlling stockholders. It is further argued that as part of the fraud and embezzlement perpetrated in accordance with the instructions of the controlling stockholders, an amount of US$1.2 billion was smuggled to Israel by way of monetary transfers from a bank account in Cyprus belonging to a company owned by the controlling stockholders to its account with the Bank. As described in the claim brief, the said monetary transfers were made in the years from 2007 to 2011. According to the arguments of the Plaintiff by allowing these monetary transfers to and from the Bank, the Bank has caused damage to the Plaintiff, and this, as argued by the Plaintiff, is in contradiction to the duties applying to him under the Prohibition of Money Laundering Act in Israel.

The amount of the claim against all defendants is stated at NIS 2.1 billion.

The Court fee was paid on January 30, 2020. On March 18, 2020, the Court accepted the plaintiff's motion and granted an order permitting the service of the statement of claim outside its jurisdiction.

On February 17, 2020, the Bank filed a motion for the dismissal in limine of the claim or, alternately, for a stay of proceedings therein due to the parallel proceedings being conducted overseas. On May 17, 2020, the Court ruled to accept the Bank's motion for an extension to the date for filing a statement of defense. The Bank has to file a statement of defense within 60 days of the motion for dismissal being decided. The hearing of the motion for the in limine dismissal was held on July 29, 2020. In accordance with the Court decision, the parties are to submit their summing-up briefs in writing.

The parties filed their closing arguments in September and October. No ruling has yet been given.

5.3 Note 26 C 13.4 to the financial statements as of December 31, 2019, described four lawsuits against the Bank together with motions for their approval as class action suits filed with the Tel Aviv District Court on January 30, 2020. The lawsuits refer to a failure in the installation of a server regarding the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damage.

The amounts of the claims in respect of all members of the class amount in the four motions to NIS 850 million, NIS 500 million, NIS 25 million and NIS 2.5 million, respectively.

On March 4, 2020, the Bank filed motions in all the cases of motions for approval, whereby the Court was asked to use its authority to order the dismissal of three of the four motions for approval. At the request of the Bank, the Court instructed that the Bank's response to the motion for approval would be submitted within ninety days following the decision regarding the request for the dismissal of three of the motions. The four motions for approval in this matter were fixed for a preliminary hearing on December 9, 2020.

5.4 On May 11, 2020, a statement of claim and a petition for its approval as a class action were filed against the Bank and against two other banks, at the Tel Aviv District Court.

The petitioner alleges that the Bank has breached its duty of banking confidentiality in that it has granted international corporations, such as Facebook and Google, access to its digital platforms and is allowing them to gather private information regarding customers. It is alleged that the banks have made a bargain with these international data corporations whereby they have received cheap and effective tools in return to causing damage to customer privacy. As alleged by the petitioner, the Bank's different documents have been drafted in an all-embracing and sweeping fashion without providing any explanation to customers regarding the nature of the data that is transferred and the customers' signature on these agreements should not be considered as consent to the transfer of information.

The petitioner has stated that the amount of the damage caused to all the class action members cannot be assessed. The amount of the personal damage caused to the petitioner is assessed at NIS 1,000.

On September 1, 2020, the Court approved a procedural arrangement reached by the parties, pursuant to which the Bank will file its response to the petition by December 20, 2020 and the Claimants' will file their comments by April 27, 2021.

10. Contingent liabilities and special commitments (continued)

5.5 On September 21, 2020, a claim together with a motion for its approval as a class action were filed against MDB at the Jerusalem District Court.

The Claimant alleges that as a condition for the grant of a state-guaranteed loan MDB requires to open a deposit from the loan funds, with id pledged to secure the repayment of the loan, namely that the amount of the loan actually received is the amount of the loan, net of the amount of the deposit. The Claimant also alleges that the loan documents do not mention the level of the effective interest, including all fees, interest and other payments that have to be made.

The group that the Claimant is seeking to represent is defined as follows: "every customer that took, in the last seven years, a loan from the Respondent, and the effective interest specified in the loan documents (as defined in the Supervisor of Banks's circular – Circular No. 2140-06-8) did not include all the fees and payments that the customer was required to pay".

The Claimant has assessed the amount of the action for the whole group in the sum of approx. NIS 817 million, but it was noted that the exact amount will be determined once the material in MDB's possession is received.

5.6 The Bank was informed that an action had been filed with the Jerusalem District Court, together with a motion for approval of the action as a class action suit, against the Bank, MDB and four additional banks. Delivery of documents has not yet been made. The Claimants argue that the banks are not acting in accordance with the provisions of the Credit Data Act and the Regulations enacted under it, by incorrectly reporting data relating to cases where they have no authority to do so. It is also argued that the banks report legal proceedings in respect of a debt even after a verdict had been given at the conclusion thereof, and this until repayment of the debt had been made in full, or until a debt arrangement had been signed, date of granting exemption, or any other date following the rendering of a verdict.

It is further argued that the banks report also claims in determined amounts submitted to the Debt Execution Office, and this despite the fact that no legal proceedings had been instituted with a Court of Law. The Claimants claim a monetary damage of different amounts in respect of the different class members and a nonmonetary damage in respect of damaged autonomy in the amount of NIS 50,000, with no proof of damage.

The Claimants state that the members of the class number tens of thousands of customers who had suffered considerable damage, though, at this stage and prior to obtaining data, the Claimants are unable to estimate the amount of the damage to the class as a whole.

6. Discount Campus. Details regarding the project are presented in Note 26 C 17 to the annual financial statements as of December 31, 2019. The investment in the project amounted at September 30, 2020, to approx. NIS 319 million. The balance of the commitment in respect of this project amounted at that date to approx. NIS 548 million. Subsequent to balance sheet date, liabilities in the amount of approx. NIS 64 million have been added.

7. Directors and officers liability insurance. The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the remuneration policy that was approved by the same meeting, under the terms and limitations stated in the said remuneration plan.

11. Derivative Instruments Activity - volume, credit risk and due dates

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	Unaudited						Audited		
	September 30, 2020			September 30, 2019			December 31, 2019		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions								
Interest rate contracts									
Forward and Futures contracts	7,027	11,177	18,204	8,340	8,265	16,605	6,888	7,283	14,171
Options written	185	3,368	3,553	370	12,461	12,831	381	5,514	5,895
Options purchased	243	2,068	2,311	394	11,741	12,135	405	3,124	3,529
Swaps(1)	10,793	104,273	115,066	12,053	140,842	152,895	12,111	131,026	143,137
Total(2)	**18,248**	**120,886**	**139,134**	**21,157**	**173,309**	**194,466**	**19,785**	**146,947**	**166,732**
Of which: Hedging derivatives(5)	4,788	-	4,788	3,485	-	3,485	3,838	-	3,838
Foreign currency contracts									
Forward and Futures contracts(3)	2,078	39,035	41,113	1,009	22,289	23,298	1,529	19,731	21,260
Options written	31	16,856	16,887	-	16,634	16,634	-	13,067	13,067
Options purchased	31	16,684	16,715	-	14,156	14,156	-	12,235	12,235
Swaps	18,003	70,782	88,785	32,231	37,664	69,895	33,634	37,708	71,342
Total	**20,143**	**143,357**	**163,500**	**33,240**	**90,743**	**123,983**	**35,163**	**82,741**	**117,904**
Contracts on shares									
Forward and Futures contracts	-	-	-	-	43	43	-	45	45
Options written	114	7,156	7,270	217	7,044	7,261	163	8,773	8,936
Options purchased(4)	117	7,156	7,273	225	7,044	7,269	168	8,773	8,941
Swaps	-	825	825	-	686	686	-	656	656
Total	**231**	**15,137**	**15,368**	**442**	**14,817**	**15,259**	**331**	**18,247**	**18,578**
Commodities and other contracts									
Forward and Futures contracts	-	1,213	1,213	-	906	906	-	849	849
Options written	21	4	25	21	3	24	21	3	24
Options purchased	21	3	24	21	3	24	21	3	24
Total	**42**	**1,220**	**1,262**	**42**	**912**	**954**	**42**	**855**	**897**
Total stated amount	**38,664**	**280,600**	**319,264**	**54,881**	**279,781**	**334,662**	**55,321**	**248,790**	**304,111**

Footnotes:

	September 30, 2020	September 30, 2019	December 31, 2019
(1) Of which: swaps on which the Bank pays a fixed interest	41,938	47,645	45,991
(2) Of which: shekel/CPI swaps	13,114	13,014	11,701
(3) Of which: spot foreign currency swap contracts	3,266	3,519	1,778
(4) Of which: traded on the Stock Exchange	9,894	7,445	9,116

(5) The Bank conducts accounting hedge by way of IRS transactions.

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
	Unaudited					
	September 30, 2020					
Interest rate contracts	279	3,032	3,311	503	3,039	3,542
Of which: Hedging	51	-	51	262	-	262
Foreign currency contracts	376	1,361	1,737	361	1,283	1,644
Contracts on shares	6	341	347	6	341	347
Commodities and other contracts	-	65	65	-	64	64
Total assets/liabilities in respect of derivatives gross[(1)]	**661**	**4,799**	**5,460**	**870**	**4,727**	**5,597**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	661	4,799	5,460	870	4,727	5,597
Of which: not subject to net settlement arrangement or similar arrangements	-	336	336	21	355	376
	Unaudited					
	September 30, 2019					
Interest rate contracts	172	3,597	3,769	360	3,625	3,985
Of which: Hedging	21	-	21	134	-	134
Foreign currency contracts	330	1,104	1,434	646	1,066	1,712
Contracts on shares	12	348	360	12	348	360
Commodities and other contracts	1	50	51	1	49	50
Total assets/liabilities in respect of derivatives gross[(1)]	**515**	**5,099**	**5,614**	**1,019**	**5,088**	**6,107**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	515	5,099	5,614	1,019	5,088	6,107
Of which: not subject to net settlement arrangement or similar arrangements	-	329	329	42	316	358
	Audited					
	December 31, 2019					
Interest rate contracts	187	2,733	2,920	321	2,728	3,049
Of which: Hedging	34	-	34	99	-	99
Foreign currency contracts	343	852	1,195	546	829	1,375
Contracts on shares	8	380	388	8	380	388
Commodities and other contracts	1	54	55	1	53	54
Total assets/liabilities in respect of derivatives gross[(1)]	**539**	**4,019**	**4,558**	**876**	**3,990**	**4,866**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	539	4,019	4,558	876	3,990	4,866
Of which: not subject to net settlement arrangement or similar arrangements	-	358	358	41	359	400

Footnote:

(1) Of which: NIS 9 million (September 30, 2019: NIS 13 million; December 31, 2019: NIS 13 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 11 million (September 30, 2019: NIS 28 million; December 31, 2019: NIS 27 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

B. Accounting hedge

1. Effect of fair value hedge

	Unaudited			
	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	Interest income (expenses)			
	In NIS millions			
Profit (loss) on fair value hedge				
Interest rate contracts				
Hedged items	(84)	18	170	114
Hedging derivatives	75	(19)	(166)	(116)

2. Items hedged by fair value hedge

	Unaudited					
	September 30, 2020			September 30, 2019		
	Book value	Cumulative fair value adjustments increasing (decreasing) the book value		Book value	Cumulative fair value adjustments increasing (decreasing) the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions					
Securities	3,826	206	-	2,093	122	-
Credit to the public	344	4	-	-	-	-
Deposits from the public	1,092	(37)	-	1,032	(14)	-

Footnote:
(1) Amounts designated for hedge out of the loan portfolio totaling approx. NIS 974 million.

3. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	Unaudited			
	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)			
	In NIS millions			
Interest rate contracts	16	9	45	(8)
Foreign currency contracts	(33)	(403)	51	(942)
Contracts on shares	1	1	-	1
Commodities and other contracts	-	-	-	-
Total	**(16)**	**(393)**	**96**	**(949)**

Footnote:
(1) Included in the item Non-interest financing income (expenses)

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	Unaudited					
	September 30, 2020					
Balance sheet balance of assets in respect of derivative instruments(2)	66	2,046	10	7	3,331	5,460
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(1,703)	(4)	(7)	(1,932)	(3,646)
Credit risk mitigation in respect of cash collateral received	-	(300)	(3)	-	(6)	(309)
Net amount of assets in respect of derivative instruments	**66**	**43**	**3**	**-**	**1,393**	**1,505**
Off-balance sheet credit risk in respect of derivative instruments(1)	206	119	59	1	628	1,013
Total credit risk in respect of derivative instruments(4)	**272**	**2,165**	**69**	**8**	**3,959**	**6,473**
Balance sheet balance of liabilities in respect of derivative instruments(3)	262	2,721	69	9	2,536	5,597
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,703)	(4)	(7)	(1,932)	(3,646)
Pledged cash collateral	-	(929)	-	(2)	(237)	(1,168)
Net amount of liabilities in respect of derivative instruments	**262**	**89**	**65**	**-**	**367**	**783**
	Unaudited					
	September 30, 2019					
Balance sheet balance of assets in respect of derivative instruments(2)	28	1,610	23	104	3,849	5,614
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(1,443)	(13)	-	(2,606)	(4,062)
Credit risk mitigation in respect of cash collateral received	-	(138)	(1)	(82)	(47)	(268)
Net amount of assets in respect of derivative instruments	**28**	**29**	**9**	**22**	**1,196**	**1,284**
Off-balance sheet credit risk in respect of derivative instruments(1)	196	95	51	18	638	998
Total credit risk in respect of derivative instruments(4)	**224**	**1,705**	**74**	**122**	**4,487**	**6,612**
Balance sheet balance of liabilities in respect of derivative instruments(3)	280	2,468	24	-	3,335	6,107
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,443)	(13)	-	(2,606)	(4,062)
Pledged cash collateral	-	(885)	-	-	(166)	(1,051)
Net amount of liabilities in respect of derivative instruments	**280**	**140**	**11**	**-**	**563**	**994**
	Audited					
	December 31, 2019					
Balance sheet balance of assets in respect of derivative instruments(2)	38	1,379	27	88	3,026	4,558
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(1,241)	(16)	-	(1,931)	(3,188)
Credit risk mitigation in respect of cash collateral received	-	(117)	(1)	(88)	(40)	(246)
Net amount of assets in respect of derivative instruments	**38**	**21**	**10**	**-**	**1,055**	**1,124**
Off-balance sheet credit risk in respect of derivative instruments(1)	249	103	44	18	577	991
Total credit risk in respect of derivative instruments(4)	**287**	**1,482**	**71**	**106**	**3,603**	**5,549**
Balance sheet balance of liabilities in respect of derivative instruments(3)	302	2,015	18	-	2,531	4,866
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,241)	(16)	-	(1,931)	(3,188)
Pledged cash collateral	-	(690)	-	-	(110)	(800)
Net amount of liabilities in respect of derivative instruments	**302**	**84**	**2**	**-**	**490**	**878**

Footnotes:

(1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and between the balance sheet amount of assets in respect of derivative instruments of the borrower.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 5,451 million included in the item assets in respect of derivative instruments September 30, 2019: NIS 5,601 million; December 31, 2019: NIS 4,545 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 5,586 million included in the item liabilities in respect of derivative instruments September 30, 2019: NIS 6,079 million; December 31, 2019: NIS 4,839 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 3,442 million (as of September 30, 2019: NIS 4,016 million; December 31, 2019: NIS 3,164 million).

11. Derivative Instruments Activity - volume, credit risk and due dates (continued)

D. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	Unaudited				
	September 30 2020				
Interest rate contracts					
Shekel/CPI	930	3,227	6,130	2,827	13,114
Other	9,850	21,804	48,188	46,178	126,020
Foreign currency contracts	84,154	58,700	15,080	5,566	163,500
Contracts on shares	14,063	1,022	283	-	15,368
Commodities and other contracts	881	374	7	-	1,262
Total	**109,878**	**85,127**	**69,688**	**54,571**	**319,264**
	Unaudited				
	September 30, 2019				
Total	**108,076**	**83,163**	**69,280**	**74,143**	**334,662**
	Audited				
	December 31, 2019				
Total	**101,580**	**71,686**	**61,665**	**69,180**	**304,111**

12. Regulatory Operating Segments

A. Details regarding the regulatory segments were brought in Note 29 a to the financial statements as of December 31, 2019. The principal assumptions, assessments and reporting principles used in the preparation of the data were detailed in Note 29 D in the financial statements as of December 31, 2019.

For details regarding administrative segments recognized by the Bank were brought in Note 30a to the financial statements as of December 31, 2019.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions were taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

B. Reclassified – Updating of the expense allocation model. Changes were implemented since the first quarter of 2020, in the expense allocation model used in the preparation of operating segments data, following the process of updating and validating the model. The comparative data has been reclassified accordingly.

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated

	Unaudited				
	For the three months ended September 30, 2020				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	606	276	136	1	380
Interest expenses To external sources	42	-	-	17	14
Net interest income from external sources	564	276	136	(16)	366
Net interest income Intersegmental	(84)	(158)	(6)	31	(13)
Total Net interest income	480	118	130	15	353
Non-interest financing income from external sources	306	2	254	7	125
Non-interest financing income Intersegmental	63	-	-	12	13
Total Non-interest financing income	369	2	254	19	138
Total income	**849**	**120**	**384**	**34**	**491**
Credit loss expenses (expenses reversal)	65	(23)	24	(1)	160
Operating and other expenses	786	50	326	197	312
Profit (loss) before taxes	(2)	93	34	(162)	19
Provision for taxes (tax savings) on profit	(10)	32	10	(56)	2
Profit (loss) after taxes	8	61	24	(106)	17
Bank's share in operating income of associates	-	-	-	-	-
Net profit (loss) from ordinary operations before Attributed to the Non-controlling interests	8	61	24	(106)	17
Net profit (loss) from ordinary operations Attributed to the Non-controlling interests	(3)	-	(3)	-	(1)
Net profit (loss) Attributed to the bank's shareholders	**5**	**61**	**21**	**(106)**	**16**
Average Assets	71,263	39,785	16,241	434	36,060
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	70,479	39,917	16,027	368	35,596
Balance of credit to the public at the period end (3)	70,974	(4)40,713	15,802	(4)368	36,734
Balance of impaired debts	186	2	54	-	564
Balance of debts (not impaired) in arrear for over ninety days	385	357	-	-	61
Average Liabilities	89,931	111	2,605	16,923	46,391
Of which - Average Deposits from the public	85,808	-	13	16,816	40,557
Balance of deposits from the public at the period end	87,493	-	16	18,315	41,893
Average Risk-assets(1)	52,076	22,648	13,443	515	34,576
Balance of Risk-assets at the period end (1)	52,251	23,028	13,439	506	34,397
Average assets under management(2)	28,997	367	-	20,168	26,924
Net interest income:					
Margin from credit activity to the public	419	118	130	-	327
Margin from deposits activity from the public	61	-	-	15	26
Other	-	-	-	-	-
Total Net interest income	**480**	**118**	**130**	**15**	**353**

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) Including housing loans for customers of small and minute businesses with a credit balance of NIS 2,837 million for the end of the period.

Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	International operations Total International operations	Total
99	291	5	109	1,491	239	1,730
5	30	13	88	209	45	254
94	261	(8)	21	1,282	194	1,476
(9)	(56)	13	118	-	-	-
85	205	5	139	1,282	194	1,476
41	159	43	275	956	50	1,006
(11)	(75)	(41)	39	-	-	-
30	84	2	314	956	50	1,006
115	**289**	**7**	**453**	**2,238**	**244**	**2,482**
18	49	5	-	296	34	330
65	127	13	93	1,593	154	1,747
32	113	(11)	360	349	56	405
9	33	(3)	139	114	20	134
23	80	(8)	221	235	36	271
-	-	-	6	6	-	6
23	80	(8)	227	241	36	277
(1)	(1)	-	(13)	(19)	-	(19)
22	**79**	**(8)**	**214**	**222**	**36**	**258**
12,545	42,515	936	85,584	249,337	33,218	282,555
-	-	-	193	193	-	193
12,530	42,573	675	-	162,221	23,156	185,377
13,130	43,948	665	-	165,819	24,481	190,300
199	484	304	-	1,737	117	1,854
1	4	-	1,176	1,627	-	1,627
9,924	31,885	14,919	24,160	234,133	29,489	263,622
8,719	27,822	14,891	-	194,613	28,196	222,809
8,491	27,061	13,134	-	196,387	28,721	225,108
13,366	45,817	1,360	17,511	165,221	28,726	193,947
13,369	46,572	1,379	18,180	166,654	28,705	195,359
1,705	39,729	69,495	1,644	188,662	12,791	201,453
81	196	3	-	1,026	115	1,141
4	9	2	-	117	32	149
-	-	-	139	139	47	186
85	**205**	**5**	**139**	**1,282**	**194**	**1,476**

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the three months ended September 30, 2019				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	524	170	129	1	425
Interest expenses To external sources	42	-	-	27	37
Net interest income from external sources	482	170	129	(26)	388
Net interest income Intersegmental	16	(72)	(8)	48	10
Total Net interest income	498	98	121	22	398
Non-interest financing income from external sources	720	2	294	246	347
Non-interest financing income Intersegmental	(312)	-	-	(230)	(195)
Total Non-interest financing income	408	2	294	16	152
Total income	**906**	**100**	**415**	**38**	**550**
Credit loss expenses (expenses reversal)	98	5	52	1	40
Operating and other expenses	(4) 767	(4) 41	(4) 301	(4) 22	(4) 313
Profit before taxes	41	54	62	15	197
Provision for taxes on profit	(4) 9	(4) 18	(4) 20	(4) 5	(4) 67
Profit after taxes	32	36	42	10	130
Bank's share in operating income of associates	-	-	-	-	-
Net profit from ordinary operations before Attributed to the Non-controlling interests	32	36	42	10	130
Net profit (loss) from ordinary operations Attributed to the Non-controlling interests	(8)	-	(8)	-	(6)
Net profit Attributed to the bank's shareholders	**24**	**36**	**34**	**10**	**124**
Average Assets	67,827	34,889	15,983	269	37,537
Of which - Investment in Investee companies	-	-	-	-	-
Of which- Average credit to the public[3]	66,797	35,031	15,744	210	36,973
Balance of credit to the public at the period end[3]	67,585	(5)35,720	16,133	(5)270	36,022
Balance of impaired debts	178	-	50	-	579
Balance of debts (not impaired) in arrear for over ninety days	386	334	-	-	48
Average Liabilities	80,498	39	2,823	15,031	42,543
Of which - Average Deposits from the public	76,118	-	22	14,902	37,064
Balance of deposits from the public at the period end	75,110	-	18	16,338	36,686
Average Risk-assets[1]	51,594	20,774	13,905	388	35,465
Balance of Risk-assets at the period end [1]	50,453	20,236	13,252	431	35,024
Average assets under management[2]	32,652	382	-	18,686	26,353
Net interest income:					
Margin from credit activity to the public	416	98	121	-	356
Margin from deposits activity from the public	82	-	-	22	42
Other	-	-	-	-	-
Total Net interest income	**498**	**98**	**121**	**22**	**398**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see B above.
(5) Including housing loans for customers of small and minute businesses with a credit balance of NIS 2,640 million for the end of the period.

					International operations	
Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
92	240	6	111	1,399	352	1,751
4	22	36	54	222	131	353
88	218	(30)	57	1,177	221	1,398
(6)	(39)	40	(69)	-	-	-
82	179	10	(12)	1,177	221	1,398
47	89	76	(626)	899	71	970
(15)	8	(74)	818	-	-	-
32	97	2	192	899	71	970
114	**276**	**12**	**180**	**2,076**	**292**	**2,368**
6	(2)	(1)	-	142	10	152
[4] 54	[4] 116	[4] 13	[4] 88	1,373	160	1,533
54	162	-	92	561	122	683
[4] 20	[4] 53	[4] -	[4] 44	198	42	240
34	109	-	48	363	80	443
-	-	-	-	-	-	-
34	109	-	48	363	80	443
(1)	(5)	-	4	(16)	-	(16)
33	**104**	**-**	**52**	**347**	**80**	**427**
10,772	35,066	860	61,372	213,703	33,880	247,583
-	-	-	172	172	-	172
10,658	35,020	690	-	150,348	23,070	173,418
10,509	37,012	657	-	152,055	23,755	175,810
225	247	294	-	1,523	135	1,658
4	66	-	-	504	-	504
6,432	20,846	16,715	16,907	198,972	30,185	229,157
5,325	17,581	16,655	-	167,645	26,320	193,965
5,921	18,049	16,412	-	168,516	25,946	194,462
13,214	39,513	1,432	14,064	155,670	26,714	182,384
12,602	39,397	1,460	13,720	153,087	27,396	180,483
9,348	38,723	74,657	2,377	202,796	13,769	216,565
77	169	4	-	1,022	149	1,171
5	10	6	-	167	45	212
-	-	-	(12)	(12)	27	15
82	**179**	**10**	**(12)**	**1,177**	**221**	**1,398**

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated

	Unaudited				
	For the nine months ended September 30, 2020				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	1,748	717	413	4	1,178
Interest expenses To external sources	119	-	-	65	66
Net interest income from external sources	1,629	717	413	(61)	1,112
Net interest income Intersegmental	(138)	(384)	(18)	116	(10)
Total Net interest income	1,491	333	395	55	1,102
Non-interest financing income from external sources	1,048	9	755	55	406
Non-interest financing income Intersegmental	67	-	-	4	7
Total Non-interest financing income	1,115	9	755	59	413
Total income	**2,606**	**342**	**1,150**	**114**	**1,515**
Credit loss expenses	479	67	183	1	531
Operating and other expenses	2,256	138	896	315	936
Profit (loss) before taxes	(129)	137	71	(202)	48
Provision for taxes (tax savings) on profit	(60)	48	14	(69)	15
Profit (loss) after taxes	(69)	89	57	(133)	33
Bank's share in operating incom of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the Non-controlling interests	(69)	89	57	(133)	33
Net Profit (loss) from ordinary operations Attributed to the Non-controlling interests	(7)	-	(7)	-	(3)
Net Profit (loss) Attributed to the bank's shareholders	**(76)**	**89**	**50**	**(133)**	**30**
Average Assets	70,583	38,505	16,165	398	36,338
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	69,745	38,609	15,921	336	35,868
Balance of credit to the public at the period end[3]	70,974	[4]40,713	15,802	[4]368	36,734
Balance of impaired debts	186	2	54	-	564
Balance of debts (not impaired) in arrear for over ninety days	385	357	-	-	61
Average Liabilities	86,517	97	2,551	16,941	45,219
Of which - Average Deposits from the public	82,566	-	15	16,832	39,633
Balance of deposits from the public at the period end	87,493	-	16	18,315	41,893
Average Risk-assets[1]	51,708	21,896	13,449	505	34,932
Balance of Risk-assets at the period end [1]	52,251	23,028	13,439	506	34,397
Average assets under management[2]	30,545	367	-	19,454	26,474
Net interest income:					
Margin from credit activity to the public	1,267	333	395	2	1,003
Margin from deposits activity from the public	224	-	-	53	99
Other	-	-	-	-	-
Total Net interest income	**1,491**	**333**	**395**	**55**	**1,102**

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) Including housing loans for customers of small and minute businesses with a credit balance of NIS 2,837 million for the end of the period.

					International operations	
Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
304	829	17	341	4,421	842	5,263
20	89	60	236	655	214	869
284	740	(43)	105	3,766	628	4,394
(20)	(147)	66	133	-	-	-
264	593	23	238	3,766	628	4,394
88	285	65	959	2,906	190	3,096
2	(26)	(58)	4	-	-	-
90	259	7	963	2,906	190	3,096
354	**852**	**30**	**1,201**	**6,672**	**818**	**7,490**
135	258	4	14	1,422	96	1,518
191	379	41	270	4,388	473	4,861
28	215	(15)	917	862	249	1,111
8	70	(5)	346	305	85	390
20	145	(10)	571	557	164	721
-	-	-	14	14	-	14
20	145	(10)	585	571	164	735
(1)	(3)	-	(10)	(24)	-	(24)
19	**142**	**(10)**	**575**	**547**	**164**	**711**
12,945	40,519	876	80,446	242,105	34,338	276,443
-	-	-	169	169	-	169
12,916	40,445	699	-	160,009	23,718	183,727
13,130	43,948	665	-	165,819	24,481	190,300
199	484	304	-	1,737	117	1,854
1	4	-	1,176	1,627	-	1,627
9,180	28,381	16,713	23,864	226,815	30,591	257,406
8,047	24,558	16,675	-	188,311	27,432	215,743
8,491	27,061	13,134	-	196,387	28,721	225,108
13,352	44,317	1,330	16,199	162,343	28,772	191,115
13,369	46,572	1,379	18,180	166,654	28,705	195,359
7,543	34,679	69,511	1,806	190,012	12,841	202,853
250	568	13	-	3,103	435	3,538
14	25	10	-	425	104	529
-	-	-	238	238	89	327
264	**593**	**23**	**238**	**3,766**	**628**	**4,394**

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the nine months ended September 30, 2019				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	1,790	742	389	3	1,247
Interest expenses To external sources	167	-	1	97	110
Net interest income from external sources	1,623	742	388	(94)	1,137
Net interest income Intersegmental	(161)	(462)	(22)	159	31
Total Net interest income	1,462	280	366	65	1,168
Non-interest financing income from external sources	1,923	9	818	651	932
Non-interest financing income Intersegmental	(747)	-	-	(602)	(490)
Total Non-interest financing income	1,176	9	818	49	442
Total income	**2,638**	**289**	**1,184**	**114**	**1,610**
Credit loss expenses (expenses reversal)	257	21	114	1	139
Operating and other expenses	(4) 2,240	(4) 119	(4) 853	(4) 95	(4) 967
Profit (loss) before taxes	141	149	217	18	504
Provision for taxes (tax savings) on profit	(4) 38	(4) 51	(4) 72	(4) 6	(4) 171
Profit (loss) after taxes	103	98	145	12	333
Bank's share in operating loss of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the Non-controlling interests	103	98	145	12	333
Net Profit (loss) from ordinary operations Attributed to the Non-controlling interests	(30)	-	(30)	-	(10)
Net Profit (loss) Attributed to the bank's shareholders	**73**	**98**	**115**	**12**	**323**
Average Assets	65,651	33,907	15,149	267	35,553
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	64,689	34,019	14,944	198	34,967
Balance of credit to the public at the period end(3)	67,585	(5)35,720	16,133	(5)270	36,022
Balance of impaired debts	178	-	50	-	579
Balance of debts (not impaired) in arrear for over ninety days	386	334	-	-	48
Average Liabilities	79,328	41	2,715	15,673	40,419
Of which - Average Deposits from the public	75,240	-	22	15,548	35,332
Balance of deposits from the public at the period end	75,110	-	18	16,338	36,686
Average Risk-assets(1)	49,292	19,794	12,823	430	34,115
Balance of Risk-assets at the period end (1)	50,453	20,236	13,252	431	35,024
Average assets under management(2)	33,178	384	-	19,432	25,111
Net interest income:					
Margin from credit activity to the public	1,218	280	366	1	1,045
Margin from deposits activity from the public	244	-	-	64	123
Other	-	-	-	-	-
Total Net interest income	**1,462**	**280**	**366**	**65**	**1,168**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see B above.
(5) Including housing loans for customers of small and minute businesses with a credit balance of NIS 2,640 million for the end of the period.

						International operations	
	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
	281	847	17	437	4,622	1,085	5,707
	28	71	97	337	907	386	1,293
	253	776	(80)	100	3,715	699	4,414
	(12)	(220)	108	95	-	-	-
	241	556	28	195	3,715	699	4,414
	174	193	179	(1,406)	2,646	174	2,820
	(80)	81	(175)	2,013	-	-	-
	94	274	4	607	2,646	174	2,820
	335	**830**	**32**	**802**	**6,361**	**873**	**7,234**
	40	(33)	(3)	-	401	28	429
	[4] 167	[4] 382	[4] 40	[4] 260	4,151	482	4,633
	128	481	(5)	542	1,809	363	2,172
	[4] 44	[4] 160	[4](1)	[4] 225	643	121	764
	84	321	(4)	317	1,166	242	1,408
	-	-	-	11	11	-	11
	84	321	(4)	328	1,177	242	1,419
	(2)	(8)	-	8	(42)	-	(42)
	82	**313**	**(4)**	**336**	**1,135**	**242**	**1,377**
	10,448	36,776	852	60,194	209,741	33,102	242,843
	-	-	-	172	172	-	172
	10,334	36,698	696	-	147,582	23,376	170,958
	10,509	37,012	657	-	152,055	23,755	175,810
	225	247	294	-	1,523	135	1,658
	4	66	-	-	504	-	504
	7,182	21,752	14,923	15,881	195,158	29,487	224,645
	6,115	18,585	14,879	-	165,699	26,088	191,787
	5,921	18,049	16,412	-	168,516	25,946	194,462
	12,614	40,629	1,420	13,606	152,106	26,854	178,960
	12,602	39,397	1,460	13,720	153,087	27,396	180,483
	9,606	40,209	72,941	2,279	202,756	13,767	216,523
	220	525	12	-	3,021	434	3,455
	21	31	16	-	499	199	698
	-	-	-	195	195	66	261
	241	**556**	**28**	**195**	**3,715**	**699**	**4,414**

12. Regulatory Operating Segments (continued)

C. Information regarding regulatory operating segments, consolidated (continued)

	Audited				
	For the year ended December 31, 2019				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	2,374	969	525	4	1,674
Interest expenses To external sources	217	-	2	124	141
Net interest income from external sources	2,157	969	523	(120)	1,533
Net interest income Intersegmental	(198)	(592)	(29)	204	30
Total Net interest income	1,959	377	494	84	1,563
Non-interest financing income from external sources	2,321	13	1,108	657	1,083
Non-interest financing income Intersegmental	(719)	-	-	(589)	(493)
Total Non-interest financing income	1,602	13	1,108	68	590
Total income	**3,561**	**390**	**1,602**	**152**	**2,153**
Credit loss expenses (expenses reversal)	339	27	139	2	234
Operating and other expenses	(4) 3,018	(4) 160	(4) 1,154	(4) 156	(4) 1,301
Profit (loss) before taxes	204	203	309	(6)	618
Provision for taxes (tax savings) on profit	(4) 56	(4) 68	(4) 103	(4)(2)	(4) 211
Profit (loss) after taxes	148	135	206	(4)	407
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the Non-controlling interests	148	135	206	(4)	407
Net Profit (loss) from ordinary operations Attributed to the Non-controlling interests	(44)	-	(44)	-	(10)
Net Profit (loss) Attributed to the bank's shareholders	**104**	**135**	**162**	**(4)**	**397**
Average Assets	66,660	34,423	15,468	277	35,852
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	65,682	34,543	15,253	209	35,274
Balance of credit to the public at the period end(3)	69,211	(5)36,798	16,421	(5)326	36,837
Balance of impaired debts	189	-	55	-	624
Balance of debts (not impaired) in arrear for over ninety days	416	353	-	-	60
Average Liabilities	79,656	43	2,738	15,477	40,297
Of which - Average Deposits from the public	75,463	-	20	15,342	35,131
Balance of deposits from the public at the period end	75,312	-	18	16,368	37,022
Average Risk-assets(1)	50,600	20,345	13,311	443	35,170
Balance of Risk-assets at the period end (1)	51,186	20,781	13,544	489	35,758
Average assets under management(2)	33,401	382	-	19,927	27,430
Net interest income:					
Margin from credit activity to the public	1,632	377	494	2	1,401
Margin from deposits activity from the public	327	-	-	82	162
Other	-	-	-	-	-
Total Net interest income	**1,959**	**377**	**494**	**84**	**1,563**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see B above.
(5) Including housing loans for customers of small and minute businesses with a credit balance of NIS 2,693 million for the end of the period.

					International operations	
Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
371	1,139	26	560	6,148	1,419	7,567
37	100	129	424	1,172	502	1,674
334	1,039	(103)	136	4,976	917	5,893
(10)	(295)	145	124	-	-	-
324	744	42	260	4,976	917	5,893
221	296	211	(1,245)	3,544	227	3,771
(94)	74	(205)	2,026	-	-	-
127	370	6	781	3,544	227	3,771
451	**1,114**	**48**	**1,041**	**8,520**	**1,144**	**9,664**
107	(21)	(5)	-	656	34	690
(4) 229	(4) 529	(4) 54	(4) 359	5,646	653	6,299
115	606	(1)	682	2,218	457	2,675
(4) 38	(4) 200	(4) (1)	(4) 277	779	153	932
77	406	-	405	1,439	304	1,743
-	-	-	16	16	-	16
77	406	-	421	1,455	304	1,759
(2)	(7)	-	6	(57)	-	(57)
75	**399**	**-**	**427**	**1,398**	**304**	**1,702**
10,553	36,867	836	61,393	212,438	33,250	245,688
-	-	-	172	172	-	172
10,443	36,759	689	-	149,056	23,524	172,580
12,628	39,529	676	-	159,207	23,784	182,991
231	342	295	-	1,681	133	1,814
1	1	-	-	478	-	478
7,323	22,789	15,665	16,576	197,783	29,602	227,385
6,243	19,584	15,610	-	167,373	26,124	193,497
7,590	20,305	18,076	-	174,673	26,777	201,450
12,803	39,820	1,420	13,538	153,794	27,482	181,276
13,608	41,511	1,259	12,813	156,624	27,822	184,446
9,857	38,146	73,682	2,376	204,819	13,767	218,586
295	702	21	-	4,053	581	4,634
29	42	21	-	663	251	914
-	-	-	260	260	85	345
324	**744**	**42**	**260**	**4,976**	**917**	**5,893**

13. Managerial Operating Segments

	Unaudited									
	Retail banking[2]	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 three months ended September 30, 2020									
Net interest income	633	167	222	121	4	194	134	1	-	1,476
Non-interest income	260	33	81	194	31	49	383	13	(38)	1,006
Total income	**893**	**200**	**303**	**315**	**35**	**243**	**517**	**14**	**(38)**	**2,482**
Credit loss expenses	165	38	67	-	-	34	26	-	-	330
Operating and other expenses	912	98	120	77	12	154	405	7	(38)	1,747
Income (loss) before taxes	(184)	64	116	238	23	55	86	7	-	405
Provision for taxes (tax saving) on income	(73)	21	39	96	5	18	25	2	1	134
Income (loss) after taxes	(111)	43	77	142	18	37	61	5	(1)	271
Bank's share in income of associates, net of tax effect	-	-	-	1	4	-	-	-	1	6
Net income (loss) before attributed to the Non-controlling interests	(111)	43	77	143	22	37	61	5	-	277
Net income attributed to the Non-controlling interests	-	-	-	-	-	-	(19)	(1)	1	(19)
Net Income (loss) attributed to the bank's shareholders	**(111)**	**43**	**77**	**143**	**22**	**37**	**42**	**4**	**1**	**258**
Balance of Assets	83,976	26,614	53,064	89,620	1,632	36,709	18,431	6,956	(29,324)	287,678
Balance of credit to the public	81,275	26,809	48,436	-	41	24,482	17,689	-	(8,432)	190,300
Balance of deposits from the public	144,404	21,596	30,975	6,196	-	28,721	16	-	(6,800)	225,108
	For the three months ended September 30, 2019									
Net interest income	689	152	215	(5)	4	218	126	(1)	-	1,398
Non-interest income	279	32	96	138	25	72	360	13	(45)	970
Total income	**968**	**184**	**311**	**133**	**29**	**290**	**486**	**12**	**(45)**	**2,368**
Credit loss expenses (expenses reversal)	97	13	(23)	-	(1)	10	55	-	1	152
Operating and other expenses	[2]749	[2]95	[2]126	[2]77	10	160	354	7	(45)	1,533
Income (loss) before taxes	122	76	208	56	20	120	77	5	(1)	683
Provision for taxes on income	[2]39	[2]26	[2]71	[2]29	5	42	26	2	-	240
Income after taxes	83	50	137	27	15	78	51	3	(1)	443
Bank's share in income of associates, net of tax effect	-	-	-	2	(1)	-	-	-	(1)	-
Net income before attributed to the Non-controlling interests	83	50	137	29	14	78	51	3	(2)	443
Net income attributed to the Non-controlling interests	-	-	-	-	-	-	(16)	(1)	1	(16)
Net Income attributed to the bank's shareholders	**83**	**50**	**137**	**29**	**14**	**78**	**35**	**2**	**(1)**	**427**
Balance of Assets	80,196	20,467	50,280	65,199	1,585	33,764	18,837	4,218	(25,768)	248,778
Balance of credit to the public	77,176	20,626	45,928	-	29	23,755	18,196	-	(9,900)	175,810
Balance of deposits from the public	123,726	15,207	30,481	3,652	-	25,946	18	-	(4,568)	194,462

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. Managerial Operating Segments (continued)

	Unaudited									
	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 nine months ended September 30, 2020									
Net interest income	1,971	499	648	232	10	626	402	2	4	4,394
Non-interest income	792	100	263	779	39	190	1,005	39	(111)	3,096
Total income	**2,763**	**599**	**911**	**1,011**	**49**	**816**	**1,407**	**41**	**(107)**	**7,490**
Credit loss expenses	715	215	302	-	-	96	190	-	-	1,518
Operating and other expenses	2,427	307	367	234	27	473	1,112	21	(107)	4,861
Income (loss) before taxes	(379)	77	242	777	22	247	105	20	-	1,111
Provision for taxes (tax saving) on income	(136)	27	84	288	7	84	29	7	-	390
Income (loss) after taxes	(243)	50	158	489	15	163	76	13	-	721
Bank's share in income of associates, net of tax effect	1	-	-	3	12	-	-	-	(2)	14
Net income before attributed to the Non-controlling interests	(242)	50	158	492	27	163	76	13	(2)	735
Net income attributed to the Non-controlling interests	-	-	-	-	-	-	(24)	(2)	2	(24)
Net Income (loss) attributed to the bank's shareholders	**(242)**	**50**	**158**	**492**	**27**	**163**	**52**	**11**	**-**	**711**
Balance of Assets	83,976	26,614	53,064	89,620	1,632	36,709	18,431	6,956	(29,324)	287,678
Balance of credit to the public	81,275	26,809	48,436	-	41	24,482	17,689	-	(8,432)	190,300
Balance of deposits from the public	144,404	21,596	30,975	6,196	-	28,721	16	-	(6,800)	225,108
	For the nine months ended September 30, 2019									
Net interest income	2,033	448	648	212	8	685	376	1	3	4,414
Non-interest income	821	98	296	432	87	176	1,004	40	(134)	2,820
Total income	**2,854**	**546**	**944**	**644**	**95**	**861**	**1,380**	**41**	**(131)**	**7,234**
Credit loss expenses (expenses reversal)	304	42	(62)	-	(1)	28	118	-	-	429
Operating and other expenses	[2]2,272	[2]285	[2]388	[2]228	28	484	1,058	21	(131)	4,633
Income before taxes	278	219	618	416	68	349	204	20	-	2,172
Provision for taxes on income	[2]85	[2]75	[2]211	[2]172	22	121	71	7	-	764
Income after taxes	193	144	407	244	46	228	133	13	-	1,408
Bank's share in income of associates, net of tax effect	1	-	-	9	3	-	-	-	(2)	11
Net income before attributed to the Non-controlling interests	194	144	407	253	49	228	133	13	(2)	1,419
Net income attributed to the Non-controlling interests	-	-	-	-	-	-	(42)	(2)	2	(42)
Net Income attributed to the bank's shareholders	**194**	**144**	**407**	**253**	**49**	**228**	**91**	**11**	**-**	**1,377**
Balance of Assets	80,196	20,467	50,280	65,199	1,585	33,764	18,837	4,218	(25,768)	248,778
Balance of credit to the public	77,176	20,626	45,928	-	29	23,755	18,196	-	(9,900)	175,810
Balance of deposits from the public	123,726	15,207	30,481	3,652	-	25,946	18	-	(4,568)	194,462

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. 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
	Audited									
	For the year ended December 31, 2018									
	In NIS millions									
Net interest income	2,722	603	869	278	9	900	505	2	5	5,893
Non-interest income	1,106	136	391	559	107	229	1,358	68	(183)	3,771
Total income	**3,828**	**739**	**1,260**	**837**	**116**	**1,129**	**1,863**	**70**	**(178)**	**9,664**
Credit loss expenses (expenses reversal)	393	95	22	-	(1)	34	147	-	-	690
Operating and other expenses	[2]3,087	[2]390	[2]526	[2]310	42	654	1,440	28	(178)	6,299
Income before taxes	348	254	712	527	75	441	276	42	-	2,675
Provision for taxes on income	[2]103	[2]86	[2]242	[2]220	19	153	97	13	(1)	932
Income after taxes	245	168	470	307	56	288	179	29	1	1,743
Bank's share in income of associates, net of tax effect	1	-	-	10	7	-	-	-	(2)	16
Net income before attributed to the Non-controlling interests	246	168	470	317	63	288	179	29	(1)	1,759
Net income attributed to the Non-controlling interests	-	-	-	-	-	-	(56)	(2)	1	(57)
Net Income attributed to the bank's shareholders	**246**	**168**	**470**	**317**	**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

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses

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

A. Debts and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses - Consolidated

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Three months ended September 30, 2020					
Balance of allowance for credit losses, as at June 30, 2020	2,484	292	918	3,694	15	3,709
Expenses for credit loss	263	(23)	90	330	-	330
Accounting write-offs	(89)	(12)	(101)	(202)	-	(202)
Collection of debts written-off in previous years	51	-	66	117	-	117
Net accounting write-offs	(38)	(12)	(35)	(85)	-	(85)
Financial statements translation adjustments	(2)	-	-	(2)	-	(2)
Balance of allowance for credit losses, as at September 30, 2020	**2,707**	**257**	**973**	**3,937**	**15**	**3,952**
Of which: In respect of off-balance sheet credit instruments	206	-	87	293	-	293
	Three months ended September 30, 2019					
Balance of allowance for credit losses, as at June 30, 2019	1,631	197	672	2,500	1	2,501
Expenses for credit loss	50	6	96	152	-	152
Accounting write-offs	(88)	(1)	(119)	(208)	-	(208)
Collection of debts written-off in previous years	81	-	53	134	-	134
Net accounting write-offs	(7)	(1)	(66)	(74)	-	(74)
Financial statements translation adjustments	(7)	-	-	(7)	-	(7)
Balance of allowance for credit losses, as at September 30, 2019	**1,667**	**202**	**702**	**2,571**	**1**	**2,572**
Of which: In respect of off-balance sheet credit instruments	144	-	54	198	-	198
	Nine months ended September 30, 2020					
Balance of allowance for credit losses, as at December 31, 2019 (audited)	1,823	207	717	2,747	1	2,748
Expenses for credit loss	1,017	68	419	1,504	14	1,518
Accounting write-offs	(320)	(18)	(356)	(694)	-	(694)
Collection of debts written-off in previous years	188	-	193	381	-	381
Net accounting write-offs	(132)	(18)	(163)	(313)	-	(313)
Financial statements translation adjustments	(1)	-	-	(1)	-	(1)
Balance of allowance for credit losses, as at September 30, 2020	**2,707**	**257**	**973**	**3,937**	**15**	**3,952**
Of which: In respect of off-balance sheet credit instruments	206	-	87	293	-	293
	Nine months ended September 30, 2019					
Balance of allowance for credit losses, as at December 31, 2018 (audited)	1,606	187	657	2,450	1	2,451
Expenses for credit loss	172	21	236	429	-	429
Accounting write-offs	(282)	(6)	(363)	(651)	-	(651)
Collection of debts written-off in previous years	190	-	173	363	-	363
Net accounting write-offs	(92)	(6)	(190)	(288)	-	(288)
Financial statements translation adjustments	(19)	-	(1)	(20)	-	(20)
Balance of allowance for credit losses, as at September 30, 2019	**1,667**	**202**	**702**	**2,571**	**1**	**2,572**
Of which: In respect of off-balance sheet credit instruments	144	-	54	198	-	198

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	September 30, 2020					
Recorded amount of debts:						
Examined on a specific basis[1]	89,394	2	599	89,995	7,198	97,193
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]214	40,952	-	41,166	-	41,166
Group - other	27,821	197	31,121	59,139	1,028	60,167
Total debts	**117,429**	**41,151**	**31,720**	**190,300**	**8,226**	**198,526**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,964	-	99	2,063	-	2,063
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]255	-	256	-	256
Group - other	536	2	787	1,325	15	1,340
Total allowance for Credit Losses	**2,501**	**257**	**886**	**3,644**	**15**	**3,659**
	September 30, 2019					
Recorded amount of debts:						
Examined on a specific basis[1]	79,585	-	658	80,243	6,872	87,115
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]252	35,861	-	36,113	-	36,113
Group - other	[2]26,848	172	32,434	59,454	99	59,553
Total debts	**106,685**	**36,033**	**33,092**	**175,810**	**6,971**	**182,781**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,156	-	78	1,234	-	1,234
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]200	-	201	-	201
Group - other	366	2	570	938	1	939
Total allowance for Credit Losses	**1,523**	**202**	**648**	**2,373**	**1**	**2,374**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 95,339 million (September 30, 2019 - NIS 85,457 million) and the allowance in its respect in an amount of NIS 1,644 million (September 30, 2019 - NIS 984 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 214 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 September 30, 2019 – an amount of NIS 256 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 1 million (September 30, 2019 - NIS 4 million), and computed on a group basis, in an amount of NIS 184 million (September 30, 2019 - NIS 129 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated (continued)

	Audited					
	December 31, 2019					
	Credit to the public					
	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**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,285	-	82	1,367	-	1,367
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]206	-	207	-	207
Group - other	367	1	582	950	1	951
Total allowance for Credit Losses	**1,653**	**207**	**664**	**2,524**	**1**	**2,525**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 89,986 million and the allowance in its respect in an amount of NIS 1,060 million computed on a group basis.

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

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million, and computed on a group basis, in an amount of NIS 130 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts

1. Credit quality and arrears - consolidated

	Unaudited					
	September 30, 2020					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	16,520	251	106	16,877	7	20
Construction and Real Estate - Real Estate Activity	11,048	172	144	11,364	1	22
Financial Services	8,558	62	328	8,948	-	14
Commercial - Other	51,031	1,561	814	53,406	58	76
Total Commercial	**87,157**	**2,046**	**1,392**	**90,595**	**66**	**132**
Private Individuals - Housing Loans	40,533	[5]369	2	40,904	351	97
Private Individuals - Other Loans	29,642	487	184	30,313	28	98
Total Public - Activity in Israel	**157,332**	**2,902**	**1,578**	**161,812**	**445**	**327**
Banks in Israel	479	-	-	479	-	-
Government of Israel	2,684	-	-	2,684	-	-
Total Activity in Israel	**160,495**	**2,902**	**1,578**	**164,975**	**445**	**327**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,529	457	230	10,216	-	-
Commercial - Other	15,815	757	46	16,618	-	1
Total Commercial	**25,344**	**1,214**	**276**	**26,834**	**-**	**1**
Private Individuals	1,645	9	-	1,654	6	-
Total Public - Activity Abroad	**26,989**	**1,223**	**276**	**28,488**	**6**	**1**
Foreign banks	3,471	-	-	3,471	-	-
Foreign governments	1,592	-	-	1,592	1,176	11
Total Activity Abroad	**32,052**	**1,223**	**276**	**33,551**	**1,182**	**12**
Total public	**184,321**	**4,125**	**1,854**	**190,300**	**451**	**328**
Total banks	**3,950**	**-**	**-**	**3,950**	**-**	**-**
Total governments	**4,276**	**-**	**-**	**4,276**	**1,176**	**11**
Total	**192,547**	**4,125**	**1,854**	**198,526**	**1,627**	**339**

For footnotes see page 164.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Unaudited					
	September 30, 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	14,061	54	113	14,228	11	37
Construction and Real Estate - Real Estate Activity	10,060	28	248	10,336	1	17
Financial Services	9,205	1	298	9,504	1	1
Commercial - Other	46,322	597	639	47,558	105	249
Total Commercial	**79,648**	**680**	**1,298**	**81,626**	**118**	**304**
Private Individuals - Housing Loans	35,463	[5]349	-	35,812	329	109
Private Individuals - Other Loans	31,430	372	178	31,980	52	172
Total Public - Activity in Israel	**146,541**	**1,401**	**1,476**	**149,418**	**499**	**585**
Banks in Israel	268	-	-	268	-	-
Government of Israel	2,112	-	-	2,112	-	-
Total Activity in Israel	**148,921**	**1,401**	**1,476**	**151,798**	**499**	**585**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,219	122	98	8,439	-	-
Commercial - Other	15,630	906	84	16,620	-	1
Total Commercial	**23,849**	**1,028**	**182**	**25,059**	**-**	**1**
Private Individuals	1,327	6	-	1,333	5	1
Total Public - Activity Abroad	**25,176**	**1,034**	**182**	**26,392**	**5**	**2**
Foreign banks	3,225	-	-	3,225	-	-
Foreign governments	1,366	-	-	1,366	-	-
Total Activity Abroad	**29,767**	**1,034**	**182**	**30,983**	**5**	**2**
Total public	**171,717**	**2,435**	**1,658**	**175,810**	**504**	**587**
Total banks	**3,493**	**-**	**-**	**3,493**	**-**	**-**
Total governments	**3,478**	**-**	**-**	**3,478**	**-**	**-**
Total	**178,688**	**2,435**	**1,658**	**182,781**	**504**	**587**

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Audited					
	December 31, 2019					
		Problematic[1]			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**

Footnotes:

(1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.

(2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.

(3) Classified as unimpaired problematic debts. Accruing interest income.

(4) Debts in arrears for between 30 and 89 days which accrue interest income, in an amount of NIS 94 million are classified as unimpaired problematic debts (September 30, 2019- NIS 150 million, December 31, 2019- NIS 196 million).

(5) Including housing loans in an amount of NIS 9 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (September 30, 2019- NIS 9 million, December 31, 2019- NIS 9 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

	Unaudited				
	September 30, 2020				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	65	21	41	106	1,012
Construction and Real Estate - Real Estate Activity	97	10	47	144	882
Financial Services	328	28	-	328	422
Commercial - Other	723	229	91	814	2,762
Total Commercial	**1,213**	**288**	**179**	**1,392**	**5,078**
Private Individuals - Housing Loans	2	[4]-	-	2	2
Private Individuals - Other Loans	156	81	28	184	532
Total Public - Activity in Israel	**1,371**	**369**	**207**	**1,578**	**5,612**
Total Activity in Israel	**1,371**	**369**	**207**	**1,578**	**5,612**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	144	50	86	230	600
Commercial - Other	-	-	46	46	99
Total Commercial	**144**	**50**	**132**	**276**	**699**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**144**	**50**	**132**	**276**	**699**
Total Activity Abroad	**144**	**50**	**132**	**276**	**699**
Total public	**1,515**	**419**	**339**	**1,854**	**6,311**
Total	**1,515**	**419**	**339**	**1,854**	**6,311**
Of which:					
Measured according to present value of cash flows	1,364	375	73	1,437	
Debts under troubled debt restructurings	885	172	120	1,005	

For footnotes see page 167.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Unaudited				
	September 30, 2019				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	85	25	28	113	1,117
Construction and Real Estate - Real Estate Activity	128	8	120	248	1,029
Financial Services	298	22	-	298	401
Commercial - Other	461	130	178	639	3,230
Total Commercial	**972**	**185**	**326**	**1,298**	**5,777**
Private Individuals - Other Loans	146	65	32	178	544
Total Public - Activity in Israel	**1,118**	**250**	**358**	**1,476**	**6,321**
Total Activity in Israel	**1,118**	**250**	**358**	**1,476**	**6,321**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	4	-	94	98	426
Commercial - Other	-	-	84	84	158
Total Commercial	**4**	**-**	**178**	**182**	**584**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**4**	**-**	**178**	**182**	**584**
Total Activity Abroad	**4**	**-**	**178**	**182**	**584**
Total public	**1,122**	**250**	**536**	**1,658**	**6,905**
Total	**1,122**	**250**	**536**	**1,658**	**6,905**
Of which:					
Measured according to present value of cash flows	896	217	94	990	
Debts under troubled debt restructurings	759	143	338	1,097	

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Audited				
	December 31, 2019				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	97	26	26	123	1,061
Construction and Real Estate - Real Estate Activity	120	6	70	190	935
Financial Services	300	22	-	300	402
Commercial - Other	516	152	175	691	2,977
Total Commercial	**1,033**	**206**	**271**	**1,304**	**5,375**
Private Individuals - Other Loans	152	66	37	189	553
Total Public - Activity in Israel	**1,185**	**272**	**308**	**1,493**	**5,928**
Total Activity in Israel	**1,185**	**272**	**308**	**1,493**	**5,928**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	144	35	101	245	602
Commercial - Other	-	-	76	76	131
Total Commercial	**144**	**35**	**177**	**321**	**733**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**144**	**35**	**177**	**321**	**733**
Total Activity Abroad	**144**	**35**	**177**	**321**	**733**
Total public	**1,329**	**307**	**485**	**1,814**	**6,661**
Total	**1,329**	**307**	**485**	**1,814**	**6,661**
Of which:					
Measured according to present value of cash flows	1,125	285	109	1,234	
Debts under troubled debt restructurings	715	137	328	1,043	

Footnotes:
(1) Recorded amount.
(2) Specific allowance for credit losses.
(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.
(4) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME

	Unaudited					
	Three months ended September 30					
	2020			2019		
	Average balance of Impaired Debts[1]	Recorded Interest Income[2]	Of which: recorded on cash basis	Average balance of Impaired Debts[1]	Recorded Interest Income[2]	Of which: recorded on cash basis
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	114	1	1	115	1	1
Construction and Real Estate - Real Estate Activity	144	1	1	264	2	1
Financial Services	314	2	-	299	2	-
Commercial - Other	945	4	3	681	6	2
Total Commercial	**1,517**	**8**	**5**	**1,359**	**11**	**4**
Private Individuals - Housing Loans	2	-	-	-	-	-
Private Individuals - Other Loans	201	3	1	187	2	1
Total Public - Activity in Israel	**1,720**	**11**	**6**	**1,546**	**13**	**5**
Total Activity in Israel	**1,720**	**11**	**6**	**1,546**	**13**	**5**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	221	1	-	118	1	-
Commercial - Other	59	1	-	68	2	-
Total Commercial	**280**	**2**	**-**	**186**	**3**	**-**
Total Public - Activity Abroad	**280**	**2**	**-**	**186**	**3**	**-**
Total Activity Abroad	**280**	**2**	**-**	**186**	**3**	**-**
Total	**2,000**	**[3]13**	**6**	**1,732**	**[3]16**	**5**

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME (CONTINUED)

	Unaudited					
	Nine months ended September 30					
	2020			2019		
	Average balance of Impaired Debts[1]	Recorded Interest Income[2]	Of which: recorded on cash basis	Average balance of Impaired Debts[1]	Recorded Interest Income[2]	Of which: recorded on cash basis
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	126	1	1	127	1	1
Construction and Real Estate - Real Estate Activity	171	3	3	284	4	3
Financial Services	355	6	-	299	7	1
Commercial - Other	1,092	12	8	751	13	7
Total Commercial	**1,744**	**22**	**12**	**1,461**	**25**	**12**
Private Individuals - Housing Loans	3	-	-	-	-	-
Private Individuals - Other Loans	216	7	2	208	5	2
Total Public - Activity in Israel	**1,963**	**29**	**14**	**1,669**	**30**	**14**
Total Activity in Israel	**1,963**	**29**	**14**	**1,669**	**30**	**14**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	228	3	-	100	4	-
Commercial - Other	75	2	-	97	4	-
Total Commercial	**303**	**5**	**-**	**197**	**8**	**-**
Total Public - Activity Abroad	**303**	**5**	**-**	**197**	**8**	**-**
Total Activity Abroad	**303**	**5**	**-**	**197**	**8**	**-**
Total	**2,266**	**[3]34**	**14**	**1,866**	**[3]38**	**14**

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 amoumt of NIS 21 millions and NIS 69 millions for the three and nine months ended September 30, 2020 (NIS 19 millions and NIS 52 millions for the three and nine months ended September 30, 2019), respectively.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	Unaudited				
	September 30, 2020				
	Recorded amount				
	Not accruing interest income	Accruing debts[1], in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	23	-	-	12	35
Construction and Real Estate - Real Estate Activity	29	-	-	15	44
Financial Services	-	-	-	304	304
Commercial - Other	162	-	-	224	386
Total Commercial	**214**	**-**	**-**	**555**	**769**
Private Individuals - Other Loans	65	-	1	91	157
Total Public - Activity in Israel	**279**	**-**	**1**	**646**	**926**
Total Activity in Israel	**279**	**-**	**1**	**646**	**926**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	-	38	38
Commercial - Other	4	-	-	37	41
Total Commercial	**4**	**-**	**-**	**75**	**79**
Total Public - Activity Abroad	**4**	**-**	**-**	**75**	**79**
Total Activity Abroad	**4**	**-**	**-**	**75**	**79**
Total	**283**	**-**	**1**	**721**	**1,005**

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 September 30, 2020, to NIS 21 million (September 30, 2019 - NIS 13 million; December 31, 2019 – NIS 17 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

	Unaudited				
	September 30, 2019				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	32	-	-	10	42
Construction and Real Estate - Real Estate Activity	75	-	8	30	113
Financial Services	-	-	-	294	294
Commercial - Other	278	-	3	82	363
Total Commercial	**385**	**-**	**11**	**416**	**812**
Private Individuals - Other Loans	75	-	1	77	153
Total Public - Activity in Israel	**460**	**-**	**12**	**493**	**965**
Total Activity in Israel	**460**	**-**	**12**	**493**	**965**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	26	-	-	42	68
Commercial - Other	-	-	-	64	64
Total Commercial	**26**	**-**	**-**	**106**	**132**
Total Public - Activity Abroad	**26**	**-**	**-**	**106**	**132**
Total Activity Abroad	**26**	**-**	**-**	**106**	**132**
Total	**486**	**-**	**12**	**599**	**1,097**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

	Audited				
	December 31, 2019				
	Recorded amount				
	Not accruing interest income	Accruing debts[1], in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	32	-	-	11	43
Construction and Real Estate - Real Estate Activity	44	-	1	31	76
Financial Services	-	-	-	296	296
Commercial - Other	215	-	3	117	335
Total Commercial	**291**	**-**	**4**	**455**	**750**
Private Individuals - Other Loans	77	-	1	80	158
Total Public - Activity in Israel	**368**	**-**	**5**	**535**	**908**
Total Activity in Israel	**368**	**-**	**5**	**535**	**908**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	26	-	-	47	73
Commercial - Other	1	-	-	61	62
Total Commercial	**27**	**-**	**-**	**108**	**135**
Total Public - Activity Abroad	**27**	**-**	**-**	**108**	**135**
Total Activity Abroad	**27**	**-**	**-**	**108**	**135**
Total	**395**	**-**	**5**	**643**	**1,043**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited					
	Three months ended September 30					
	2020			2019		
	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
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	49	5	5	60	7	6
Construction and Real Estate - Real Estate Activity	7	9	9	4	2	2
Financial Services	2	(1)-	(1)-	-	-	-
Commercial - Other	346	156	155	229	25	25
Total Commercial	**404**	**170**	**169**	**293**	**34**	**33**
Private Individuals - Other Loans	1,282	28	28	1,500	31	31
Total Public - Activity in Israel	**1,686**	**198**	**197**	**1,793**	**65**	**64**
Total Activity in Israel	**1,686**	**198**	**197**	**1,793**	**65**	**64**
Lending Activity Abroad						
Public - Commercial						
Commercial - Other	-	-	-	1	(1)-	(1)-
Total Commercial	**-**	**-**	**-**	**1**	**(1)-**	**(1)-**
Private Individuals	-	-	-	2	(1)-	(1)-
Total Public - Activity Abroad	**-**	**-**	**-**	**3**	**(1)-**	**(1)-**
Total Activity Abroad	**-**	**-**	**-**	**3**	**(1)-**	**(1)-**
Total	**1,686**	**198**	**197**	**1,796**	**65**	**64**

Footnote:
(1) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited					
	Nine months ended September 30					
	2020			2019		
	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
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	167	24	24	180	22	21
Construction and Real Estate - Real Estate Activity	21	12	12	14	7	7
Financial Services	4	(1)-	(1)-	3	(1)-	(1)-
Commercial - Other	913	257	256	749	92	90
Total Commercial	**1,105**	**293**	**292**	**946**	**121**	**118**
Private Individuals - Other Loans	4,110	89	88	4,846	110	108
Total Public - Activity in Israel	**5,215**	**382**	**380**	**5,792**	**231**	**226**
Total Activity in Israel	**5,215**	**382**	**380**	**5,792**	**231**	**226**
Lending Activity Abroad						
Public - Commercial						
Commercial - Other	1	65	65	3	50	40
Total Commercial	**1**	**65**	**65**	**3**	**50**	**40**
Private Individuals	3	(1)-	(1)-	4	(1)-	(1)-
Total Public - Activity Abroad	**4**	**65**	**65**	**7**	**50**	**40**
Total Activity Abroad	**4**	**65**	**65**	**7**	**50**	**40**
Total	**5,219**	**447**	**445**	**5,799**	**281**	**266**

Footnote:

(1) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Three months ended September 30			
	2020		2019	
	Failure of restructured debts[1]			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	20	2	27	2
Construction and Real Estate - Real Estate Activity	1	[2]-	3	8
Commercial - Other	95	4	107	5
Total Commercial	**116**	**6**	**137**	**15**
Private Individuals - Other	687	5	908	8
Total Public - Activity in Israel	**803**	**11**	**1,045**	**23**
Total Activity in Israel	**803**	**11**	**1,045**	**23**
Lending Activity Abroad				
Private Individuals	1	[2]-	-	-
Total Public - Activity Abroad	**1**	**[2]-**	**-**	**-**
Total Activity Abroad	**1**	**[2]-**	**-**	**-**
Total	**804**	**11**	**1,045**	**23**

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Nine months ended September 30			
	2020		2019	
	Failure of restructured debts[1]			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	72	6	67	3
Construction and Real Estate - Real Estate Activity	4	1	9	13
Commercial - Other	324	17	306	17
Total Commercial	**400**	**24**	**382**	**33**
Private Individuals - Other	2,468	16	2,888	23
Total Public - Activity in Israel	**2,868**	**40**	**3,270**	**56**
Total Activity in Israel	**2,868**	**40**	**3,270**	**56**
Lending Activity Abroad				
Public - Commercial				
Commercial - Other	1	57	-	-
Total Commercial	**1**	**57**	**-**	**-**
Private Individuals	1	[2]-	-	-
Total Public - Activity Abroad	**2**	**57**	**-**	**-**
Total Activity Abroad	**2**	**57**	**-**	**-**
Total	**2,870**	**97**	**3,270**	**56**

Footnote:
(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.
(2) An amount lower than NIS 1 million.

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to changes in private consumption;
- Exposure to foreign competition;
- In light of concentration within the ownership structure and control of companies in the economy, the phenomenon of concentration exists at the level of large borrower groups, which has led to a rise in the credit risk, particularly in cases where credit has been granted at several levels of the holding companies;
- The Corona pandemic, which broke out in the first quarter, has a significant impact upon the global economy in general, and upon economic activity in Israel in particular, including on the actual ability of businesses to operate and on the demand for their products. In consequence thereof, the business-commercial credit risk has grown, which would be particularly affected by the length of time and the type of restrictions on economic activity that would remain, and the pace of recovery in exiting the crisis.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

(4) Implications of the Corona crisis on credit to private individual (mortgages and others)

- The severe effects of the Corona crisis upon unemployment in the market and on the free income of households, may implicate the quality of credit in this segment. The pace of recovery of the economy, scope of State assistance and the reduction in unemployment will have a decisive impact upon the repayment ability of borrowers. The Bank follows and conducts the monitoring of sectors and customers, the vulnerability of which has grown as a result of the crisis, and is assisting customers in economic distress having a potential for recovery.

(B) INDICATION OF CREDIT QUALITY

	Unaudited				Audited			
	September 30, 2020				December 31, 2019			
		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	95.8%	99.1%	97.9%	96.8%	96.6%	99.0%	98.3%	97.4%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	2.8%	0.9%	1.5%	2.2%	1.9%	1.0%	1.1%	1.6%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	1.4%	-	0.6%	1.0%	1.5%	-	0.6%	1.0%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	2.1%	0.6%	2.8%	1.9%	1.5%	0.6%	2.0%	1.4%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	44.5%	68.2%	129.5%	54.5%	40.1%	54.8%	117.3%	49.8%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection. Notwithstanding the above, during the Corona crisis, in view of the outline for the deferral of loan repayments that had been granted to many borrowers, additional parameters have been taken into account for the classification of borrowers, such as: condition of the borrower, exposure to the crisis, impairment to income, and more.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

4. Additional information regarding housing loans

BALANCES FOR THE YEAR END, ACCORDING TO LOAN-TO-VALUE (LTV)[(1)] RATIO, MANNER OF REPAYMENT AND TYPE OF INTEREST

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		Unaudited			
		September 30, 2020			
First degree pledge: financing ratio	Up to 60%	26,519	383	15,822	469
	Over 60%	13,541	120	8,227	251
Second degree pledge or without pledge		1,091	121	445	3,859
Total		**(2)41,151**	**624**	**24,494**	**4,579**
		Unaudited			
		September 30, 2019			
First degree pledge: financing ratio	Up to 60%	23,390	396	14,066	328
	Over 60%	11,656	116	7,177	146
Second degree pledge or without pledge		987	113	442	3,041
Total		**(2)36,033**	**625**	**21,685**	**3,515**
		Audited			
		December 31, 2019			
First degree pledge: financing ratio	Up to 60%	24,096	406	14,440	369
	Over 60%	12,046	113	7,392	161
Second degree pledge or without pledge		1,017	141	432	3,514
Total		**(2)37,159**	**660**	**22,264**	**4,044**

Footnotes:

(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

(2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 214 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 (September 30, 2019 - NIS 256 million, December 31, 2019 - NIS 233 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

C. Information regarding the purchase and sale of debts

The Bank has determined the materiality level for disclosure in interim financial statements of transactions for the purchase or sale of loans (0.5% of outstanding credit). During the reported period, the purchasing of loans was in a volume exceeding the said level.

	Unaudited									
	Credit to the public					Credit to the public				
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Credit to governments	Total	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Credit to governments	Total
	In NIS millions									
	For the three months ended September 30, 2020					For the three months ended September 30, 2019				
Loans acquired[1]	1,476	-	-	285	1,761	399	-	-	43	442
Loans sold	-	-	-	-	-	658	-	-	-	658
	For the nine months ended September 30, 2020					For the nine months ended September 30, 2019				
Loans acquired[1]	4,119	-	-	1,717	5,836	2,722	-	-	559	3,281
Loans sold	121	-	-	-	121	860	-	-	-	860

Footnote:

(1) The data for the periods of three and nine months ended as of September 30, 2019 do not include credit acquisition transactions at IDB New York, most of which is short-term factoring. The balance of the transactions as of September 30, 2019 amounted to NIS 540 million.

For details regarding profit (loss) net in respect of loans sold, see Note 3.

D. Off balance Sheet Financial Instruments[3]

	Unaudited		Unaudited		Audited	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	September 30, 2020		September 30, 2019		December 31, 2019	
	in NIS millions					
Transactions in which the balance represents credit risk:						
Letters of credit	1,160	6	1,072	5	904	5
Credit guarantees	2,426	35	2,426	28	2,426	28
Guarantees for home purchasers	11,396	3	10,452	3	11,183	3
Other guarantees and obligations	9,824	63	9,826	57	9,835	81
Unutilized facilities for transactions in derivative instruments	2,696	-	1,440	-	1,724	-
Unutilized facilities credit line for credit cards	33,201	66	29,989	43	31,052	44
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,397	46	9,267	24	9,402	24
Irrevocable commitments to extend credit approved but not yet granted[3]	23,076	67	20,705	35	22,619	34
Commitment to issue guarantees	6,782	7	6,854	3	6,425	4

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

15. Assets and liabilities according to linkage terms - consolidated

	Unaudited						
	September 30, 2020						
	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	35,627	28	4,000	394	420	-	40,469
Securities	23,002	1,300	15,344	736	1	1,048	41,431
Securities borrowed or purchased under agreements to resell	679	-	-	-	-	-	679
Net credit to the public	138,390	18,317	27,703	1,945	301	-	186,656
Credit to the Government	1,595	276	1,538	867	-	-	4,276
Investments in associates	-	-	-	-	-	269	269
Buildings and equipment	-	-	-	-	-	2,805	2,805
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,617	60	2,741	297	410	326	5,451
Other assets	2,669	40	924	75	504	1,266	5,478
Total assets	**203,579**	**20,021**	**52,250**	**4,314**	**1,636**	**5,878**	**287,678**
Liabilities							
Deposits from the public	154,719	4,136	58,474	5,614	2,165	-	225,108
Deposits from banks	7,625	1	1,700	53	5	-	9,384
Deposits from the Government	128	7	91	-	-	-	226
Bonds and Subordinated debt notes	5,249	6,034	-	31	-	-	11,314
Liabilities in respect of derivative instruments	1,636	115	2,747	384	375	329	5,586
Other liabilities	14,217	830	722	11	402	179	16,361
Total liabilities	**183,574**	**11,123**	**63,734**	**6,093**	**2,947**	**508**	**267,979**
Difference	20,005	8,898	(11,484)	(1,779)	(1,311)	5,370	19,699
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(14,619)	(4,729)	16,460	1,818	1,070	-	-
Options in the money, net (in terms of underlying asset)	819	-	(819)	(13)	13	-	-
Options out of the money, net (in terms of underlying asset)	(266)	-	345	(90)	11	-	-
Total	**5,939**	**4,169**	**4,502**	**(64)**	**(217)**	**5,370**	**19,699**
Options in the money, net (discounted par value)	447	-	(392)	(57)	2	-	-
Options out of the money, net (discounted par value)	(1,344)	-	1,793	(567)	118	-	-

Footnote:

(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms - consolidated (continued)

	Unaudited						
	September 30, 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	17,703	33	3,174	438	398	-	21,746
Securities	20,267	1,461	13,328	1,217	8	1,022	37,303
Securities borrowed or purchased under agreements to resell	464	-	-	-	-	-	464
Net credit to the public	127,329	17,108	27,321	1,384	295	-	173,437
Credit to the Government	903	308	1,339	928	-	-	3,478
Investments in associates	-	-	-	-	-	172	172
Buildings and equipment	-	-	-	-	-	2,496	2,496
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,849	119	3,063	79	150	341	5,601
Other assets	1,966	26	1,028	1	468	432	3,921
Total assets	**170,481**	**19,055**	**49,253**	**4,047**	**1,319**	**4,623**	**248,778**
Liabilities							
Deposits from the public	130,700	4,857	51,022	5,608	2,275	-	194,462
Deposits from banks	3,693	2	2,144	135	6	-	5,980
Deposits from the Government	127	13	46	-	-	-	186
Securities lent or sold under agreements to repurchase	-	-	1,481	-	-	-	1,481
Bonds and Subordinated debt notes	2,936	5,154	-	41	-	-	8,131
Liabilities in respect of derivative instruments	1,957	204	3,275	153	150	340	6,079
Other liabilities	12,583	159	452	8	111	173	13,486
Total liabilities	**151,996**	**10,389**	**58,420**	**5,945**	**2,542**	**513**	**229,805**
Difference	18,485	8,666	(9,167)	(1,898)	(1,223)	4,110	18,973
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(12,796)	(4,005)	13,411	2,122	1,268	-	-
Options in the money, net (in terms of underlying asset)	775	-	(315)	(335)	(125)	-	-
Options out of the money, net (in terms of underlying asset)	103	-	(158)	79	(24)	-	-
Total	**6,567**	**4,661**	**3,771**	**(32)**	**(104)**	**4,110**	**18,973**
Options in the money, net (discounted par value)	497	-	(548)	129	(78)	-	-
Options out of the money, net (discounted par value)	1,422	-	(446)	(765)	(211)	-	-

Footnote:
(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms - consolidated (continued)

	Audited						
	December 31, 2019						
	Israeli currency		Foreign currency[1]				
	Non-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 agreements to resell	531	-	-	-	-	-	531
Net credit to the public	132,824	18,348	27,334	1,491	470	-	180,467
Credit to the Government	849	297	1,412	957	-	-	3,515
Investments in associates	-	-	-	-	-	171	171
Buildings and equipment	-	-	-	-	-	2,577	2,577
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,587	117	2,090	130	248	373	4,545
Other assets	2,191	28	968	-	470	407	4,064
Total assets	**181,460**	**19,504**	**48,326**	**4,296**	**1,565**	**4,672**	**259,823**
Liabilities							
Deposits from the public	134,716	4,611	54,021	5,853	2,249	-	201,450
Deposits from banks	4,248	2	2,061	102	6	-	6,419
Deposits from the Government	125	12	44	-	-	-	181
Securities lent or sold under agreements to repurchase	-	-	346	-	-	-	346
Bonds and Subordinated debt notes	5,699	7,389	-	41	-	-	13,129
Liabilities in respect of derivative instruments	1,769	199	2,113	171	219	368	4,839
Other liabilities	13,125	183	604	10	165	179	14,266
Total liabilities	**159,682**	**12,396**	**59,189**	**6,177**	**2,639**	**547**	**240,630**
Difference	21,778	7,108	(10,863)	(1,881)	(1,074)	4,125	19,193
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(15,754)	(2,814)	15,647	1,990	931	-	-
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.

16. Balances and fair value estimates of financial instruments

A. Composition - consolidated

	Unaudited				
	September 30, 2020				
	Book value	Fair value			
		Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	40,469	16,976	-	23,505	40,481
Securities[(2)]	41,431	25,188	15,635	930	41,753
Securities borrowed or purchased under agreements to resell	679	-	-	679	679
Net credit to the public	186,656	2,390	-	184,311	186,701
Credit to Governments	4,276	-	-	4,304	4,304
Assets in respect of derivative instruments	5,451	330	3,702	1,419	5,451
Other financial assets	2,048	6	9	2,033	2,048
Total financial assets	**[(3)]281,010**	**44,890**	**19,346**	**217,181**	**281,417**
Financial liabilities					
Deposits from the public	225,108	25,175	163,392	37,050	225,617
Deposits from banks	9,384	57	4,102	5,205	9,364
Deposits from the Government	226	-	127	102	229
Securities lent or sold under agreements to repurchase	-	-	-	-	-
Bonds and Subordinated debt notes	11,314	10,148	133	1,227	11,508
Liabilities in respect of derivative instruments	5,586	331	4,934	321	5,586
Other financial liabilities [(4)]	11,171	528	11	10,632	11,171
Total financial liabilities	**[(3)]262,789**	**36,239**	**172,699**	**54,537**	**263,475**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	119	-	-	119	119

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 59,263 million and NIS 133,698 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.

(4) Not including liabilities in respect of leasing.

16. Balances and fair value estimates of financial instruments (continued)

A. Composition - consolidated (continued)

	Unaudited				
	September 30, 2019				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	21,746	10,223	-	11,523	21,746
Securities[2]	37,303	22,857	13,813	884	37,554
Securities borrowed or purchased under agreements to resell	464	-	-	464	464
Net credit to the public	173,437	3,440	-	170,248	173,688
Credit to Governments	3,478	-	-	3,514	3,514
Assets in respect of derivative instruments	5,601	314	3,486	1,801	5,601
Other financial assets	1,724	15	13	1,696	1,724
Total financial assets	**[3]243,753**	**36,849**	**17,312**	**190,130**	**244,291**
Financial liabilities					
Deposits from the public	194,462	18,086	136,836	39,874	194,796
Deposits from banks	5,980	17	4,440	1,575	6,032
Deposits from the Government	186	-	126	63	189
Securities lent or sold under agreements to repurchase	1,481	-	-	1,483	1,483
Bonds and Subordinated debt notes	8,131	6,955	156	1,615	8,726
Liabilities in respect of derivative instruments	6,079	314	5,480	285	6,079
Other financial liabilities	9,960	357	28	9,575	9,960
Total financial liabilities	**[3]226,279**	**25,729**	**147,066**	**54,470**	**227,265**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	114	-	-	114	114

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 53,051 million and NIS 104,706 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.

16. Balances and fair value estimates of financial instruments (continued)

A. Composition - consolidated (continued)

	Audited				
	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 agreements to resell	531	-	-	531	531
Net credit to the public	180,467	3,451	-	177,772	181,223
Credit to Governments	3,515	-	-	3,543	3,543
Assets in respect of derivative instruments	4,545	346	3,356	843	4,545
Other financial assets	1,840	14	13	1,813	1,840
Total financial assets	**[3]254,687**	**38,318**	**17,591**	**199,811**	**255,720**
Financial liabilities					
Deposits from the public	201,450	19,823	140,936	41,143	201,902
Deposits from banks	6,419	19	5,285	1,141	6,445
Deposits from the Government	181	-	122	62	184
Securities lent or sold under agreements to repurchase	346	-	-	347	347
Bonds and Subordinated debt notes	13,129	11,903	166	1,602	13,671
Liabilities in respect of derivative instruments	4,839	345	4,202	292	4,839
Other financial liabilities	10,630	469	27	10,134	10,630
Total financial liabilities	**[3]236,994**	**32,559**	**150,738**	**54,721**	**238,018**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	116	-	-	116	116

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 54,496 million and NIS 108,470 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value – Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited				
	September 30, 2020				
	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	15,268	3,628	-	-	18,896
Foreign Governments bonds	679	158	-	-	837
Israeli financial institutions bonds	109	29	-	-	138
Foreign financial institutions bonds	-	833	-	-	833
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,958	-	-	7,959
Bonds of others in Israel	265	124	-	-	389
Bonds of others abroad	-	2,236	-	-	2,236
Shares not for trading	105	12	-	-	117
Total available-for-sale bonds and shares not for trading	**16,427**	**14,978**	**-**	**-**	**31,405**
Trading Securities					
Israeli Government bonds	1,201	149	-	-	1,350
Foreign Governments bonds	26	-	-	-	26
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	49	-	-	49
Bonds of others in Israel	18	-	-	-	18
Bonds of others abroad	-	14	-	-	14
Trading Shares	1	-	-	-	1
Total trading securities	**1,246**	**212**	**-**	**-**	**1,458**
Credit to the public in respect of securities loaned	2,390	-	-	-	2,390
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	298	-	298
Other Interest Rate Contracts	-	2,717	296	-	3,013
Foreign Currency Contracts	36	897	795	-	1,728
Shares Contracts	294	53	-	-	347
Commodity and other Contracts	-	35	30	-	65
Total assets in respect of derivative instruments	330	3,702	1,419	-	5,451
Other	-	9	-	-	9
Assets in respect of the "Maof" market operations	6	-	-	-	6
Total assets	**20,399**	**18,901**	**1,419**	**-**	**40,719**
Liabilities					
Deposits from the public in respect of securities borrowed	1,651	-	-	-	1,651
CLN deposits	-	-	31	-	31
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	189	-	189
Other Interest Rate Contracts	-	3,353	-	-	3,353
Foreign Currency Contracts	37	1,473	132	-	1,642
Shares Contracts	294	45	-	-	339
Commodity and other Contracts	-	63	-	-	63
Total liabilities in respect of derivative instruments	331	4,934	321	-	5,586
Other	-	11	-	-	11
Commitments in respect of the "Maof" market operations	6	-	-	-	6
Short sales of securities	522	-	-	-	522
Total liabilities	**2,510**	**4,945**	**352**	**-**	**7,807**

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Unaudited				
	September 30, 2019				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	15,079	2,414	-	-	17,493
Foreign Governments bonds	831	175	-	-	1,006
Israeli financial institutions bonds	49	42	-	-	91
Foreign financial institutions bonds	-	957	-	-	957
Bonds backed by assets (ABS) or by mortgage (MBS)	9	6,864	-	-	6,873
Bonds of others in Israel	124	98	-	-	222
Bonds of others abroad	-	2,121	-	-	2,121
Shares not for trading	113	10	-	-	123
Total available-for-sale bonds and shares not for trading	**16,205**	**12,681**	**-**	**-**	**28,886**
Trading Securities					
Of the Israeli Government	1,576	507	-	-	2,083
Of foreign governments	16	-	-	-	16
Of Israeli financial institutions	17	-	-	-	17
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	64	-	-	64
Of others in Israel	38	-	-	-	38
Of others abroad	-	-	-	-	-
Shares	15	-	-	-	15
Total trading securities	**1,662**	**571**	**-**	**-**	**2,233**
Credit to the public in respect of securities loaned	3,440	-	-	-	3,440
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	164	-	164
Other Interest Rate Contracts	-	2,604	1,001	-	3,605
Foreign Currency Contracts	3	804	614	-	1,421
Shares Contracts	310	50	-	-	360
Commodity and other Contracts	1	28	22	-	51
Total assets in respect of derivative instruments	314	3,486	1,801	-	5,601
Other	-	13	-	-	13
Assets in respect of the "Maof" market operations	15	-	-	-	15
Total assets	**21,636**	**16,751**	**1,801**	**-**	**40,188**
Liabilities					
Deposits from the public in respect of securities borrowed	1,957	-	-	-	1,957
CLN deposits	-	-	148	-	148
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	89	-	89
Other Interest Rate Contracts	-	3,889	-	-	3,889
Foreign Currency Contracts	3	1,512	196	-	1,711
Shares Contracts	310	31	-	-	341
Commodity and other Contracts	1	48	-	-	49
Total liabilities in respect of derivative instruments	314	5,480	285	-	6,079
Other	-	28	-	-	28
Commitments in respect of the "Maof" market operations	15	-	-	-	15
Short sales of securities	342	-	-	-	342
Total liabilities	**2,628**	**5,508**	**433**	**-**	**8,569**

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited				
	December 31, 2019				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale 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					
Of the Israeli Government	1,628	671	-	-	2,299
Of foreign governments	16	-	-	-	16
Of Israeli financial institutions	17	-	-	-	17
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	60	-	-	60
Of others in Israel	58	-	-	-	58
Of others abroad	-	-	-	-	-
Shares	13	-	-	-	13
Total trading securities	**1,732**	**731**	**-**	**-**	**2,463**
Credit to the public in respect of securities loaned	3,451	-	-	-	3,451
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	172	-	172
Other Interest Rate Contracts	-	2,548	200	-	2,748
Foreign Currency Contracts	3	731	448	-	1,182
Shares Contracts	341	47	-	-	388
Commodity and other Contracts	2	30	23	-	55
Total assets in respect of derivative instruments	346	3,356	843	-	4,545
Other	-	13	-	-	13
Assets in respect of the "Maof" market operations	14	-	-	-	14
Total assets	**22,245**	**17,088**	**843**	**-**	**40,176**
Liabilities					
Deposits from the public in respect of securities borrowed	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**

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	Unaudited				
	September 30, 2020				
	Level 1	Level 2	Level 3	Total fair value	Loss for the nine months ended September 30, 2020
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	417	417	(90)
Not for trading shares	-	-	44	44	(15)

	Unaudited				
	September 30, 2019				
	Level 1	Level 2	Level 3	Total fair value	Loss for the nine months ended September 30, 2019
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	668	668	(46)
Not for trading shares	-	-	39	39	(11)

	Audited				
	December 31, 2019				
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2019
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	580	580	(82)
Not for trading shares	-	-	14	14	(31)

16. Balances and fair value estimates of financial instruments (continued)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated

	Fair value as at beginning of period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of period	Unrealized gains (losses) in respect of held instruments as at end of period
	Unaudited							
	in NIS millions							
	For the three months ended September 30, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	92	(1)35	-	(18)	-	-	109	(1)15
Other Interest Rate Contracts	320	(1)(1)	-	(23)	-	-	296	(1)(1)
Foreign Currency Contracts	640	(1)127	(19)	(96)	(2)	13	663	(1)145
Commodity and other Contracts	13	(1)23	-	(6)	-	-	30	(1)17
Total	**1,065**	**184**	**(19)**	**(143)**	**(2)**	**13**	**1,098**	**176**
Liabilities								
CLN Deposits	(32)	(2)-	-	1	-	-	(31)	(2)-
	For the three months ended September 30, 2019							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	33	(1)31	-	11	-	-	75	(1)32
Other Interest Rate Contracts	700	(1)507	-	(193)	(27)	14	1,001	(1)438
Foreign Currency Contracts	253	(1)226	35	(112)	11	5	418	(1)227
Commodity and other Contracts	3	(1)21	-	(2)	-	-	22	(1)19
Total	**989**	**785**	**35**	**(296)**	**(16)**	**19**	**1,516**	**716**
Liabilities								
CLN Deposits	(156)	(2)(1)	-	9	-	-	(148)	(2)(1)
	For the nine months ended September 30, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	(1)91	-	(57)	-	-	109	(1)86
Other Interest Rate Contracts	200	(1)160	-	(61)	(8)	5	296	(1)186
Foreign Currency Contracts	253	(1)328	(112)	186	1	7	663	(1)608
Commodity and other Contracts	23	(1)-	-	7	-	-	30	(1)30
Total	**551**	**579**	**(112)**	**75**	**(7)**	**12**	**1,098**	**910**
Liabilities								
CLN Deposits	(144)	(2)(1)	-	114	-	-	(31)	(2)(1)

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".

16. Balances and fair value estimates of financial instruments (continued)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated (continued)

	Fair value as at beginning of period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of period	Unrealized gains (losses) in respect of held instruments as at end of period
	Unaudited							
	in NIS millions							
	For the nine months ended September 30, 2019							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	(1)41	-	3	-	-	75	(1)44
Other Interest Rate Contracts	293	(1)1,099	-	(409)	(49)	67	1,001	(1)941
Foreign Currency Contracts	224	(1)237	(110)	65	8	(6)	418	(1)296
Commodity and other Contracts	13	(1)20	-	(11)	-	-	22	(1)22
Total	**561**	**1,397**	**(110)**	**(352)**	**(41)**	**61**	**1,516**	**1,303**
Liabilities								
CLN Deposits	(193)	(2)(3)	-	48	-	-	(148)	(2)(3)
	Audited							
	For the year ended December 31, 2019							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	(1)38	-	6	-	-	75	(1)31
Other Interest Rate Contracts	293	(1)410	-	(435)	(113)	45	200	(1)233
Foreign Currency Contracts	224	(1)63	(111)	78	9	(10)	253	(1)131
Commodity and other Contracts	13	(1)24	-	(14)	-	-	23	(1)23
Total	**561**	**535**	**(111)**	**(365)**	**(104)**	**35**	**551**	**418**
Liabilities								
CLN Deposits	(193)	(2)(4)	-	53	-	-	(144)	(2)(3)

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income".
(2) Included in the statement of profit and loss in the item "Interest income and expenses".

D. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in the first nine months of 2020, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

16. Balances and fair value estimates of financial instruments (continued)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Unaudited							
	Fair value as at September 30, 2020	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	417	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	44	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	109	Discounted cash flow	Inflationary expectations	From	-2.20%	to	1.20%	(0.45%)
			Counterparty credit risk (CVA)	From	0.00%	to	3.43%	(1.02%)
Other Interest Rate Contracts	296	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	0.13%	(0.01%)
Foreign Currency Contracts	663	Discounted cash flow	Inflationary expectations	From	-2.20%	to	1.20%	(0.72%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	10.85%	(0.20%)
Commodities and other contracts	30	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	31	Discounted cash flow	Credit risk of the underlying asset					

	Unaudited							
	Fair value as at September 30, 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	668	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	39	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	Discounted cash flow	Inflationary expectations	From	-0.31%	to	3.02%	(1.17%)
			Counterparty credit risk (CVA)	From	0.00%	to	4.36%	(0.35%)
Other Interest Rate Contracts	1,001	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	0.38%	(0.01%)
Foreign Currency Contracts	418	Discounted cash flow	Inflationary expectations	From	-0.31%	to	3.02%	(1.14%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	4.83%	(0.14%)
Commodities and other contracts	22	Rating model	Counterparty credit risk (CVA)	From	1.30%	to	1.30%	(1.30%)
Liabilities								
CLN Deposits	148	Discounted cash flow	Credit risk of the underlying asset					

16. Balances and fair value estimates of financial instruments (continued)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

1. Quantitative information regarding the measurement of fair value at level 3 (continued)

	Audited							
	Fair value as at December 31, 2019	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	580	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	14	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	Discounted cash flow	The interest curve in the CPI linked segment	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	The interest curve in the CPI linked segment	From	-2.98%	to	2.16%	(1.25%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	3.26%	(0.25%)
Commodities and other contracts	23	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	144	Discounted cash flow	Credit risk of the underlying asset					

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). As much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). As much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

17. Credit card activity

A. **Existing arrangements between credit card companies and between such companies and the banks.** The arrangements were described in Note 36 A to the financial statements as of December 31, 2019.

1. **Reduction of the cross-commission rate.** The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from a rate of 0.7% to a rate of 0.5%, this in five stages during the coming years.

   The cross commission level under the new outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

   The reduction in the issuer's fee to a level of 0.5% will be implemented in stages, as follows:

   - from January 1, 2019, the end of the current arrangement period, through December 31, 2019, the issuer's fee will stand at an average rate that shall not exceed 0.6%;
   - from January 1, 2020, through December 31, 2020, the issuer's fee will stand at an average rate that shall not exceed 0.575%;

17. Credit card activity (continued)

- from January 1, 2021, through December 31, 2021, the issuer's fee will stand at an average rate that shall not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee will stand at an average rate that shall not exceed 0.525%;
- from January 1, 2023, the issuer's fee will stand at an average rate that shall not exceed 0.5%.

In addition, an outline was established with respect to the reduction of the cross-commission regarding immediate charge transactions, from the current rate of 0.3%, to a rate of 0.25%, in two phases, during the coming years. The aforementioned reduction will be carried out in stages, as follows:

- from January 1, 2021 through December 31, 2022, the commission will be at an average rate of not more than 0.275%;
- from January 1, 2023, the commission will be at an average rate of not more than 0.25%.

On November 25, 2018, these rates were recognized in the Banking Order (Customer service) (Supervision over cross-clearing service for charge card transactions and for immediate debit transactions), 2018.

It should be noted that the reducing the rate of the cross commission 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. ICC submitted its response on August 19, 2019. On July 27, 2020, the Court rejected the Plea.

2. **Exemption regarding a restrictive agreement for the clearing of Isracard cards.** Note 36 A 2 to the financial statements as of December 31, 2019, contained a description of the exemption regarding the agreement, within the framework of which it had been determined that to the extent that the parties would extend the agreement without inserting material changes, the validity of the exemption shall remain in effect until December 31, 2023. In May 2020, the parties signed the extension of the agreement until December 31, 2023.

B. **Arrangements following the Strum Act.** The arrangements were described in Note 36 B to the financial statements as of December 31, 2019.

C. **Joint distribution agreement with El-Al Company.** Note 36 C to the financial statements as of December 31, 2019 described an agreement in respect of an engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards, within the framework of which the FlyCard club is being operated.

In accordance with the plan of operation of the agreement, ICC's profitability is expected to be impaired due to expenses relating to operating the club in the first two years of its operation.

The Corona crisis and following restrictions imposed on international travel by many governments around the world and in Israel, resulted in economic impairment to many airline companies, including El Al airlines.

On May 14, 2020, El Al published its financial statements for 2019, in which it reported that the company conducts negotiations for a loan, mostly guaranteed by the State of Israel, that discussions with the Government and the lending bodies are still in progress, and that no certainty exists that the negotiations would be concluded in a binding agreement. It was further noted that whereas the said negotiated loan is essential to confront the implications of the crisis, at this stage, significant doubt exists as to the ability of the company to continue as a going concern. On July 6, 2020, El Al reported that its Board of Directors had decided to choose the outline regarding the obtaining of a bank loan, most of it secured by a State guarantee, as well as an issuance of shares to the public, with a commitment by the State to acquire the amount shares not purchased by the public. On September 16, 2020, El Al announced the completion of the share issue, within the framework of which, it would receive consideration amounting to NIS 506 million.

17. Credit card activity (continued)

ICC has studied these developments, and according to assessments made, based, inter alia, on the performance of the operation of the Club and the anticipated income there from, ICC has reached the conclusion that, at this stage, no reason exists for a provision for impairment to be recognized in respect of material amounts paid to El Al within the framework of the agreement, which are amortized according to their economic lifetime. This conclusion is based on information existing in the hands of ICC at the reporting date, and on the estimates made by ICC, as stated. It is possible that actual developments would be different than those estimated by ICC.

D. **Acquisition of the minority interest in Diners.** In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute arose between the parties regarding the entitlement of the sellers to additional consideration, conditional upon fulfillment of conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded.

A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is requested to order ICC to pay to Dor-Alon and Blue Square an amount of approx. NIS 21 million. On February 9, 2020, ICC submitted a defense brief in respect of this action. Concurrently with the submission of the defense brief, ICC submitted a counterclaim, in which the Court is requested to order the opposite parties to pay ICC an amount of approx. NIS 33 million. On June 15, 2020, the Plaintiffs filed a response brief in which they reiterated their arguments, and on the same day they submitted a counter defense brief, in which the rejected the arguments of the company in the counterclaim. A pretrial is fixed for January 14, 2021.

18. Dividends

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

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

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

B. Details regarding the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
May 17, 2018	June 6, 2018	32.0	10	2.75
August 15, 2018	September 2, 2018	42.0	10	3.61
November 15, 2018	December 4, 2018	43.9	10	3.77
March 11, 2019	March 28, 2019	48.6	15	4.18
May 16, 2019	June 3, 2019	60.8	15	5.22
August 14, 2019	September 1, 2019	81.8	15	7.02
November 27, 2019	December 16, 2019	64.0	15	5.50
March 15, 2020	April 5, 2020	48.8	15	4.19

c. On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of its customers, the Bank's Board of Directors decided to discontinue at this stage the distribution of dividends until the expiry date of the Provisional Instruction issued by the Supervisor of Banks on March 31, 2020 (see Note 9 section 1 (H) above), and the clarification of the circumstances.

19. Transactions with interested parties

Terms of office of the Chairman of the Board and of the President & CEO of the Bank. The Bank's special general meeting of shareholders held on March 18, 2020, approved the update of the terms of office of the Chairman of the Board. The said meeting also approved the terms of office and employment of the Bank's President & CEO.

20. Taxation

a. On March 15, 2020, a tax ruling was received from the Tax Authority, whereby two shares (out of 5000 shares) of Israel Discount Bank Nominee Company Ltd., held by Discount Trust Ltd. (both companies are subsidiaries of the Bank), would be assigned to the Bank under exemption from income tax and land betterment tax, in accordance with Section 104C of the Income Tax Ordinance, so that following the assignment of the shares, as stated, the Bank would be the sole owner of the share capital of the Nominee Company. In accordance with the terms of the arrangement, the Bank has committed to disclose the said arrangement in a note to its financial statements.

b. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A preliminary hearing was held on March 5, 2020. The hearing of proof is fixed for May 2021.
   ICC assesses the exposure amount in respect of which the allowance was not included in the financial statements, as a total amount of approx. NIS 153 million.

21. Outbreak of the Corona virus

A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. In March 2020, the World Health Organization announced the Corona virus a "pandemic". Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. Following a significant decline in the scope of morbidity in Israel, in the months of May and June, an additional widespread outbreak of the morbidity occurred during July-September. Following of the renewed outbreak, an additional lockdown was imposed in Israel in the months of September and October, which brought about a significant reduction in economic activity and a rise in the rate of unemployment.

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

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

21. Outbreak of the Corona virus (continued)

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

22. Shelf Prospectus

On June 17, 2020, the Bank published a shelf prospectus (replacing the shelf Prospectus dated May 11, 2017, the validity of which was extended on May 12, 2019, to May 10, 2020), on the basis of the financial statements as of March 31, 2020.

23. Issuance of subordinate debt notes carrying a loss absorption mechanism (Series "G")

On June 22, 2020, the Bank (through Manpikim company) issued subordinate debt notes (Series "G") in the nominal value of approx. NIS 440.4 million, which were registered for trading on the Stock Exchange. The said subordinate debt notes (Series "G") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "G"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "G") comprise a capital instrument classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III.

The principal sum on the subordinate debt notes (Series "G") shall be redeemed in one payment, on July 1, 2031, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "G") carries a fixed annual interest rate of 2.42%, payable once in each year.

Upon occurrence of circumstances comprising a constitutive event of non-sustainability, as detailed below, Discount Manpikim would eliminate (in whole or in part) the subordinate debt notes. A constitutive event regarding non-sustainability in a banking corporation is the earlier of the following two cases:

- Announcement by the Supervisor of Banks that the conversion of the capital instrument or its elimination is essential, as without it, in the opinion of the Supervisor, the bank would reach the point of non-sustainability;
- Notice by the Supervisor of Banks to the Bank of a decision to provide capital from the public sector or provide other support of equal value, which without it the Bank would reach the point of non-sustainability, as determined by the Supervisor.

24. Pledges, Restrictive Terms and Collateral

Note 27 J to the financial statements as of December 31, 2019, contained a description of a deposit of surety for the credit extended by the Bank of Israel to the Bank and to MDB, within the framework of the credit tenders, noting that the Bank and MDB did not participate in such credit tenders in the years 2017-2019.

In the second quarter of 2020, the Bank and MDB resumed participation in the credit tenders of the Bank of Israel, and for that purpose the Bank has pledged in favor of the Bank of Israel foreign bonds deposited with Euroclear, the value of which, as of September 30, 2020, amounted to US$250 million.

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 AUDIT

Board of Directors and Management

Changes in the Board of Directors

The general meeting of shareholders held on August 4, 2020, resolved to appoint as external Directors, within the meaning of the term in Proper Conduct of Banking Business Directive No. 301, for a period of three years, the following persons: Mr. Shaul Kobrinsky (reelected officiating Director), as from December 11, 2020, Ms. Iris Avner (reelected officiating Director), as from March 22, 2021, and Dr. Yaacov Lifshiz (reelected officiating Director), as from March 26, 2021. The said meeting of shareholders resolved to appoint as external Directors, within the meaning of the term in the Companies Act, 1999, for a period of three years, the following persons: Mr. Aharon Abramovich, (reelected officiating Director), as from October 30, 2020, and Mr. Baruch Lederman (reelected officiating Director), as from November 27, 2020. All as detailed in the immediate report dated August 4, 2020 (Ref. No. 2020-01-083856), the information detailed therein regarding the above matters, is presented herewith by way of reference.

Meetings of the Board of Directors and its committees

In the first nine months of 2020, the Board of Directors held 26 meetings. In addition, 57 meetings of committees of the Board of Directors were held.

Changes in Management

Mr. Yakki Zano, Executive Vice President, Head of the Technologies Division announced on November 2, 2020, his decision to terminate his office at the Bank. No date has as yet been fixed for the termination of his office. On November 19, 2020, the Bank's Board of Directors resolved to appoint Mr. Adi Kaplan as a member of the Bank's Management, with the title, Executive Vice President, Head of the Technologies Division, in place of Mr. Zano who, which as stated, has given notice of his decision to terminate his office. The appointment is subject to the approval of the Supervisor of Banks. No date has yet been set for the commencement of service.

The Internal Audit in the Group

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work plans and the considerations at its basis were included in the 2019 Annual Report (pp. 297-299).
Updates. During the third quarter of 2020 the following periodic reports were submitted and discussed:

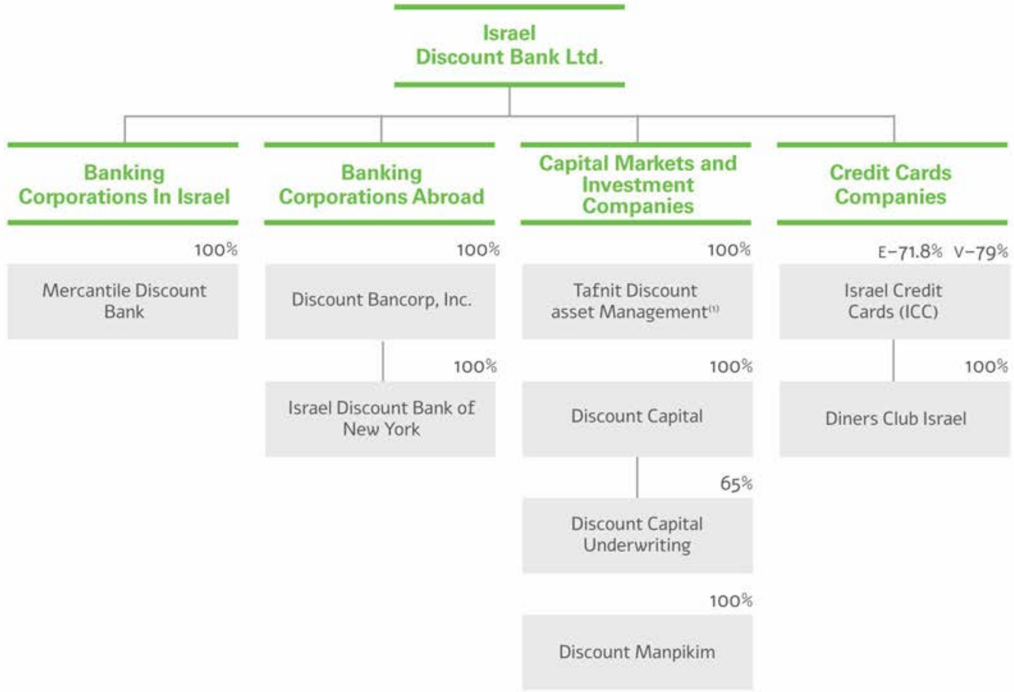
- The quarterly report on the activities of the internal audit in the second quarter of 2020 was submitted on August 24, 2020, and discussed by the Audit Committee on September 8, 2020;
- The quarterly report on the activities of the internal audit in the third quarter of 2020 was submitted on November 2, 2020, and discussed by the Audit Committee on November 17, 2020.

Transactions with Interested and Related Parties

Terms of office of the Chairman of the Board and of the President & CEO of the Bank. The Bank's special general meeting of shareholders held on March 18, 2020, approved the update of the terms of office of the Chairman of the Board. The said meeting also approved the terms of office and employment of the Bank's President & CEO.
Directors and officers liability insurance. The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the remuneration policy that was approved by the same meeting, under the terms and limitations stated in the said remuneration policy.
All as detailed in the immediate reports dated February 11, February 24 and March 18, 2020 (Ref. Nos. 2020-01-012694, 2020-01-015952 and 2020-01-022936, respectively), the information detailed therein regarding the above matters, is presented herewith by way of reference.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



(1) Directly and Indirectly.

Fixed Assets and Installations

Buildings and Equipment

Establishment of the Discount Campus. For details, see the 2019 Annual Report (p. 307-308) and Note 10 B 6 to the condensed financial statements.

Information and Computer Systems

Activity in light of the coronavirus. The Bank has taken various actions intended to ensure its operational and technological stability, with the aim of enabling essential critical processes to function in all areas, including customer service, support processes, technology, business continuity, cyber and data protection.

During this period, the following measures, among others, have been taken:

- Making remote working possible for the business divisions, both for the units that serve customers (e.g., TeleBank, dealing room, banking service center) and also head office units, thereby enabling "business continuity" and full availability for the Bank's essential financial activity;
- Providing the necessary infrastructures to implement the capability of remote working, while meeting the shortest SLA requirements and full availability, without the occurrence of material irregular or disabling events and while coping with the pressure on the Bank's infrastructures, due to the state of emergency;
- Continuing to execute development projects in response to business demands, while integrating unplanned developments the need for which arose due to the state of emergency.

Involvement and contribution to the community in the Corona days

On the background of the crisis, the Bank applied itself to respond to the different calls for help. Inter alia, the Bank assisted fifteen hospitals in the purchase of respiratory machines and intensive care stations. Also, the Bank joined El Al Airlines in repatriating Israeli tourists from South America. At the same time, the Bank donated to Associations assisting Holocaust survivors, senior citizens and needy families:"Latet", "Lasova" and "Yad Ezer La-Haver", for the purchase of food parcels; to the "Israeli Spirit" in aid of boardinghouse children; to "WIZO" in aid of families leaving shelters and girls in risk situations; and to "Magen David Adom" for the purchase of equipment kits for the on-duty staff and more.

The Bank and ICC have launched an ambulance for the transportation, of seniors and handicapped persons confined to wheelchairs, in cooperation with the Savyonim Association, at no cost.

A designated application was introduced in July for Discount employees, within the framework of PayBox, for a direct and personal donation by the Bank's employees to the "The Spirit of Israel" and "Latet" Associations – a donation to these Associations that was doubled by the Bank's Management, for the purpose of purchasing food packages for the Jewish New Year Holiday for needy families.

The Bank has purchased 600 gift vouchers of food chains for distribution to needy families all over the country, in collaboration with the Welfare Departments in the different towns. The vouchers were distributed to needy families by employees of the Bank in view of the Tishrei Holydays period.

Also during this challenging period, Bank employees continue to join various voluntary initiatives, most prominent among which is – hundreds of employees communicate by telephone with elderly persons and Holocaust survivors enquiring as to their wellbeing.

The human capital

Human resources management during the period of the Corona crisis

Following the operation of the Bank in an emergency format, in accordance with the guidelines, the workforce required to appear in person at the premises of the Bank has been reduced, while a part of the employees continuing to operate in a distant work format.

Operating in the aforesaid format necessitates taking the following measures in the field of human resources management:

- Translating the government guidelines and emergency regulations, which have been updated and altered from time to time, into a planned and operable format from the aspect of the Bank’s human resources, including reducing the number of employees coming to Bank premises, massive shift to work from home and making nonessential employees take vacation;
- Splitting significant units into work capsules in order to avoid contamination and maintain redundancy, including guidelines for managers regarding distant work processes;
- Splitting significant units over several sites so as to minimize risks;
- Daily workforce planning and listing the employees required to work at the Bank and those that should work from home, including the necessary organization from the technical and logistical aspects (workstations, means of getting to work, meals, hygiene, etc.);
- Daily monitoring of the interfaces with sick employees and defining the impact thereof with regard to isolating employees and entire units and their return to normal activity;
- Mapping the population of employees defined as essential to arrive at the Bank’s premises and providing specific response to access difficulties caused by reduced public transport.

Concurrently, measures have been taken in relation to communicating with employees and supporting them:

- A hotline for employees’ queries by means of the human resources center;
- Support for employees and managers and assisting them throughout this period and answering their needs;
- Supporting employees that were sick with the Corona virus and employees required to self-isolate, as well as employees suffering from emotional distress due to the situation;
- Support for employees who are not required in the current emergency situation and are taking vacation as ordered by the Bank;
- Daily communication, guiding the employees regarding conduct in this period.

Remuneration during the Corona crisis

On May 12, 2020, the Bank’s management reached accords with the employees’ representative committee with regard to remuneration during the Corona crisis period. Within this framework, an agreement was signed with the employees’ committee regarding the Bank’s participation in financing half of the vacation days that employees were obliged to spend at home and not come to work due to the Corona virus, with this being effective from March 17, 2020 and continuing through June 30, 2020 at the latest. It was also agreed that the Bank would allow the balance on

employees' vacation days account to go into minus on expanse of future vacation and will not offset the salary in respect of this period in 2020, but will spread the offset amount over the four consecutive years or would defer it to the termination of employment, the earlier of the two.
This arrangement will also apply to temporary employees and, as the Bank shall decide, also to staff employed under personal contracts.
In addition, on the same date, a collective agreement was signed with the employees' representative committee, which made changes to the wage agreement from February 21, 2019, whereby the salary increase due to be paid in July 2020 and the salary increase due to be paid in July 2021, would be consolidated into one increase, which would be paid in May 2021.
ICC. On June 29, 2020, the Management of ICC reached agreement with the representative committee of employees regarding remuneration during the Corona crisis. In this framework, an agreement has been signed with the representative committee of employees with respect to the participation of ICC in financing one half of the leave period of employees forced to keep away from work and stay at home due to the Corona pandemic. It has also been agreed that ICC would allow employees to exceed their accumulated balance of vacation days on account of future vacation, with no deduction of pay in respect of this period.

Organizational communication

Work in an emergency format has set the challenge of maintaining organizational communication in the days of the Corona crisis, during which, many employees were prevented from reaching the Bank offices. In view of the above stated, "FaceBank reaching you" website has been introduced – being the employees' "FaceBank" website in a version adapted to the mobile phone, enabling Bank employees to obtain diverse information and upload contents from anywhere and at any time. Immediately upon the outbreak of the crisis, the Bank's Management took strict action to update employees with the developing situation and to distribute, nearly daily, updating announcements to employees through diversified communication channels.
The Bank's President & CEO held a weekly updating conversation with the Bank's managerial echelon, from the branch manager level and above, within the framework of which, it was also possible to present questions and subjects for discussion. In addition, the President & CEO held a round of virtual feedback meetings with employees and managers from the various divisions, at which he reviewed the challenges and the preparations made at the Bank during this period, after which a dialogue took place with the meeting participants and answers were provided to the various issues raised.

Improvement of Service

Maintaining service continuity during the Corona crisis period. The Bank has prepared for maintaining service continuity and accessibility to banking services on all channels with a view of assisting customers in continuing their regular activity. Preparations included solutions adapted to the changing economic condition of customers, with a view of assisting them in continuing their business activity, while protecting their health and the health of the Bank employees.
The handling of complaints. The annual report to the public regarding the handling of complaints in 2019, is available on the Bank's Internet website.

Rating of Liabilities of the Bank and some of its Subsidiaries

Rating of Liabilities of the Bank and some of its Subsidiaries. On May 7, 2020, Ma'alot announced the ratification of the Bank's rating and of MDB's rating at a level of AAA, with a stable outlook. On the same date, S&P ratified the international rating of the Bank and that of IDB New York at a level of BBB+ and revised the outlook to stable, all as stated in the immediate reports dated May 7, 2020 (reference nos. 2020-15-045030 and 2020-01-044997, respectively), the information provided therein being included herewith by way of reference.
On July 5, 2020, Moody's announced the ratification of the Bank's international credit rating at the level of "A3" with a positive outlook. All as stated in the immediate report dated July 5, 2020 (Ref. No. 2020-01-062932), the information contained therein is presented hereby way of reference.
On November 4, 2020, Midroog announced the ratification of the Bank's rating at a level of Aaa with a stable outlook, as set forth in the immediate report dated November 4, 2020 (reference no. 2020-15-110104).
Credit rating of the State of Israel. On April 23, 2020, the Fitch rating agency ratified the credit rating of the State of Israel at a level of A+, with a stable outlook. On April 24, 2020, the rating agency Moody's reduced the credit rating outlook of the State of Israel from "positive" to "stable", leaving the rating itself at the level of A1. On October 23, 2020, Moody's ratified the State of Israel's credit rating at a level of A1 with a stable outlook. On November 13, 2020, S&P rating company ratified the State of Israel's credit rating at a level of AA- with a stable outlook.
For details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies, see the 2019 Annual Report (p. 322-323).

Activity of the Group according to regulatory operating segments – additional details

Household Segment (Domestic operations) - additional details

Developments in the segment

In the third quarter of 2020, in the midst of the Corona crisis, the Bank continued implementing measures to achieve the multi-year targets:

- Further improving the customer experience with the human and the digital channels, including deploying a customer experience approach drawn up in light of the findings from a comprehensive customer survey;
- Giving accessibility to a broad range of services and providing an advanced experience, 24/7 availability in the digital platforms (including being able to open make an account via the app and so forth) and educating customers to adopt the advanced services;
- Broadening the use of the "meeting with a banker" invitation service and the cashier and consultant services;
- Further regulating branch workloads for all contact channels: face-to-face, telephone and digital, by means of a control and command center at the Banking Division;
- Further improving and expanding the telephone call center with the aim of enhancing the availability of the telephone service;
- Upgrading the sales effectiveness by means of customized value offers on all channels;
- An initiated approach to customers experiencing financial challenges during the Corona period, aiming at producing tailored solutions for them;
- Continuing the development and use of analytical models as a tool in support of credit-granting decisions.

Branches. At the end of the third quarter, the Discount Group has 177 branches in operation in Israel (102 branches of the Bank and 75 branches of MDB). The Machaneh Yheudah Branch in Jerusalem was closed down in the third quarter.

For additional details, see the 2019 Annual Report (pp. 324-327).

Mortgage Activity

At the present time, the Bank operates 64 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.

Developments in the mortgage market

	September 30, 2020	September 30, 2019	Change in %
	in NIS millions	in NIS millions	
Total housing loans granted by the banks, excluding internal recycling of loans	56,570	50,397	12.2
Loans from State funds	489	545	(10.3)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019		For the year ended December 31, 2019
	In NIS millions	In NIS millions	Change in %	In NIS millions
From bank funds[1]	7,244	5,972	21.3	8,151
From Treasury funds[2]	43	48	(10.4)	59
Total of new loans	7,287	6,020	21.0	8,210
Recycled loans	836	411	103.4	650
Total granted[3]	**8,123**	**6,431**	**26.3**	**8,860**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 154 million in the first nine months of 2020, compared to NIS 97 million as at September 30, 2019 and NIS 130 million in 2019.
(2) Including standing loans in the amount of NIS 15 million in the first nine months of 2020, compared to NIS 10 million as at September 30, 2019 and NIS 12 million in 2019.
(3) At the Bank and M.D.B.

Legislative restrictions, regulations and special constraints applicable to the operations

Adjustments to Proper Conduct of Banking Business Directives for confronting the Corona virus crisis (Provisional Instruction).
The circular of the Supervisor of Banks dated March 19, 2020, states that it is permitted to approve a mortgage loan of up to a financing level of 70% of the value of the property, on condition that the loan is not granted for the purchase of an additional apartment. The circular dated May 5, 2020, permitted to approve a mortgage loan the ratio of the repayment installment thereof to free income shall not exceed 70% of the remaining income of the borrower after impairment to income caused by the Corona crisis. The Bank has to determine an overall limit to the volume of credit extended in terms of this relief. On September 16, 2020, the Supervisor of Banks extended until March 31, 2021, the relief regarding the granting of loans having a financing rate of up to 70%.

Outline of the Supervisor of Banks for the deferral of loan repayment. In order to provide response to the credit needs of households and small and medium businesses, in view of the implications of the Corona crisis, the Supervisor of Banks published in May 2020, an outline for the deferral of mortgage and loan repayment in the banking system, which contains guidelines regarding consumer, business and housing loans. The outline allows the borrower to apply for a deferral of up to six months in the repayment of a mortgage. In July 2020, the Bank of Israel extended the validity of the outline and expanded it. According to the expanded outline, a borrower may submit, until October 30, 2020, an application for deferral of mortgage loan repayments for an additional period of six months, or for extension of an existing deferral until the end of 2020. In September 2020, the Bank of Israel extended the validity of the outline and expanded it. It was determined, inter alia, that it would be possible to submit an application for deferral until December 31, 2020, when the deferral on a cumulative basis may reach a period of up to nine months, instead of six months according to the previous outline.

For details regarding guidelines and instructions of the Supervisor of Banks designed to restrain the mortgage market, see the 2015 Annual Report (pp. 469-471). For additional details, see the 2019 Annual Report (pp. 327-328).

Private Banking Segment (Domestic operations) - additional details

The Corona crisis, which started in February, is continuing, despite the recovery experienced in the capital markets, many customers have not yet resumed investments in the capital market.

For additional details, see the 2019 Annual Report (pp. 329-331).

Large businesses Segment (Domestic operations) - additional details

Reaching targets and business strategy – first nine months of 2020

The Bank has acted in accordance with the work plan from the corporate banking segment, while focusing on increasing risk adjusted return on risk assets and a customer-focused view. Among other things, the Bank acted to adjust its exposure in accordance with sectorial risk level evaluations, adjust the credit spreads to the risk level and to the reduction in exposure to activities involving a high level of risk.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

As of September 30, 2020, no deviations existed from the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as of September 30, 2020, there were no deviations from the limitations on "related persons". In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.

Review of the developments in the business sector in the first nine months of 2020

Economic activity during the first nine months of 2020 was dramatically affected by the Corona crisis and by the government’s measures to contain the spread of the virus. The effect of the First Lockdown’s restrictions was felt most significantly in the second quarter and the product contracted exceptionally. In the third quarter, a rapid growth was recorded, however, the level of the product was approx. 1.4% lower compared to the corresponding quarter last year. On September 18, 2020, on the eve of the Jewish New Year, the Second Lockdown was introduced, which included movement restrictions and the closure of non-essential workplaces. The total for the first nine months of 2020, compared to the total for the first nine months of 2019, shows that the product and the business product had fallen by 3% and 3.7%, respectively.

Following are the factors that impacted the development of the business product in the first nine months of 2020 (the total for the first nine months of 2020, compared to the corresponding period last year):

- Private consumption, which had served as a central growth generator in recent years, shrank by a steep rate of 10.1% (of which: private consumption of services, most significantly);
- Exports (excluding startups companies and diamonds) rose by 2.5%. Industrial exports expanded by approx. 5%, and exports of high-tech services grew at a high rate of approx. 11%. On the other hand, an unprecedented drop of approx. 68% was recorded in revenues from tourism, as a result of the restrictions on travel between countries;
- Investments in economic sectors (excluding ships and aircraft) recorded a steep decline of 6.9%, following a shrinking of investments in passenger cars (leasing) as well as a decrease in investments in machinery and equipment. It is noted, that investments in residential construction recorded a decline of approx. 10%;
- Public consumption (excluding defense imports) grew by 1.5%;
- The import of goods and services (excluding defense, ships, aircraft and diamond imports) shrank at a rate of 10.6%, Imports of services shrank steeply by 22.5%, compared to a drop of 4.8% in imports of civilian goods.

Developments in the debt of the business sector

The debt of the business sector (excluding banks and insurance companies) amounted at the end of August 2020[3] to NIS 963 billion, stability compared with the end of December 2019 (all the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).

Debt to banks recorded an increase of 3.2%, concurrently with a rise also in the debt to institutional entities and households (2% and 5.4%, respectively). On the other hand, debt to foreign residents declined sharply at the rate of approx. 13%. As a result of the above stated trends, the weight of the banks in the total debt of the business sector increased reaching at the end of August 2020, a level of 49.4% (compared to 47.9% at the end of 2019).

During the months January-September, the business segment, excluding banks and insurance companies, raised bonds in an amount of NIS 30.3 billion (on the Tel-Aviv Stock Exchange and by means of non-listed bonds), compared to NIS 25.5 billion in the corresponding period last year.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of September 2020 was 1.58%, compared with 1.03% at the end of 2019 and 1.26% at the end of September last year. It is noted that the plan of the Bank of Israel for the purchase of corporate bonds, introduced on July 6, has contributed to the increase in the volume of bonds issued on the primary market and to a decline in margins.

Developments in the Segments' Markets

On the background of the spreading of the second wave of the Corona virus and nearing an additional lockdown, which affects economic activity the world over generally, and in Israel in particular, the examination of developments in the different economic sectors, based on current indices that are being updated according to past data, does not provide a complete picture. We are in the midst of a vigorous and rolling event, within the framework of which, an across-the-board impairment of economic activity is expected, which will have an impact on activity in many sectors. Following is an estimate of the more vulnerable economic sectors.

Following are development directions in the principal economic sectors:

- The hotel, aviation and tourism sector – following a record high economic activity seen in this sector in 2019, activity was brought to a halt since the outbreak of the Corona crisis, when following the first wave, a relative recovery was recorded in the hotel sector. However, the slide to the second lockdown has caused and additional shutdown, so that these sectors continue to present weakness;
- The industrial sector – in the course of 2019 and even in the beginning of 2020, this sector continued the trend of long-term expansion, as reflected in the sector's production and export data. Since the outbreak of the Corona virus, this sector began to shrink, as expressed, inter alia, in the Purchasing Manager's Index, which remained for several months below the level (of 50 points) of between shrinking and expansion. Notwithstanding, an expansion in industrial activity is noticed in the months of August and September, when the central components of the Purchase Manager's Index changed into indicating expansion, in particular in the hi-tech sectors group;

3 The most updated data available at the time of submitting the report to print.

- The commercial sectors (including diamonds) - Until the outbreak of the Corona crisis this sector enjoyed the continued growth in the purchase power of the Israeli consumer, however, faced the growing competition and increase in volume of the online trading. Following the lifting of restrictions and the gradual return to business, a steep rise in activity ensued, though this was impaired once more with the growing second wave and renewal of restrictions on movement. Looking ahead, to the extent that the negative economic sentiment continues and that the rate of unemployment continues to remain at a high level, eroding the purchasing power of the Israeli consumer, impairment is expected in economic performance;
- Real estate sector – for details, see below under "Construction and real estate activity".

Anticipated Developments in the Segments' Markets

According to the growth forecast of the Bank of Israel of October 2020, the product is expected to shrink in the range of between 5% and 6.5% and is depended to a large extent on developments in the morbidity data and their effect on economic activity, including restrictions imposed by the Government. With respect to inflation, it remains in a negative territory according to a negative scenario (similarly to the previous forecast), while moving to a positive territory (0.3%) according to a scenario of controlled pandemic, though still below the Bank of Israel target.
The Bank of Israel interest rate continues remaining at its present level and even may be lowered to a rate of 0%, as long as the negative economic sentiment continues.

For details regarding the "Large businesses Segment", see the 2019 Annual Report (pp. 335-339).

Construction and Real Estate Activity

Developments in markets of the activity

Residential property. In the 12 months ended September 2020, the General House Price Index showed an increase of 2.4% while the 2 of the recent observations have indicated a very slight decrease of just 0.2% each, inter alia, due to the effects of the Corona crisis.
Notwithstanding the above, the basic data of the housing market remained unchanged – the continuing contraction on the supply side, as seen from the construction beginnings data, which continue to be at a low level compared with the annual addition to the number of households, alongside the continuing decline in the mortgage interest rate to a historical low and to the forecast of investors returning to the market due to the reduction in acquisition tax to a rate of 5%.
Income producing commercial real estate. The commercial property market has maintained stability in occupancy rates alongside the beginning of a minor reduction in rental prices, principally in the circle of cities around Tel Aviv. This concurrently with the continuation of the negative sentiment on the background of changes in consumption habits, and in particular due to the transition to online trading. The outbreak of the Corona crisis resulted in a sharp slowdown in activity together with a halt in rental payment by a part of the tenants, as expressed by impairment in value on the part of public companies relating to the reduction in cash flows expected in 2020, this without reflecting permanent impairment in value that may result from the crisis and all its implications.
Income producing office premises. Prior to the Corona, the office premises market has maintained stability, both in occupancy rates and in rental prices, backed-up by a growth in economic activity. Notwithstanding the above, in view of the correlation existing between the activity in the office premises sector and the activity in the economy, the negative economic developments have led to specific decreases in prices, mostly in the secondary circle (outside Tel Aviv) and in areas where the extent of construction creates high competition. In addition, a slowdown is noticed in the initiation of new projects on the background of uncertainty that may continue and lead to impairment in activity.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain sector, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector was 19.62% as of September 30, 2020, compared with 18.85% at the end of 2019.

Proper conduct of Banking Business Directive No. 315 in the matter of "limitation on sectorial indebtedness" was updated on January 12, 2020. The update allows a banking corporation to maintain the total indebtedness in respect of "real estate construction and manufacturing and trading in construction products" at 24% of total indebtedness of the public to the banking corporation, and this by a condition that the said total net indebtedness, of indebtedness in respect of the financing of projects jointly executed by the public and private segments, shall not exceed 20%. The amendment to the Directive takes effect on date of publication.

Relief in light of the Corona crisis. Proper Conduct of Banking Business Directive No. 250 was published on April 27, 2020, in which the rate of centralization in the real estate and construction sector was updated, net of indebtedness financing joint projects of the public sector with the private sector, to a rate of 22%. The Directive is to be in effect for a period of 24 months from date of expiry of the power of the Directive (namely, until the end of 24 months from September 30, 2020, or from a later date, if at all extended, in a period not exceeding 6 months).

In accordance with the update to Proper Conduct of Banking Business Directive No. 250 (Adjustments to the Directives of Proper Conduct of Banking Business in order to confront the Corona crisis [Provisional instructions]) dated September 22, 2020, Section 5(b)1 of Proper Conduct of Banking Business Directive No. 315 was, inter alia, amended. The Amendment states that the total indebtedness in respect of "real estate construction and the manufacturing and trading of building material", net of indebtedness financing projects involving collaboration of the public sector and the private sector, included in sector 42 "civil engineering work" – shall be 22%. This Amendment is in effect until March 31, 2021, on condition that the rate of indebtedness shall not exceed the rate at date of expiry of the Amendment or the rate of 20%, whichever is higher.

For additional details, see the 2019 Annual Report (pp. 339-341).

Financial Management Segment (Domestic operations) - additional details

Non-Financial Companies

Legislative restrictions, regulations and special constraints applicable to the sub-segment

As of September 30, 2020, there was no violation of the restriction on investment in non-financial corporations pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details, see the 2019 Annual Report (p. 346).

Investment of the Group in private investment funds, venture capital funds and corporations

Discount Capital is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of September 30, 2020, the net investments of Discount Capital in these corporations and funds amounted to approx. US$353.3 million. As of September 30, 2020, the maximum future commitment of Discount Capital for investment in these corporations and funds amounted to approx. US$225.6million.

Developments in the activity

New investments. In the first nine months of 2020, Discount Capital made direct investments in the amount of approx. US$45 million, and committed to invest an amount of approx. US$108 million in investment funds.

Encouragement of investments. At the end of the third quarter of 2020, the research committee of the Israel Innovation Authority approved Discount Capital’s application under the Authority’s benefit track 43 – “Encouragement of investments of institutional investment bodies in high-tech industries”. In accordance with the committee’s decision, Discount Capital has been granted 40% protection for an facility of up to NIS 225 million for investment in Israeli technological companies, in return for participation in profits at a rate of approx. 10%, all in accordance with the provisions of the benefit track and its procedures.

Realizations. In the first nine months of 2020, Discount Capital has recognized income in the total amount of approx. NIS 30.8 million in respect of realizations of investments, compared with NIS 69.5 million in the corresponding period last year.

For additional details, see the 2019 Annual Report (pp. 343-345).

International Operations Segment - Additional Details

Activity in view of the Corona crisis

IDB New York has implemented several measures intended to maintain business continuity and respond, to the extent possible, to the needs of its customers and employees, and support them in dealing with the crisis. IDB New York has granted customers mitigating possibilities, including deferral of loan principal and interest payments, and extended loans fully guaranteed by the Government, within the framework of the plan of the Small Businesses Agency for the protection of wages. This plan offers loans to businesses undertaking to continue and engage their employees, and which under certain circumstances would turn into grants. In addition, in view of existing circumstances, IDB New York has modified its operating model, including remote working, so that its services to customers continue undisturbed.

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.
On September 30, 2020, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.71% of total risk assets, as compared with 15.09% on December 31, 2019. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group.
The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.
U.S. legislation. During the first quarter of 2020, the total assets of IDB New York exceeded the US$10 billion. Subsequently, different regulatory requirements are expected to apply in continuation, to IDB New York, to which IDB New York is preparing accordingly. The application of the regulations, their scope and content, would, inter alia, be affected by the amount of total assets continuing to stay over a period over and above the said threshold. Inter alia, different regulations are expected to apply with respect to activity in derivatives and to the methodology of computing deposit insurance. Furthermore, and in accordance with the above stated, the activity of IDB New York would be subject to the supervision of the Consumer Financial Protection Bureau, the authority of which relates to compliance with different regulations intended for the protection of customers.

For additional details, see the 2019 Annual Report (pp. 346-348).

Additional Segments

For additional details regarding the Small and minute businesses segment (Domestic operations), see the 2019 Annual Report (pp. 331-333). For additional details regarding the Medium businesses segment (Domestic operations), see the 2019 Annual Report (pp. 334-335). For additional details regarding the Institutional bodies segment (Domestic operations), see the 2019 Annual Report (pp. 341).

Credit Card Operations

Developments in operations

The activity of ICC in view of the Corona crisis. The Board of Directors of ICC and its committees held frequent meetings in recent months dealing with the spreading of the Corona virus and its implications on ICC as regards different aspects, including the business continuity of the activity of the company, its preparation for different scenarios as well as preparation for "the day after". Furthermore, With the outbreak of the crisis, Management of the company directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the company's President & CEO, managed the different segments of the company's operations under the crisis, following developments closely and adopting measures to reduce the different risks and maintaining business continuity. The business divisions increased their monitoring and control operations over the condition of the credit portfolio of the company.
Joint distribution agreement with El-Al Company. For details, see Note 17 c to the condensed financial statements.

Support agreements with Visa Europe Limited. In February 2020, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC. This agreement has been signed following the announcement of VISA Europe regarding the increase in commission tariffs payable to it. ICC estimates that, the anticipated effect of the support agreement, on the one hand, and the raising of the VISA rates, on the other hand, is not expected to be material. This estimate may change in case the volume of operation under the "VISA" brand would be materially different from its volume at date of signing the agreement.

Agreement for the clearing of Isracard transactions. For details regarding the extension of the agreement, see Note 17 A (2) to the condensed financial statements.

Agreement with Apple. On September 8, 2020, ICC and Apple Distribution International Ltd. ("Apple") signed an engagement agreement, according to which Apple will allow holders of ICC cards the use of the payment platform "Apple Pay". The payment platform Apple Pay is intended for the use by ICC customers using the variety of Apple devices based on the IOS operating system of Apple. The Apple Pay payment platform serves for credit card based transactions, both in the physical world by means of contactless supporting EMV smart terminals, and in the online world in applications and in different websites. The agreement defines the commercial terms for the engagement between the parties, including the commission fee to which Apple would be entitled.

Technological improvements and innovation at ICC

In May 2020, ICC introduced a new application, which enables an improved user experience with an easy and intuitive interface, while widening the information regarding use of the card and the possibilities for the different operations that may be transacted by the user.

ICC introduced in the third quarter a contactless payment service, which enables payment at trading houses having a smart payment infrastructure (EMV), by means of the mobile phone in a secured manner and with no need for entering a secret code.

For additional details see the 2019 Annual Report (pp. 348-354).

Technological improvements and innovation

General. The Bank acts constantly over the years to provide its customers with a selection of transactions and information on the digital channels while maintaining an optimal customer experience.

The Corona crisis, that erupted at the end of the first quarter, increased the importance of the activity on the digital channels, that allow receiving extensive information and transacting a wide selection of banking operations in an independent, simple, convenient and also secured way, which may be conducted by the customer from his home.

The contents of the marketing website have been updated in accordance with the need for changes in the preparations of the Bank, adapting the guidelines for the easy management of the bank account also from the home, for deferment of mortgage payments or for a loan application, this in accordance with both private and business customer needs.

At the business development and work plans levels, new and existing processes have been added and improved in order to facilitate customer banking operations in these times. At the same time, the Bank emphasized the attachment of new customers to the digital.

Expanding the open banking services. Within the framework of the Bank's activity regarding expansion of the open banking services, two fintech companies that operate in the field of cash flow management have signed agreements for joining the open banking platform of Discount Bank, viz: RiseUp Moments Ltd., which offers service to private customers, and Amir CashFlow Ltd., which offers service to small and medium businesses.

The Bank has defined the open banking field as a strategic field, embedded in which is the opportunity for creating financial solutions, new products and services that create value for customers.

The connection of these companies with Discount Bank will allow Discount customers who join these services to connect their account, in a secured manner, with no need for a user name and a pass code (as would be required from customers of all other banks). Introduction of the service is subject to technical adjustments.

The connection created with the said companies is particularly relevant in the present period, in view of the Corona crisis, which increased the need of customers for a smart cash flow management. RiseUp assists customers in economic growth through an effective management of the monthly cash flow. The service is provided by means of the WhatsApp application, allowing users to make decisions in real time in order to "overcome the overdraft" and carry on in a correct economic manner.

The Amir CashFlow Company specializes in development of solutions for the integration of cash flow systems for small and medium businesses. The company presents in its systems banking data and accounting data produced by leading accounting systems using a convenient interface, thus assisting these businesses to conduct their business in a smart manner.

Direct channels

The following innovations and updates took place during the current activity in the second quarter of 2020:

Current accounts and foreign currency

Ordering balance confirmations. A service has been added that enables a report confirming end of period balances to be ordered (monthly, quarterly, half yearly, annually). The customer can order a one-time report or can register to receive a report at set intervals. The report will be sent to the customer's postal address (by Discount's postal service or by the Israel Postal Company). This applies to the private individuals' website and the Business+ website.

Displaying reasons for a check's return. In addition to a private individuals' website, it is possible to view on the private individuals' application, in the recent transactions screen, in the current account movements extension, the reason for the check's return. In addition, and within the framework of improving the customer experience in all matters relating to the reasons for a check's return/cancellation of a check's deposit, the information has been enhanced and made accessible to customers. Henceforth, the notice to the customer will include a reference to a new page on the marketing website which will simply and clearly set out the reasons for the return/cancellation of the check, as well as providing a short explanation of what can be done.

Deposits

Launch of "Smart Save" – automatic, smart and customer customized savings. This is a new service, based on the artificial intelligence (AI) technology of the fintech company, Personetics, which carries out a daily analysis of the customer's financial conduct and, using advanced forecasting models, identifies available account balances and transfers them directly to savings, without the customers' accounts ever going into debit. The service is also intended to assist customers, who do not save on their own initiative, to improve their financial position, generally and in particular during this challenging period, with this all being done transparently and without any effort on the part of the customer. The customers receive a notification of the amount transferred to savings and can freeze or cease the service at any time, directly via the Bank's application.

Updating a deposits' standing order. An option has been added to update the amount and/or the deposit date on a standing order for a deposit. This applies to the private individuals' website and to the Business+ website, as well as to the private individuals' application through a transfer to the appropriate website without need for further identification.

Partial withdrawal from deposits. An option has been added to make it possible to make a partial/premature withdrawal from a key savings deposit, the automatic savings service ("Smart Save") and new deposits by standing orders (in accordance with the product's terms). This applies to the private individuals' application and Business+ application and to the private individuals' website and Business+ website.

Securities, capital market

Purchase of mutual funds by standing order. An option has been added to the private individuals' application for purchasing mutual funds by standing order. The customer is transferred to the appropriate website without need for further identification.
Improvements and additional changes in securities activity on the websites and applications.

Credit cards

Resetting the credit card PIN. An option has been added also to the Business + application for resetting the credit card PIN. This action is done through a transfer to the credit card company's screen for resetting the PIN.

Freezing a credit card. An option has been added for freezing a credit card or service cards. The freeze is for a 48-hour period, necessitated by the card's loss, or for up to 14 days, due to another reason. The freeze can be canceled during the freeze period. At the end of the freeze period, the card will be unfrozen or canceled (depending on the type of card and the issuer). This applies to the private individuals' website, the businesses+ website, the private individuals' application and Business+ application.

Credit

Transfer to credit application in the loan process. In a situation where the process of taking a loan is stopped by the customer, the customer receives a notice that allows him to go to the credit application process. The loan amount that the customer enters in the loan-taking process is automatically entered into the credit application document. The customer will be able to edit the amount and also enter additional details. This applies to the private individuals' application.

Customer experience

Listening to customers of the application and improving. A new zone has been added to the main menu of the private individuals' application, on which customers can provide the Bank with feedback regarding the application and can submit suggestions for improving it and making it more effective.
Customer insights. Insights into the customer's account, with emphasis on the creation of added value for customers, have been redesigned and given pride of place on the homepage of the private individuals' application.
Training videos. In order to expose the customers to information and transactions that can be easily and conveniently conducted over the digital channels, a new page has been set up on which there are training videos on a variety of topics (for example: how to set up a meeting with a banker, how to deposit a check with the application, how to withdraw money from a deposit, and so forth). These are short videos, of the "how to" kind, which appear on the Bank's YouTube channel. This applies to the private individuals' application.
Entry screen and password. A graphic indication appears on setting a new password: in the "I've forgotten my password" process; when choosing a new password, the customer will see the expression (x/v) against each guidance line, showing whether the password entered conforms with the guidelines.
Concurrently, a prominent error notice has been added for the customer when he is not in compliance with the guidance, together with an explanation regarding which of the guidelines he has failed to comply with. This applies to the private individuals' application.
Indication for the customer regarding a pending notice from a banker. Henceforth, when a customer has a pending notice from a banker, in addition to the "push" notice that is sent to the device, an indication will be displayed at the relevant locations on the private individuals' application.

Digital for business

Future and recurring transfers. An option has been added for setting up a recurring transfer (standing order) on the Business+ website and on the Business+ application. The making of the transfers is supported by the signatures composition in accordance with the existing legality (WF). In addition, an option has been added for viewing the instructions for making future and recurring transfers – standing orders (orders that have not yet been executed) on the Business+ application. Concurrently, an option has been added for canceling a recurring transfer also on the Business+ application. This action is performed through transfer to the appropriate website without need for further identification.
RTGS transfers with a banker's approval. When executing an RTGS transfer, which exceeds the balance for executing transactions or is in excess of the monthly transfers amount, the request is sent to a banker at the branch for execution. This applies to the Business+ website.
Uploading documents – foreign trade. An option has been added for uploading documents with documentary credit instructions. This applies to the Business+ website.
Out-of-date check indication. Henceforth, the check query will also display out-of-date checks. This applies to the Business+ application.

Main developments in the Israeli economy and around the world in the first nine months of 2020

Developments in the Global economy

General. The global economy was adversely affected by the outbreak of the Corona virus, recording a sharp cutback in the first half of the year. The return to business following the shutdown has led to a speedy recovery in activity, following an expansionary fiscal and monetary policy in an unprecedented scope. The International Monetary Fund has updated upwards the forecast and is expecting a cutback of 4.4% in the global economy in 2020 (as compared to -5.2% in the forecast of June). Notwithstanding the above, moderation was recorded in recent weeks in the recovery pace, in view of renewed outbreak of the virus in many countries around the world and the high unemployment rate.
Growth in the US and in the Eurozone during the third quarter was faster than expected, 33.1% and 61%, respectively (in annualized terms), on the background of the opening of the economy and the steep shrinking of the activity in the second quarter. Despite the fast expansion, the level of economic activity was lower by approx. 4% than the level at the end of 2019.
The inflation rate in the world is low, being distant from the targeted rates of the central banks. The central banks signal an expansionary policy for a long period of time. In order to signal to the markets that it has no intention of raising the interest rate in the near future, the FED updated in September the future guideline, according to which the interest rate would not rise so long as the average inflation rate does not exceed 2%.

Financial markets. Share indices around the world suffered a jolt at the beginning of the crisis, though these started to recover towards the end of March on the background of the measures taken by central banks and governments. In total for the first nine months of the year, most of the leading indices recorded a relatively moderate decline in rates. Favorably prominent were the US share indices showing a positive return since the beginning of the year.

The changes in selected share indices recorded in the first nine months of the years 2019 and 2020

Index	2020	2019
500 S&P	4.1%	18.7%
DAX	(3.7%)	17.7%
MSCI Emerging Markets	(2.9%)	3.6%

In the first weeks of the crisis, trading in government bonds had been very highly volatile. However, following the massive intervention by the central banks, volatility was significantly reduced, and returns stabilized at a low level. At the end of the third quarter, US government bonds for ten years were traded at 0.68%, compared with 1.92% at the end of 2019. In Germany, the return for ten years was traded at the end of the period at a negative level of -0.52%.

The returns on government bonds

Return on bonds for 10 years	September 30, 2020	December 31, 2019
U.S.A.	0.7%	1.9%
Germany	(0.52%)	(0.19%)

During March, against the background of the steep declines in the markets and the dollar's difficult liquidity situation, the foreign currency market saw exceptional volatility, which supported the strengthening of the US dollar in the first quarter. Beginning with the second quarter, the trend overturned and the US dollar weakened on the background of the positive sentiment in the markets and the cutback in the real return differentials between the US and the developed countries. In conclusion for the first nine months the dollar basket (the "dollar index") depreciated by 2.6%.

Changes in the U.S. dollar against selected currencies in the first nine months of the years 2019 and 2020

Exchange rate	2020	2019
EUR	(4.2%)	5.0%
JPY	(2.8%)	(1.4%)
GBP	2.7%	3.7%

As a result of the crisis and the shutdown of global activity, commodity prices around the world decreased steeply in the first quarter. The price of oil led this negative trend with a drop of tens of percent. Beginning with the second quarter, recovery was recorded in commodity prices on the background of the gradual global return to activity and expectations for recovery in demands. The increase in oil prices ceased in the course of the third quarter, being stabilized at a significantly low level in relation to the beginning of the year. The status of gold as a secure and liquid asset, together with an expansionary fiscal and monetary policy in a significant scope, supported the steep increase in its price in the first nine months of the year.

Changes in selected commodities indexes in the first nine months of the years 2019 and 2020

	2020	2019
The commodities index - GSCI	(19.7%)	7.8%
The oil price (BRENT)	(38.0%)	13.0%
The oil price (WTI)	(34.1%)	19.1%
Gold	24.6%	14.7%

Main Developments in the Israeli Economy

General

Economic activity in Israel shrank at an unprecedented rate in the first half of the year, as a result of the corona crisis and the government's measures to curtail the spread of the virus ("the First Lockdown"). Following the First Lockdown, the economy commenced a gradual recovery process. In fact, CBS data indicated strong growth of approx. 38% in the third quarter (in annualized terms), following the drop in the product in the second quarter. Nevertheless, the product in the third quarter was approx. 1.4% lower compared to the corresponding period last year. Among the uses the product, the most downside noteworthy were investments and private consumption (in a significant extent, the private consumption of services), which fell by approx. 10% (as stated, compared with the corresponding quarter last year). It should be noted that, as a result of the rise in morbidity, a further lockdown ("the Second Lockdown") was imposed for the month of the High Holy days and Tabernacles, and the recovery halted in the second half of September.

The labor market suffered an unprecedented shock right at the beginning of the crisis. Immediately prior to the Second Lockdown, labor market data was showing a slight improvement, but the restrictions that have been imposed have set employment in the economy back several months. In accordance with data of the Central Bureau of Statistics ("CBS"), the wide unemployment rate, which includes employees on unpaid leave due to the Corona, and those who had given up looking for work in view of the crisis, amounted in the second half of September to 19.1%, compared to an average of approx. 12% in the months June-August (and 3.5% immediately prior to the crisis).

Developments in economic sectors

The severity of the damage caused by the crisis is not uniform across the various economic sectors, and it is particularly harsh for sectors directly affected by the restrictions on activity and by the social distancing measures, such as tourism, hospitality, food, and entertainment. The damage is relatively moderate for sectors that have managed to adapt to the corona restrictions (by means of online sales and working from home, for instance). The high-tech service sectors have managed to maintain their strength.

Developments in foreign activities of the Israeli economy

In the months January to August 2020 direct investments in Israel (through banks) by foreign residents amounted to US$6.6 billion, compared to US$7.2 billion in the first nine months of 2019. Financial investments by foreign residents in Israeli financial assets (shares and government bonds) traded abroad increased by US$9.3 billion, compared to a decline of approx. US$0.2 billion in the first nine months of 2019. It should be noted that growth is mainly attributable to increased investment in government bonds. The financial investments of foreign residents on the Tel-Aviv Stock Exchange in the reviewed period recorded an increase of US$ 4.5 billion (due to growth in government bonds and short-term loans of US$ 5 billion), compared to net realizations of US$ 0.9 billion in the first nine months of 2019.

Financial investments by Israeli residents in marketable securities abroad amounted in the months January to August 2020 to US$12.4 billion, compared to US$5.4 billion in the first nine months of 2019. A growth of US$10.1 billion was recorded in shares, and in bonds an increase of US$ 2.3 billion.

The changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-August 2020	January-September 2019
	US$ million	
Total direct investments through banks	6,556	7,152
Total financial investments	13,733	(1,121)
Of which: Government bonds and MAKAM	16,186	1,259
Shares	(5,964)	(2,980)

Investments abroad by Israeli residents	January-August 2020	January-September 2019
	US$ million	
Total direct investments	964	1,708
Total financial investments	12,415	5,435

Developments in inflation and foreign exchange rates

The decline in the inflationary environment, which had already begun prior to the crisis, has increase in the wake thereof. The annual inflation and the "core inflation" (excluding energy, fruit and vegetables) are found in a negative territory, and in September amounted to -0.7% and -0.4%, respectively. The inflationary forecasts for the coming year are significantly lower than the lower limit of the price stability target. Inflation contracts for one year were traded towards the end of September at a negative level of 0.15%.
In March, the shekel devalued at a very steep rate on the background of the sharp decline in the markets and the dollar liquidity distress. Following this, the Bank of Israel provided liquidity to the market, volatility decreased and the shekel gained strength again. The trend of the shekel's appreciation, which also continued in the subsequent months, has led the Bank of Israel to again purchase foreign currency. Overall, for the first nine months of the year, the shekel appreciated by 1.8% in terms of the effective exchange rate. Against the dollar, the shekel appreciated by 0.4%.

Fiscal and monetary policy

Fiscal policy. A deficit of NIS 102.4 billion was measured in the first nine months of the year in the budgetary activity of the Government, compared to a deficit of NIS 31.1 billion in the corresponding period last year. The cumulative deficit for the twelve months ended in September 2020, amounted to 9.1% of the GDP. The corona crisis is having a dramatic effect on both the expenditure side and the income side.
Monetary policy. The Bank of Israel is following a very expansionary policy and has emphasized that it may boost this should it prove necessary. The central bank is determined to keep interest rates low for households, businesses and the government. To this end, it is activating several programs on the financial markets, the most noteworthy of which is a program for the purchase of government bonds. It should be noted that, at the interest decision of October 22, the Bank of Israel announced a further NIS 35 billion increase in the purchase program (bringing it to a total of NIS 85 billion). Concurrently, a new tier was launched in the plan to ease credit terms for small and minute businesses, within the framework of which, it will provide loans to the banks at negative interest of 0.1%, as against credit to small and medium businesses at low interest (up to prime +1.3%).
Change in the monetary base. A steep increase was recorded in March 2020 in the M1 money supply (cash held by the public and shekel current account deposits), at the rate of approx. 11% (compared to that of February 2020). The growth continued also in the second and third quarters, so that in total for the first nine months of 2020 the money supply increased by approx. 21%. Of this, current account deposits grew by 21.1% and cash grew by 18.9%. In the corresponding period last year, the M1 money supply grew by 5.7%. Concurrently, a steep increase was recorded in non-linked deposits of up to one year, so that the M2 money supply (M1 with the addition of non-linked deposits of up to one year) also reflects a two-digit growth (a growth of 19.1% as of the end of August).
The monetary base recorded a steep growth of NIS 24.2 billion in the first nine months of 2020, compared to a growth of NIS 4.6 billion in the corresponding period last year. During the reviewed period, the supply of cash by the Government amounted to NIS 7.4 billion. The Bank of Israel provided liquidity by means of purchase of foreign currency, monetary loans to banks and open market operations (including purchase of government bonds and a significant reduction in the volume of short-term loan ("MAKAM") issues). On the other hand, it neutralized a part of the money supply (Government and Bank of Israel) by means of a significant increase, in an unprecedented volume, of shekel deposit tenders.

Sources for the change in the monetary base

	January-September	
	2020	2019
	In NIS billion	
Operations on the Capital Market	66.3	(10.7)
The Shekel deposits tender	(112.0)	29.0
Foreign currency conversion	49.8	0.3
Government activity	7.4	(14.2)

Capital market

The Tel-Aviv Stock Exchange's equity indices have lagged behind global equity indices. In conclusion for the first nine months of the year, the TA-125 Index has fallen by 16.8%.

The changes recorded in selected share indices in the first nine months of 2019 and 2020

	Change during the first nine months of the year	
Index	2020	2019
TA 35	(22.3%)	10.4%
TA 125	(16.8%)	15.0%
TA banks	(35.9%)	21.0%
TA Global-Blutech	22.7%	13.9%
Real-estate 15	(32.3%)	56.2%

At the beginning of the year, trading in government bonds in Israel was marked by a decline in returns, however, with the intensification of the crisis, the trend has turned around and returns on bonds increased sharply. The sharp rise in returns led the Bank of Israel to introduce in March a plan for the purchase on the secondary market of government bonds in the volume of NIS 50 billion (as stated, this program was increased to NIS 85 billion). The purchase plan of the Bank of Israel has significantly decreased returns. The return on a ten-year shekel bond (government-shekel 0330) amounted at the end of the third quarter to 0.71%, compared to 1.07% at the end of March and 0.96% at the end of 2019.

The changes recorded in selected bond indices in the first nine months of 2019 and 2020

	Change during the first nine months of the year	
Index	2020	2019
General bonds	(0.6%)	7.7%
General Government bonds	0.7%	8.1%
Shekel Government bonds	1.5%	7.3%
Linked Government bonds	(0.5%)	9.3%
General Corporate bonds	(2.3%)	7.1%
Linked Corporate bonds	(3.3%)	7.5%
Shekel Tel-Bond	(2.1%)	7.2%

A steep rise in margins was recorded on the corporate bond market towards the end of February, which stopped following the announcement regarding the Bank of Israel involvement in the bond market and the halt in the trend of withdrawal from mutual funds. Notwithstanding the above, during the month of June, corporate bond margins resumed spreading again, and the Bank of Israel announced (on July 6) the launch of a program for the purchase of corporate bonds on the secondary market. This measure has contributed to a fall in margins, even though these are still at a higher level than immediately prior to the crisis.

In the first nine months of 2020, the raising of funds through issue of corporate bonds of Israeli corporations amounted to NIS 41.1 billion, of which an amount of NIS 30.3 billion excluding banks, insurance and finance. This, as compared to NIS 45 billion and NIS 25.5 billion, respectively, in the first nine months of 2019. It should be noted that the Bank of Israel's corporate bonds purchase program has contributed to a rise in the scope of bond raisings on the primary market, particularly by non-financial companies.

The asset portfolio held by the public

The value of the portfolio of financial assets held by the public rose by 2.0% during the months of January-August 2020 and amounted to NIS 4.2 trillion at the end of August. The rise was due to steep growth in the overseas equities component (12.5%), as well as to growth in the foreign currency linked component and the non-linked component (8.2% and 6.4%, respectively). On the other hand, Israeli equities component recorded a steep decline (-13.7%), with a further drop in the CPI-linked component (-1.1%).

The distribution of the asset portfolio held by the public

	August 31, 2020	December 31, 2019
Shares	23.0%	24.4%
Non-linked assets	38.0%	36.5%
CPI linked assets	27.3%	28.1%
Foreign currency linked assets	11.7%	11.0%

Principal economic developments in October and November 2020[4]

The global spreading of the Corona virus clouds recovery and is expected to adversely affect the product in the last quarter. The announcements by two leading companies (Pfizer and Moderna) regarding progress in developing a vaccine that has an efficacy rate of 90% and higher have supported optimism in the markets. The equity and commodity indices have risen, as have yields of government bonds. The return on US government bonds for ten years was traded at the end of the period at a level of 0.88% (as stated, 0.68% at the end of September).
The FED maintained its policy unchanged, and continued to call the Administration for an additional fiscal expansion. The election results in the US are expected to lead to an additional fiscal expansion, though of a more reduced scope.
In Israel, current indicators point at an increase in economic activity with the beginning of reliefs from the lockdown. Notwithstanding, the pace of recovery is limited, following the restrictions imposed on different sectors of the economy and the outline for the gradual exit from the lockdown. In the second half of October, the rate of unemployment stood at a high level of 18%. The budget deficit reached in October a rate of 10.1% of the product (aggregate in the last 12 months). S&P rating agency has ratified the credit rating of the State of Israel at the level of "-AA", leaving the rating outlook at "Stable".
Returns on government bonds in Israel were traded showing an upward trend with an increase in the gradient of the graph. The return on shekel bonds for ten years (government-shekel bonds 0330) amounted at the end of the period to 0.79%. Inflation forecasts have risen and one-year index contracts were being traded at the end of the period at 0.1%.

Legislation and Supervision

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

Regulation in the wake of the Corona crisis

Against the background of the spread of the Corona virus, various measures have been taken by the government and by the various supervisory authorities to cope with its implications and to support economic activity.
Special Authority for Confronting the New Corona Virus Act (Provisional instruction), 2020, Special Authority for Confronting the New Corona Virus Regulations (Provisional instruction) (restriction on operations and additional instructions), 2020, Special Authority for Confronting the New Corona Virus Regulations (Provisional instruction) (Restrictions on activity at workplaces), 2020 and Public Health Order (Novel Corona virus) (Home Isolation and Various Directives) (Temporary Provision), 2020. Various aspects regarding the business conduct in the special situation were regulated, including how to employ employees at the bank and receiving a crowd.
Online registration of pledges. On April 13, 2020, a procedure was implemented for the registration/change of pledge details with the Registrar of Companies via email. This arranges for the registration of pledges and their updating in light of the difficulties created in obtaining original documents during this period. In addition, the Real Estate Regulations (Administration and Registration) (Temporary Provision), 2020 were published on April 2, 2020; these regulations prescribe different ways for the online registration of a mortgage.
Remote payments for a new apartment. On April 23, 2020, the position of the Sale Law Commissioner was published, which sets out the various terms and conditions regarding this matter.
Emergency Regulations (Novel Corona virus) (Accessibility of Financial Services), 2020. Within the framework of the regulations promulgated on April 7, 2020, which took effect retroactively from March 15, 2020, the Executions Law was amended, whereby the restrictions imposed on a debtor in relation to use of a charge card will not be imposed on an immediate debit card, even in the case of an account not having a credit balance. Additionally, the Charge Cards Law was amended, in the framework of which, the section dealing with criminal liability was amended, whereby it will be applied with regard to charging a customer with a payment for a transaction that was performed using a charge

4 All data relate to the period from October 1, 2020 and until November 20, 2020.

card without the customer's consent, and additionally the arrangement prescribed in relation to signing a charge card contract was also amended. An Act was passed on August 20, 2020, which extends the arrangements determined in the Emergency Regulations.

Draft Insolvency and Economic Recovery Act (Amendment No. 4) (Stay of proceedings in order to form and approve a debt arrangement) (Provisional Instruction – the new Corona virus), 2020. The draft was published on July 16, 2020, designed to allow borrowers, private individuals and corporations, to obtain a Stay of Execution Order for a limited period of three months.

Banking Order (Customer service) (Supervision over immediate debit card service fees, attorney warning letter, and a transaction conducted by a call center operator) (Provisional instruction), 2020. The Order was published on September 13, 2020, the essence of which is the declaration of the following services as supervised services with respect to private and small business customers and limiting the charge of commission in respect thereof: immediate debit card service fees, attorney warning letter, and transactions conducted by a call center operator. The Order applies as from October 13, 2020, and until April 13, 2021.

Income Tax Regulations (Application of the FATCA Agreement) (Provisional instructions), 2020, and the Income Tax Regulations (Application of a uniform standard for reporting and examining the fairness of data regarding financial accounts) (Provisional instruction), 2020. Amendments to the Regulations were approved on October 21, 2020, extending the dates for reporting to the Tax Authority by financial institutions in according with the Regulations, this in view of the continuation of the Corona crisis. The provisional instructions are in effect until December 31, 2020.

Debt Execution Act (The new Corona virus – Amendment No. 68 and provisional instruction), 2020. An Amendment to the Act was published on September 24, which includes a line of mitigating provisions available to a debtor following the confrontation with the Corona virus. The Amendment includes, inter alia, the extension of the warning period prior to instituting collection proceedings, extension of the dates for submitting an objection to the debt, and extension of the dates for opening a debt execution file regarding the realization of a pledge. The use of foreclosure of chattels has been limited, and the Registrar has been granted the authority to reduce the interest added to the debt in the case of a debtor who abides by the repayments decided in his case.

Directives of the Supervisor of Banks in the wake of the Corona crisis

Since the outbreak of the crisis, the Supervisor of Banks has initiated various regulatory measures aimed at enabling the banking system to fulfill its role during the period of the crisis and thereafter. These measures have been accompanied by additional government steps taken to support economic activity during this period.

Inter alia, the following measures should be mentioned:

Temporary directives dealing with the limitation of face-to-face services during the crisis, while providing banking services in a way not requiring having to be physical present at the branch. These include, the Supervisor of Banks having ordered to reduce temporarily the number of branches open to business and the services available therein, as well as the easing of various requirements, such as the requirements that need to be fulfilled when providing telephone service, when performing transactions by telephone or by digital means, and when joining channels by telephone. Also received was the guideline by the Supervisor of Banks, allowing distant transactions also as regards populations in respect of which certain limitations exist, such as: bankrupt customers, customers under insolvency proceedings, custodians and persons in respect of whom custodians had been appointed.

Temporary directives intended to enable the banking system to support the credit needs of the economy and to assist households and businesses to cope with the effects of the crisis. These include, the easing of the capital adequacy requirements (see above "Capital and the Capital Adequacy"), relieving various restrictions applying to the grant of housing loans (see above "Mortgage Activity") and to the way that customers' credit irregularities are handled. Additionally, various reliefs were provided, such as in relation to the possibility of the Bank increasing credit facilities on the current accounts of its customers, and the provisions of Proper Conduct of Banking Business Directive No. 329, which deals with "any purpose" loans secured by a pledge on housing, have been amended (see above "Mortgage Activity") and a voluntary outline for the deferral of repayments of mortgages and loans, in order to support the credit needs of households and of small and medium businesses. In addition, on March 22, 2020, the Emergency Regulations (Checks Without Cover), 2020 were promulgated and, on March 23, 2020, the guidelines of the Supervisor of Banks were published under the powers granted to her by these regulations, which in accordance therewith postpone placing a restriction on an account and its owner due to checks being refused as a result of an account having insufficient funds, for a limited period, taking effect from March 4, 2020. Permanent Regulations were published on June 17, 2020, in the matter of the permanent deduction of checks dishonored due to lack of funds, in the period from March 4, 2020 until June 22, 2020, from the number of dishonored checks for the purpose of imposing limitations on an account. The Dishonored Checks Regulations (Limitation on the application of the Act due to the continuing Corona crisis), 2020, were approved on August 25, 2020, relating to the period from June 23, 2020 and until August 10, 2020.

On September 29, 2020, the Bank of Israel announced that the banking system would extend and expand once more the outline for the deferral of loan repayments until the end of 2020. On October 21, 2020, a clarification from the Supervisor of Banks was received, regarding the required disclosure to customers, in accordance with the provisions of the Fair Credit Act, 1993, and of Proper Conduct of Banking Business Directive No. 449, with respect to the simplification of agreements upon the deferral of repayments, as stated. The Supervisor clarified, that in view of the duty of disclosure to customers of the data of the change, the actual cost and the amount of interest that would be charged, it is required to complete as soon as possible the preparations for providing the said data in advance, to the extent that the preparations by the banks to provide the data had not been completed. Further guidelines were provided in respect of the disclosure required until the completion of the said preparations.

Directives dealing with supporting the ongoing operations of the banking system during the crisis. Proper Conduct of Banking Business Directive No. 301, which deals with the board of directors, has been amended, so inter alia, it has been prescribed that meetings of the board of directors that are held via means of communication are to be considered as meetings held with the physical presence of the directors for the purpose of compliance with the participation obligation prescribed by law. In addition, the discretion of the chairman of the board of directors has been extended with regard to the date and frequency of discussions conducted by the board of directors and its committees on the topics specified in this and other directives. Additionally, extensions of been granted in relation to various dates for executing obligations pursuant to supervisory directives (such as, in responding to public complaints, in closing accounts, etc.).

Reliefs in the duty to report to the Banking Supervision Department that are intended to enable the banking system to function at a lower manpower level, alongside specific reporting requirements aimed at providing the Banking Supervision Department with the tools needed to monitor the state of the economy. On March 31, 2020, a temporary directive was issued on the subject of various temporary reliefs in reporting to the Banking Supervision Department (by freezing the reporting, deferral of reporting dates, etc.). In continuation, the reliefs were updated and extended.

Deferring the dates on which various directives are to take effect so as to allow the financial system to focus on handling the crisis. The dates on which the various stages of the Proper Conduct of Banking Business Directive, dealing with API open banking (see the 2019 annual report, p. 375 and hereunder), are to take effect have been deferred for three months.

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The second half yearly report of the Committee for the Examination of Competition in the Credit Market. On April 7, 2020, the report, which was prepared prior to the implications of the Corona crisis being known, was published. According to the report, significant progress has been made in removing the barriers to competition and in recent years certain pro-competition indicators have been noted in the consumer credit market. The report contains reference to a test in respect of Discount Bank and ICC. The test will finally be carried out only in 2020 and, in any case, it will only serve as an indication for the Committee, which can exercise its judgment in reaching its decision on this topic.

The Economic Plan Act (Legislative Amendments to Implement the Economic Policy for the 2019 Budget Year), 2018. Indirect amendment of the Banking Act (Customer Service). As a result of the Corona crisis, on April 2, 2020, a draft of the Economic Plan Regulations (Legislative Amendments to Implement the Economic Policy for the 2019 Budget Year) (Deferral of the Date for Chapter 2 to Take Effect), 2020 was published, within the framework of which, it was proposed to defer the date on which the Act will take effect by six months (until September 22, 2021).

Establishment of a digital bank in Israel

On March 8, 2020, Proper Conduct of Banking Business Directive No. 480, which deals with adjustments to the Proper Conduct of Banking Business Directives applicable to a new bank and to a banking corporation in the process of being established, was published. The Directive prescribes the adjustments and exemptions from existing Proper Conduct of Banking Business Directives with the aim of aligning regulation with the level of risk to which a new banking corporation or a banking corporation in the process of being established, which meets the terms and conditions specified in the directive, is exposed.

Legislation and Standards in the matter of Debt Collection

Draft of the Debt Execution Regulations (Amendment No. ___), 2020. The draft was distributed in February 2020 and relates to the disposal of assets, the rights in which are registered with the Land Registry Office and have been pledged by their owner in favor of the bank. According to the draft, an execution case can be opened only if the asset is registered in the name of the pledger. Additionally, disposal proceedings can be opened only if the details of the registered owner of the property are complete. Where identification details are missing, the Registrar of Executions is required to apply to the Land Registrar to ensure that full identification has been arranged. These amendments are expected to have an effect on the Bank's disposal proceedings.

Operation of the debt execution system during the special state of emergency. In accordance with the guidelines of the Execution Office, cases can be opened and various applications submitted online at the Execution Office, until the end of the special state of emergency or until further notice.

Bounced Checks Act (Amendment No. 14), 2020. The Amendment was published in the Official Gazette on August 18, 2020. The essence of the Amendment is the duty imposed on a banking corporation to warn a customer that a check drawn on his account is due to be bounced giving him time to deposit sufficient funds to cover the check. The Amendment takes effect following one year from publication date.

Amendment of Proper Conduct of Banking Business Directive No. 450 – Debt collection proceedings. The Amendment to the Directive was published on October 1, 2020. It includes, inter alia, the duty to publish on the bank's website the details of communication with the debt collection function, as well as the duty to disclose notices of arrears in connection with the reporting to the data base under the Credit Data Act.

Economic Competition

Exemption from approval of a restrictive arrangement in connection with a holding and joint activity within the framework of BCC. The Competition Commissioner issued on June 18, 2020, his decision regarding a conditional exemption from a restrictive arrangement between Bank Clearing Center Ltd. (BCC) and the banks. The exemption would be valid for a period of five years since date of publication. The exemption allows a provider of payment services to join BCC as a participant, subject to the terms detailed therein.

Signing of the mutual recognition agreement. On March 25, 2020, an amendment was signed to the mutual recognition agreement between the banks in Israel. The Appendices to the Agreement were signed on October 11, 2020, and the Agreement entered into effect. The agreement was amended in light of the Competition Commissioner's exemption dated July 30, 2018 (see the 2019 annual report, p. 371) and allows every supervised issuer and operator of ATMs to join the agreement. The First Digital Bank (in formation) Ltd. signed in May 2020, the Addendum for joining the agreement and made a request to the Bank to become a direct participant in the agreement. During the third quarter, the Bank received two requests from additional bodies to join the agreement as direct participants.

Standpoint of the Competition Authority in the matter of the restrictive agreement between Automated Banking Services (ABS) and Bank Clearing Center (BCC). In accordance with a press release issued by the Competition Authority, The Competition Commissioner submitted to the Competition Tribunal on September 17, 2020, her standpoint in the matter of the application for approval of a restrictive agreement, submitted on May 10, 2020 by ABS and BCC. The Commissioner is of the opinion that the collaboration, as presented, between ABS and BCC forms a restrictive agreement, which is not beneficial to the public and should not be approved. The Tribunal has not yet rendered a decision regarding the application for approval.

For further details regarding clearing, see below "Guidelines regarding clearing".

Legislation and Regulation Amendments relating to the Capital Market

Permit to make a proposal to provide trading services via overseas stock exchanges. On April 1, 2020, the Bank received such a permit from the Israel Securities Authority, in accordance with the terms and conditions of a general permit pursuant to Section 49A of the Securities Act.

Analysis work. The Rules regulating engagement in investment consulting, in investment marketing and in the management of investment portfolios (obtaining benefits in respect of analysis work), 2020, were published on the Official Gazette on June 23, 2020. A banking corporation, which controls an underwriter who is involved or expected to be involved in the issuance of a reviewed corporation, may provide an analysis work that complies with the terms detailed in the Rules, including rules for the reduction of possible conflict of interests.

Establishment of a designated Stock Exchange. A Memorandum of the Securities Act (Amendment No. ___) (A designated Stock Exchange), 2020, was published on July 2, 2020. The proposed Act lays the infrastructure for the establishment of a designated Stock Exchange in Israel – providing trading platforms in volumes not comparable with those of a principal Stock Exchange and having special designation or characteristics.

Providing pension consulting services by digital means. A Memorandum of the Financial Services Supervision Act (Consulting, marketing and pension clearing system) (Amendment No. 11), 2020, was published on July 12, 2020, the purpose of which is to allow banking corporations to provide pension consulting services by telephone or by digital means.

U.S. legislation

The amendments to the Volcker Rule, which took effect on January 1, 2020, are expected to be applied as from January 1, 2021. The purpose of these amendments is to simplify, clarify and modify the provisions of the law, on the basis of experience gathered since its enactment, while maintaining the purpose of this legislation. The amendments are not expected to affect the Bank's operations and even allow for certain mitigating factors in the operations of the Bank concerning US parties.

In addition, a series of amendments to the Act becoming effective on October 1, 2020, relates to limitations detailed in the Act regarding self operations by financial institutions and regarding investment and sponsoring activities for particular funds, with a view of preventing speculative activities by financial institutions and maintaining their stability. The amendments exclude from the limitations stated in the Act

certain classes of funds, amend existing exceptions, and exclude the prohibition of providing credit to certain funds, with a view of simplifying existing rules and compliance therewith, defining the exterritorial effectiveness of the Act, and permitting the activity of funds that do not have the risk characteristics, which the original Act intended to deal with.
The Bank is studying the said amendments and their implications on the activity of the Discount Group, if at all.

Money Laundering Prohibition

Draft amendment of Proper Conduct of Banking Business Directive No. 411, Management of money laundering prohibition and finance of terror prohibition risks. The Draft Amendment, published on October 21, 2020, proposes the addition of Appendix B2 – an arrangement introduced by the Supervisor of Banks under his authority according to the Money Laundering Prohibition Order (Duties of identification, reporting and maintenance of records by banking corporations for the prevention of money laundering and the finance of terror), 2001, ("the Order"). The arrangement defines mitigations regarding the duties for identification and verification, in accordance with Chapter "B" of the Order, upon providing payment services, as defined in the proposed Appendix, by a banking corporation to the party receiving the service. In accordance with the definition stated in the Appendix, the proposed arrangement shall apply to the provision of payment services, as defined in the Payment Services Act, 2019, excluding the management of a payment accounts in favor of the payer or of the beneficiary.
The Supervisor of Banks' letter on the subject of making bank transfers with financial institutions active in the United Arab Emirates (UAE). On October 21, 2020, a letter was issued to the banking corporations following the signing of the peace agreement between the State of Israel and the UAE. In light of the fact that the UAE is included on the list of at-risk states and territories that is in the fourth supplement to the Order, the Supervisor listed in the letter a series of factors, which does not constitute a closed list, the fulfillment of which would suffice, at this time, to create a lower-risk operating environment for making bank transfers with financial institutions active in the UAE or activity essential to the conduct of trade. The letter also clarified that the list of activities set forth therein does not prevent a bank from offering its customers, at its discretion, additional services related to activity with the UAE, including correspondent banking, but with strict risk management and taking into account the level of risk inherent in the activity.

Various Legislation Matters

Payment Services Act, 2019. On February 17, 2020, the Knesset passed the Payment Services Act (Amendment No. 1) (Deferral of application date), 2019, whereby Section 77 of the Act was amended to defer its application date by 9 months to October 14, 2020.
Memorandum of the Electronic Clearing of Checks and of Uncovered Checks Act (Legislation amendments), 2020. The Memorandum was published by the Ministry of Justice. Towards the entry into effect of Section 5B1 of the Banking Act (Customer service), 1981, dealing with the movement of customers between banks, it is proposed to amend the Electronic Clearing of Checks Act, 2016, and the Uncovered Checks Act, 1981, with the aim of adapting them to the movement of customers between banks. It is also proposed to impose monetary sanctions with respect to violation of the instructions of the Electronic Clearing Act.
Memorandum of the Provision of Financial Information Services Act, 2020. The Ministry of Finance published the Memorandum on June 24, 2020, proposing the regulation of all the activities included in providing financial information services, both by entities providing this service and financial entities maintaining financial information relating to customers.
The Memorandum is to replace the regulation existing in the Regulated Financial Services Act with respect to the service for comparison of financial costs. In accordance with the Memorandum, financial information services include, inter alia, the service of collecting financial information from different data sources; comparison of prices, costs or returns; delivery of information to financial suppliers for the purpose of obtaining, on behalf of the customer, offers for financial services that the customer uses or want to use, or in order to assist the customer in engaging such suppliers; as well as consulting regarding financial management. It is proposed to determine that the use of financial information relating to a customer would be for the benefit of that customer only and for assisting him only in his financial management. The regulation is intended to provide response to different issues relating to the customer's privacy protection and to the data protection. It is also proposed to set restrictions to be imposed on the provider of the service regarding activities that put him in a conflict of interests situation.
Privacy Protection Bill Memorandum (Amendment No.__)(Definitions and Reduction in Registration Duty), 2020. The Memorandum was published by the Ministry of Justice on July 27, 2020. The proposed Amendment deals with the reduction in the duty of registration applying to data bases, and with changes to the definitions applying to personal data, in order to adapt them to technological developments and advanced legislation in different countries, headed by the data protection regulations of the European Union (GDPR). Inter alia, it is proposed to widen the definition of the term "information" so as to include data relating to an identified person or which may be so identified, to replace the definition of "sensitive information" by a wide definition for the term "information having special sensitivity".

Directives of the Supervisor of Banks

Proper Conduct of Banking Business Directive in the matter of API. A Directive regarding the implementation in Israel of the open banking standard (Directive No. 368) was published on February 24, 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. As noted above, these dates have been deferred by three months within the framework of the Corona crisis reliefs. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. In accordance with the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2019 Annual Report (p. 375) and "Technological improvements and innovation" above.

Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. An additional draft of Proper Conduct of Banking Business Directive was published on February 18, 2020, in the matter of "management of consumer credit", which is proposed to take effect on September 30, 2020. The draft puts together the expectations regarding the activity of the banking system with respect to households, which must be responsible, appropriate and fair. On April 1, 2020, the Capital Market Commissioner issued a draft circular regarding consumer credit management instructions, which regulates similar principles to those for the granting of consumer credit by entities supervised by the Capital Market Authority, with the aim of creating a comprehensive arrangement and secure proper and responsible conduct of all factors granting credit.

Proper Conduct of Banking Business Directive in the matter of dormant deposits. A new Proper Conduct of Banking Business Directive was published on November 10, 2020, regulating the treatment of dormant deposits from the aspects of locating the customer and investing the funds. The directive limits the number of instances where a deposit is treated as a deposit without movement, details and expands the duties imposed on the banking corporation in locating the customer. Concurrently, an amendment of the Banking Order (Dormant deposits), 2000, is requested, which changes the way of investment of funds relating to dormant deposits.

Draft Proper Conduct of Banking Business Directive in the matter of relations of banking corporations with providers of cost comparison services. On August 10, 2020, the Supervisor of Banks published an updated draft, which regulates relations of a banking corporation with providers of cost comparison services.

Draft Proper Conduct of Banking Business Directive (No. 9) regarding E-Banking. The draft, issued on September 10, 2020, includes, among other things, the option of opening a corporation account remotely, clarification regarding the manner of remotely performing the necessary controls within the framework of the technology for visual identification and authentication, and clarification of the option for customers to remotely sign up for E-Banking, through the use of identification and authentication means in accordance with the corporation's risks assessment.

Different guidelines

Letter of the Ministry of Justice pertaining to Regulation 4(c) of the Debit Card Regulations regarding the manner of providing details of transactions made by use of credit cards and the clarification of the Bank of Israel in this matter. A letter was received on May 27, 2020, from the office of the Deputy Attorney General to the Government (Civil Law), which states that an issuer of credit cards, who had changed at his initiative the manner of providing details of the monthly transactions, by way of informing the customer in advance and applying an "opt out" mechanism, is not in compliance with the requirements of the law. The letter states the requirements for the purpose of changing into providing customers with details of transactions by digital means. A clarification letter in this matter by the Bank of Israel was received on June 17, 2020, according to which, disclosure regarding the transition to providing details of transaction by digital means and the discontinuation of sending printed statements by ordinary mail, must be given in a designated and clear notice separately from other notices.

Guidelines regarding clearing

The Bank of Israel announcement regarding the duty of representation in clearing transactions or in the rules of the BCC system. On May 25, 2020, the Bank received a letter from the Bank of Israel addressed to all participants in Banking Clearing Center Ltd. (BCC). According to the letter, it is required to amend the rules of the BCC system, according to which, inter alia, a participant in clearing in the BCC system ("representing agent") may not unreasonably refuse to represent, as regards clearing, a provider of payment services holding an appropriate license and who had signed on the rules of the system (representation regarding clearing – debiting/crediting transactions in the represented account cleared in the RTGS account of the representing agent). Furthermore, until such time when an arrangement regarding a default in the system would be implemented, which would also enable entities that do not have an account with the Bank of Israel to participate in the default arrangement and themselves sign the system rules – a participant in clearing on the BCC system may not unreasonably refuse to represent the provider of payment services under the system rules, even if he had not yet signed the default agreement and the system rules, on condition that he complies with the access terms and connection requirements. Following the implementation of the default in clearing arrangement and the signing on the rules of the system, the duty to represent providers of payment services with respect to the system rules will no longer apply. On September 30, 2020, the updated BCC rules were published.

Max It Finance Ltd. had approached the Bank with a request to be represented in BCC's clearing and system rules, and the Bank delivered to it the requirements and terms document with respect to such representation. The Bank has received MAX's comments on the requirements document. The parties are conducting negotiations to advance the topic of representation.

The Bank of Israel guideline regarding clearing default arrangement. The Bank of Israel has instructed BCC to transfer to its responsibility the managing of the clearing default arrangement, the purpose of which is to guarantee on-time completion of the daily clearing, with this to be done by April 2021. Consequently, the Bank of Israel has required BCC to prescribe clear rules and procedures that will make it possible, in the event of a participant's default, to continue meeting the participant's obligations to participants that are not in default. BCC is examining together with the banking corporations an arrangement that would secure the mechanism detailed above. For the purpose of implementing the outline, it is likely that a change will be necessary to the type of collateral that the participants provide in connection with the arrangement and an increase in their amount.

Automated Banking Services (ABS) ATM rules. A first version of the ABS system rules, which govern its activity, has been sent to the system participants for their signature by November 1, 2020. The Bank has signed on the rules.

Letter in the matter of immediate payments services. In a letter dated April 16, 2020, the Supervisor of Banks required all participants in Bank Clearing Center ("BCC") (including participants who are not part of the immediate payment service on the charge side) to make preparations for allowing their customers to receive payments by means of the immediate payment service, and this by August 2020. The Bank is preparing for this matter.

Review regarding advancing an immediate payments infrastructure. On August 3, 2020, the Bank of Israel published a paper regarding the advancement of an immediate payments infrastructure in Israel. The paper reviews the need for such infrastructure and the main points for setting it up, as well as noting the other measures on whom the Bank of Israel will focus in order to strengthen competition and efficiency in the payments system in Israel. The Bank of Israel is supporting the development of an immediate payments infrastructure, which will enable a broadening of the payment options in the payments system.

A draft of the directive of the Commissioner for Credit Data Sharing regarding timetables for correcting database information. On September 16, 2020, the Commissioner issued a draft that sets out the timetables for correcting the information that is sent by a bank ("information source") to the credit database. Failure to correct information on time could lead to monetary sanctions.

Government program for acceleration of the digital services to the public and for the promotion of digital learning. The program was approved by a Government decision dated July 22, 2020, and is designed to accelerate the characterization and establishment of the required infrastructure, in order to enable the public to transact at a distance all business with Government offices and other public bodies. The program proposes to promote the use of simple and convenient digital identification means for electronic signature on the financial system, and to promote a digital process of delivery and safekeeping of guarantees issued by financial institutions in favor of Government offices.

For further details regarding "Legislation and Supervision", see the 2019 Annual Report (pp. 364-377).

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in the 2019 Annual Report (pp. 205-209) and Note 10 to the condensed financial statements.

Additional Legal Proceedings

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, section 13.2).
   On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.
   On June 24, 2018, the power of a Court verdict was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file a new disclosure motion under Section 198A of the Companies Act, and/or a motion for approval of a derivative action, this within ninety days from date of the verdict and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.
   On February 6, 2020, a motion for the disclosure of documents under Section 198A of the Companies Act was resubmitted to the Tel Aviv District Court. The motion requests the Court to instruct Discount Bank and MDB to deliver documents listed in the motion for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.
   The Bank and MDB filed on October 20, 2020 a motion for the stay of proceedings regarding the motion and alternatively for the deferral of the date for submission of their response. The Court fixed a hearing for January 10, 2021, in the presence of the parties, regarding the motion for the stay of proceedings and exempted the banks at this stage.
2. **Petition under Section 198A of the Companies Act.** On October 4, 2020, the Bank received notice of a petition requesting the Bank to deliver to the Petitioner documents regarding the "money laundering affair", as defined in the petition. As alleged by the Petitioner, material that had been leaked and published on the Buzzfeed Internet website raises suspicion of global money laundering, within the framework of which, foreign factors including felons and foreign states used different banks, including Israeli banks and the Bank, for the purpose of unlawful money transfers in considerable amounts. It is requested to instruct the Bank to deliver to the Petitioner documents related to the "money laundering affair" and to the decisions taken in respect of which. The Bank has to submit its response to the petition within sixty days of its submission.
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. On October 22, 2020, the lawyer representing the Bank in the proceedings updated the Bank that the Court in Belgium had decided in favor of the Bank and rejected the criminal complaint served against the Bank and against an employee of the Bank. The Judge decided that he has no authority to hear the case of the first indictment against the Bank and the employee, and decided with respect to the second indictment that no offence had been committed. The company had filed an appeal of right with the Court of Appeal in Antwerp.
4. **Merger of Municipal Bank.** On April 16, 2020, Jerusalem Bank filed an appeal with the Supreme Court against the decision of the Competition Tribunal to reject in limine the appeal that had been filed by Jerusalem Bank against the decision of the Competition Commissioner to approve the merger with Municipal Bank. The hearing of the appeal is fixed for March 8, 2021. For further details, see the 2019 Annual Report (pp. 210-211; subsection 18).
5. On March 27, 2017, ICC received notice of a lawsuit filed against it with the Lod-Central District Court, together with a motion for approval of the action as a class action suit. The Plaintiff claims that in accordance with the letter of the agreement between it and ICC, where a transaction had been cancelled prior to the crediting of the trading house, ICC is not entitled to charge the trading house with the full amount of the clearing commission, unless in cases where the transaction had been effected manually and not by use of the electronic POS instrument. Alternatively, the Plaintiff argues that a contractual instruction permitting ICC to charge in full the clearing commission also where the clearing service had not been rendered in full (due to cancellation of the transaction), comprises a "discriminating term in a uniform contract", that has to be abolished or changed. The Plaintiff estimates the damage caused to all class members at NIS 45 million.

A preliminary hearing of the case was held on March 28, 2019. The parties had conducted mediation proceedings in which they were not successful in concluding the dispute by agreement. Therefore, summing-up briefs have been filed with the Court.

On May 25, 2020, the Court admitted the motion for the conduct of the case as a class action suit.

On June 24, 2020, ICC filed a motion with the Supreme Court requesting an extension of the period for submission of a request for permission to appeal the decision of the District Court, Central Region, in view of the intention of the parties to refer to mediation proceedings. The Supreme Court handed its decision on June 25, 2020, granting an extension of the period for submission of a request for permission to appeal until September 6, 2020, or until the end of thirty days from the conclusion of the mediation proceedings, whichever is earlier. On July 8, 2020, ICC submitted a motion to the District Court, Central Region, requesting an extension of the period for submission of a defense brief on the same grounds. On July 9, 2020, the District Court granted an extension of the period for submission of the defense brief until December 15, 2020, requesting information regarding the status of the mediation proceedings by October 15, 2020. The decision of the Supreme Court was received on August 26, 2020, permitting the extension of the date for filing an application for permission to appeal until December 1, 2020, or within thirty days following the termination of the mediation proceedings, whichever is earlier.

6. An action against the Bank and two additional banks was filed on November 19, 2018, with the District Court Central Region together with a motion for approval of the action as a class action suit. It is stated in the motion that at this stage it is not possible to estimate the amount of the damage to all members of the class, though the amount exceeds NIS 3 million. The subject matter of the motion is the transaction for the withdrawal of cash by means of a charge card, from a distant ATM operated by a bank that had not issued the card. The Claimants argue that in such transactions only the bank operating the ATM is entitled to charge a commission, while the issuer bank of the card has no right to charge an additional commission in respect of the transaction. It is argued that, in practice, the customer pays two commissions: one commission to the operating bank in respect of the withdrawal of cash from its ATM and an additional commission for a direct channel transaction charged by the issuer bank of the card.

   On November 1, 2020, the Court decided to hear the action as a class action.

For additional details, see the 2019 Annual Report (pp. 378-379).

Material Legal Proceedings settled in the first nine months of 2020

1. For details regarding the motion for approval of an action as a class action suit, in respect of which, a request for withdrawal from the motion was filed on January 2, 2020, see the 2019 Annual Report (p. 208).
2. For details regarding an action that had been filed against the Bank and against MDB, in respect of which, a compromise agreement was signed in January 2020, see Note 10 B section 4.2 (a) to the condensed financial statements.
3. For details regarding a motion for approval of an action as a class action suit, which the Court had dismissed in limine, and with respect to an appeal filed against this decision with the Supreme Court, see Note 10 B section 4.5 to the condensed financial statements.
4. For details regarding a Plea to the Supreme Court, sitting as a High Court of Justice, which was rejected by the Court on July 27, 2020, see Note 17 A to the condensed financial statements.

Proceedings regarding Authorities

1. **Privacy Protection Authority.** The Authority announced on February 16, 2020, the starting of a regulatory administrative process under the Privacy Protection Act, for the examination of circumstances of the PayBox event. On October 1, 2020, the Authority sent the Bank a letter determining allegedly breach of the Privacy Protection Law. The Bank has been given the right for its arguments to be heard orally and in writing.
2. **Requests for data from the Competition Authority.** During the first nine months of 2020, requests for data regarding the following matters were received: clearing payments and diamonds.
3. **Request by the Securities Authority for delivery of documents.** On June 1 and 18, 2020, the Bank received letters from the Securities Authority requesting the delivery of documents, in terms of it authority under the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment portfolio Management Act, 1995. The Bank delivered the requested material.

For additional details, see the 2019 Annual Report (p. 380).

Appendices to the Quarterly Report

Appendices – List of tables

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses

Part "A" - Average balances and interest rates – assets

	For the three months ended September 30					
	2020			2019		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:(3)						
In Israel	152,286	1,382	3.68	140,699	1,273	3.67
Abroad	23,158	189	3.30	23,261	291	5.10
Total credit to the public	**175,444**	***1,571**	**3.63**	**163,960**	***1,564**	**3.87**
Credit to the Government:						
In Israel	4,114	19	1.86	3,452	21	2.46
Total credit to the Government	**4,114**	**19**	**1.86**	**3,452**	**21**	**2.46**
Deposits with banks:						
In Israel	2,780	-	-	4,000	13	1.31
Abroad	785	-	-	145	-	-
Total deposits with banks	**3,565**	**-**	**-**	**4,145**	**13**	**1.26**
Deposits with central banks:						
In Israel	29,521	8	0.11	11,794	6	0.20
Abroad	438	-	-	1,149	4	1.40
Total deposits with central banks	**29,959**	**8**	**0.11**	**12,943**	**10**	**0.31**
Securities borrowed or purchased under agreements to resell:						
In Israel	898	-	-	686	-	-
Total securities borrowed or purchased under agreements to resell	**898**	**-**	**-**	**686**	**-**	**-**
Bonds held for redemption and available for sale:(4)						
In Israel	28,517	78	1.10	24,632	84	1.37
Abroad	8,601	46	2.16	8,294	51	2.48
Total bonds held for redemption and available for sale	**37,118**	**124**	**1.34**	**32,926**	**135**	**1.65**
Trading bonds:(4)						
In Israel	1,299	4	1.24	2,284	3	0.53
Abroad	61	-	-	66	-	-
Total trading bonds	**1,360**	**4**	**1.18**	**2,350**	**3**	**0.51**
Other assets:						
Abroad	659	4	2.45	675	5	3.00
Total other assets	**659**	**4**	**2.45**	**675**	**5**	**3.00**
Total interest bearing assets	**253,117**	**1,730**	**2.76**	**221,137**	**1,751**	**3.21**
Debtors in respect of credit card operations	9,659			9,654		
Other non-interest bearing assets(5)	19,779			16,792		
Total assets	**282,555**			**247,583**		
Of which: Total interest bearing assets attributable to operations abroad	33,702	239	2.87	33,590	351	4.25
* Fees and commissions included in interest income from credit to the public		71			84	

For footnotes see page 235.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	For the three months ended September 30					
	2020			2019		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	54,094	2	0.01	41,818	4	0.04
In Israel - Time deposits	95,420	121	0.51	91,047	153	0.67
Total deposits from the public in Israel	**149,514**	**123**	**0.33**	**132,865**	**157**	**0.47**
Abroad - On call	16,847	20	0.48	12,832	56	1.76
Abroad - Time deposits	5,853	19	1.30	9,783	59	2.43
Total deposits from the public outside Israel	**22,700**	**39**	**0.69**	**22,615**	**115**	**2.05**
Total deposits from the public	**172,214**	**162**	**0.38**	**155,480**	**272**	**0.70**
Deposits from the Government:						
In Israel	148	-	-	161	1	2.51
Abroad	77	1	5.30	27	-	-
Total deposits from the Government	**225**	**1**	**1.79**	**188**	**1**	**2.14**
Deposits from central banks:						
In Israel	2,598	1	0.15	-	-	-
Total deposits from central banks	**2,598**	**1**	**0.15**	**-**	**-**	**-**
Deposits from banks:						
In Israel	3,903	2	0.21	4,291	6	0.56
Abroad	556	5	3.65	2,296	10	1.75
Total deposits from banks	**4,459**	**7**	**0.63**	**6,587**	**16**	**0.98**
Securities lent or sold under agreements to repurchase:						
Abroad	56	-	-	989	6	2.45
Total securities lent or sold under agreements to repurchase	**56**	**-**	**-**	**989**	**6**	**2.45**
Bonds and subordinated debt notes:						
In Israel	11,350	82	2.92	8,126	57	2.84
Total bonds and subordinated debt notes	**11,350**	**82**	**2.92**	**8,126**	**57**	**2.84**
Other liabilities:						
In Israel	60	1	6.84	49	1	8.42
Total other liabilities	**60**	**1**	**6.84**	**49**	**1**	**8.42**
Total interest bearing liabilities	**190,962**	**254**	**0.53**	**171,419**	**353**	**0.83**
Non-interest bearing deposits from the public	50,600			38,485		
Creditors in respect of credit card operations	10,539			9,654		
Other non-interest bearing liabilities[6]	11,521			9,599		
Total liabilities	**263,622**			**229,157**		
Total capital resources	**18,933**			**18,426**		
Total liabilities and capital resources	**282,555**			**247,583**		
Interest spread		**1,476**	**2.23**		**1,398**	**2.38**
Net return on interest bearing assets:[7]						
In Israel	219,415	1,282	2.36	187,547	1,178	2.54
Abroad	33,702	194	2.32	33,590	220	2.65
Total net return on interest bearing assets	**253,117**	**1,476**	**2.35**	**221,137**	**1,398**	**2.55**
Of which: Total interest bearing liabilities attributable to operations abroad	23,389	45	0.77	25,927	131	2.04

For footnotes see page 235.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the three months ended September 30					
	2020			2019		
	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	181,239	1,247	2.78	151,987	1,265	3.37
Total interest bearing liabilities	(134,106)	(88)	(0.26)	(114,331)	(104)	(0.36)
Interest spread		**1,159**	**2.52**		**1,161**	**3.01**
CPI-linked shekels:						
Total interest bearing assets	19,604	151	3.12	18,978	4	0.08
Total interest bearing liabilities	(10,590)	(75)	(2.86)	(10,152)	(19)	(0.75)
Interest spread		**76**	**0.26**		**(15)**	**(0.67)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	18,572	93	2.02	16,582	131	3.20
Total interest bearing liabilities	(22,877)	(46)	(0.81)	(21,009)	(99)	(1.90)
Interest spread		**47**	**1.21**		**32**	**1.30**
Total operations in Israel:						
Total interest bearing assets	219,415	1,491	2.75	187,547	1,400	3.02
Total interest bearing liabilities	(167,573)	(209)	(0.50)	(145,492)	(222)	(0.61)
Interest spread		**1,282**	**2.25**		**1,178**	**2.41**

For footnotes see next page.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	For the three months ended September 30		
	2020 Compared to 2019		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	105	4	109
Abroad	(1)	(101)	(102)
Total credit to the public	**104**	**(97)**	**7**
Other interest bearing assets:			
In Israel	33	(51)	(18)
Abroad	1	(11)	(10)
Total other interest bearing assets	**34**	**(62)**	**(28)**
Total interest income	**138**	**(159)**	**(21)**
Interest bearing liabilities:			
Credit to the Government:			
In Israel	14	(48)	(34)
Abroad	-	(76)	(76)
Total deposits from the public	**14**	**(124)**	**(110)**
Other interest bearing liabilities:			
In Israel	26	(5)	21
Abroad	(23)	13	(10)
Total other interest bearing liabilities	**3**	**8**	**11**
Total interest expenses	**17**	**(116)**	**(99)**
Net interest income	**121**	**(43)**	**78**

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 12 million and NIS 740 million, respectively; 2019 – NIS 14 million and NIS 413 million respectively.

(5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the Interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the Interest spread between the periods.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "E" - Average balances and interest rates - assets

	For the nine months ended September 30					
	2020			2019		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:[(3)]						
In Israel	150,306	4,059	3.62	138,607	4,182	4.04
Abroad	23,718	657	3.71	23,377	900	5.17
Total credit to the public	**174,024**	***4,716**	**3.63**	**161,984**	***5,082**	**4.20**
Credit to the Government:						
In Israel	3,962	60	2.02	3,342	69	2.76
Total credit to the Government	**3,962**	**60**	**2.02**	**3,342**	**69**	**2.76**
Deposits with banks:						
In Israel	3,264	15	0.61	3,036	37	1.63
Abroad	437	-	-	205	1	0.65
Total deposits with banks	**3,701**	**15**	**0.54**	**3,241**	**38**	**1.57**
Deposits with central banks:						
In Israel	25,499	28	0.15	11,648	21	0.24
Abroad	602	1	0.22	727	10	1.84
Total deposits with central banks	**26,101**	**29**	**0.15**	**12,375**	**31**	**0.33**
Securities borrowed or purchased under agreements to resell:						
In Israel	722	-	-	722	-	-
Total securities borrowed or purchased under agreements to resell	**722**	**-**	**-**	**722**	**-**	**-**
Bonds held for redemption and available for sale:[(4)]						
In Israel	27,527	250	1.21	25,222	293	1.55
Abroad	8,743	168	2.57	8,502	160	2.52
Total bonds held for redemption and available for sale	**36,270**	**418**	**1.54**	**33,724**	**453**	**1.80**
Trading bonds:[(4)]						
In Israel	1,841	9	0.65	2,136	20	1.25
Abroad	65	1	2.06	72	1	1.86
Total trading bonds	**1,906**	**10**	**0.70**	**2,208**	**21**	**1.27**
Other assets:						
Abroad	669	15	3.00	687	13	2.53
Total other assets	**669**	**15**	**3.00**	**687**	**13**	**2.53**
Total interest bearing assets	**247,355**	**5,263**	**2.85**	**218,283**	**5,707**	**3.50**
Debtors in respect of credit card operations	9,521			8,976		
Other non-interest bearing assets[(5)]	19,567			15,584		
Total assets	**276,443**			**242,843**		
Of which: Total interest bearing assets attributable to operations abroad	34,234	842	3.29	33,570	1,085	4.33
* Fees and commissions included in interest income from credit to the public		226			247	

For footnotes see page 239.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "F" – Average balances and interest rates – liabilities and equity

	For the nine months ended September 30					
	2020			2019		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	51,444	10	0.03	39,730	9	0.03
In Israel - Time deposits	94,480	402	0.57	92,003	568	0.82
Total deposits from the public in Israel	**145,924**	**412**	**0.38**	**131,733**	**577**	**0.58**
Abroad - On call	15,385	101	0.88	12,260	152	1.66
Abroad - Time deposits	7,103	82	1.54	9,873	183	2.48
Total deposits from the public outside Israel	**22,488**	**183**	**1.09**	**22,133**	**335**	**2.02**
Total deposits from the public	**168,412**	**595**	**0.47**	**153,866**	**912**	**0.79**
Deposits from the Government:						
In Israel	156	-	-	167	1	0.80
Abroad	71	2	3.77	57	1	2.35
Total deposits from the Government	**227**	**2**	**1.18**	**224**	**2**	**1.19**
Deposits from central banks:						
In Israel	1,214	1	0.11	-	-	-
Total deposits from central banks	**1,214**	**1**	**0.11**	**-**	**-**	**-**
Deposits from banks:						
In Israel	4,411	16	0.48	4,057	18	0.59
Abroad	1,974	25	1.69	2,114	34	2.15
Total deposits from banks	**6,385**	**41**	**0.86**	**6,171**	**52**	**1.13**
Securities lent or sold under agreements to repurchase:						
Abroad	536	5	1.25	809	16	2.65
Total securities lent or sold under agreements to repurchase	**536**	**5**	**1.25**	**809**	**16**	**2.65**
Bonds and subordinated debt notes:						
In Israel	12,034	223	2.48	8,276	308	4.99
Total bonds and subordinated debt notes	**12,034**	**223**	**2.48**	**8,276**	**308**	**4.99**
Other liabilities:						
In Israel	58	2	4.62	45	3	8.99
Total other liabilities	**58**	**2**	**4.62**	**45**	**3**	**8.99**
Total interest bearing liabilities	**188,866**	**869**	**0.61**	**169,391**	**1,293**	**1.02**
Non-interest bearing deposits from the public	47,332			37,921		
Creditors in respect of credit card operations	9,933			9,262		
Other non-interest bearing liabilities[6]	11,275			8,071		
Total liabilities	**257,406**			**224,645**		
Total capital resources	**19,037**			**18,198**		
Total liabilities and capital resources	**276,443**			**242,843**		
Interest spread		**4,394**	**2.24**		**4,414**	**2.48**
Net return on interest bearing assets:[7]						
In Israel	213,121	3,767	2.36	184,713	3,715	2.69
Abroad	34,234	627	2.45	33,570	699	2.79
Total net return on interest bearing assets	**247,355**	**4,394**	**2.38**	**218,283**	**4,414**	**2.71**
Of which: Total interest bearing liabilities attributable to operations abroad	25,069	215	1.15	25,113	386	2.05

For footnotes see page 239.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "G" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the nine months ended September 30					
	2020			2019		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	174,747	3,808	2.92	149,427	3,718	3.33
Total interest bearing liabilities	(130,018)	(295)	(0.30)	(113,193)	(311)	(0.37)
Interest spread		**3,513**	**2.62**		**3,407**	**2.96**
CPI-linked shekels:						
Total interest bearing assets	19,584	282	1.92	18,616	485	3.49
Total interest bearing liabilities	(11,206)	(169)	(2.02)	(10,154)	(307)	(4.05)
Interest spread		**113**	**(0.10)**		**178**	**(0.56)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	18,790	331	2.36	16,670	419	3.37
Total interest bearing liabilities	(22,573)	(190)	(1.12)	(20,931)	(289)	(1.85)
Interest spread		**141**	**1.24**		**130**	**1.52**
Total operations in Israel:						
Total interest bearing assets	213,121	4,421	2.78	184,713	4,622	3.35
Total interest bearing liabilities	(163,797)	(654)	(0.53)	(144,278)	(907)	(0.84)
Interest spread		**3,767**	**2.25**		**3,715**	**2.51**

For footnotes see next page.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "H" – Analysis of changes in interest income and expenses

	For the nine months ended September 30		
	2020 Compared to 2019		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	316	(439)	(123)
Abroad	9	(252)	(243)
Total credit to the public	**325**	**(691)**	**(366)**
Other interest bearing assets:			
In Israel	96	(174)	(78)
Abroad	6	(6)	-
Total other interest bearing assets	**102**	**(180)**	**(78)**
Total interest income	**427**	**(871)**	**(444)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	40	(205)	(165)
Abroad	3	(155)	(152)
Total deposits from the public	**43**	**(360)**	**(317)**
Other interest bearing liabilities:			
In Israel	72	(160)	(88)
Abroad	(5)	(14)	(19)
Total other interest bearing liabilities	**67**	**(174)**	**(107)**
Total interest expenses	**110**	**(534)**	**(424)**
Net interest income	**317**	**(337)**	**(20)**

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 10 million and NIS 561 million, respectively; 2019 – NIS 8 million and NIS 149 million respectively.

(5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the Interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the Interest spread between the periods.

Appendix no. 2 – Additional details – securities portfolio

1. Available-for-sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	September 30, 2020			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	2,562	2,625	78	15
Financial services[1]	8,743	8,930	200	13
Total non government bonds	**11,305**	**11,555**	**278**	**28**
Government bonds				
U.S. government	653	679	31	5
Israel Government	18,461	18,896	490	55
Other Governments	158	158	2	2
Total government bonds	**19,272**	**19,733**	**523**	**62**
Total bond in the available-for-sale portfolio	**30,577**	**31,288**	**801**	**90**

* Including the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 63-216 million, each, in municipal bonds of Washington state, in bonds of the Texas state and in bonds of the New York City.

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

	September 30, 2020			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	790	804	18	4
Ginnie Mae	6,216	6,375	160	1
Freddie Mac	237	245	8	-
Fannie Mae	223	232	9	-
Other	1,277	1,274	5	8
Total financial services	**8,743**	**8,930**	**200**	**13**

Appendix no. 2 – Additional details – securities portfolio (continued)

1. Available-for-sale bonds - data according to economic sectors (continued)

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

	September 30, 2020			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America	63	65	2	-
Western Europe(3)	292	295	7	4
Israel	102	102	-	-
Australia	333	342	9	-
Total banks and banking holding companies	**790**	**804**	**18**	**4**

(3) Details by countries of investment in bonds of banks and banking holding companies in the available-for-sale portfolio in Western Europe

Britain	41	41	1	1
France	167	164	-	3
Netherlands	50	51	1	-
Denmark	34	39	5	-
Total	**292**	**295**	**7**	**4**

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

	September 30, 2020			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	175	179	6	2
Financial services*	215	221	7	1
Total non government bonds	**390**	**400**	**13**	**3**
Total Government bonds	**7,248**	**7,560**	**312**	**-**
Total bonds in the held-to-maturity portfolio	**7,638**	**7,960**	**325**	**3**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	82	85	3	-
Freddie Mac	85	86	2	1
Fannie Mae	48	50	2	-
Total financial services	**215**	**221**	**7**	**1**

Appendix no. 2 – Additional details – securities portfolio (continued)

3. Trading Bonds - data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	September 30, 2020			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	38	32	-	6
Financial services	47	49	2	-
Total non government bonds	**85**	**81**	**2**	**6**
Total government bonds	**1,376**	**1,376**	**5**	**5**
Total bonds in the trading portfolio	**1,461**	**1,457**	**7**	**11**

Appendix no. 3 – Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks.

The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 11 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part B of the aforementioned Note.

(1) Details according to rating of balance-sheet balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of September 30	As of December 31
	2020	2019
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	176	125
With an A+ rating	1,131	657
With an A rating	125	59
With an A- rating	3	5
With a BBB+ rating	64	43
With a B rating	1	-
Not rated	95	108
Total against foreign banks	**1,595**	**997**
Total against Israeli banks	**451**	**382**
Total Balance-sheet balances of assets deriving from derivative instruments	**2,046**	**1,379**

Appendix no. 3 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank

	As of September 30	As of December 31
	2020	2019
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	4
With an AA- rating	-	2
With an A+ rating	104	75
With an A rating	5	7
With an A- rating	-	3
With an BBB+ rating	2	3
Total against foreign banks	**111**	**94**
Total against Israeli banks	**8**	**9**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**119**	**103**

Appendix no. 3 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 11 to the condensed financial statements according to the overall credit to the public risk per economic sectors

	As of September 30, 2020		As of September 30, 2019		As of December 31, 2019	
	in NIS million					
Agriculture				1		-
Industry:						
Machines, electrical and electronic equipment	21		20		25	
Mining, chemical industry and oil products	97		59		75	
Other	46		37		30	
Total industry		164		116		130
Construction and real estate:						
Acquisition of real estate for construction	115		82		79	
Real estate holdings	487		188		154	
Other	12		14		11	
Total Construction and real estate		614		284		244
Electricity and water		259		368		356
Commerce		216		371		215
Hotels, hotel services and food		29		35		30
Transportation and storage		41		22		33
Communications and computer services		37		36		34
Financial services:						
Financial institution (excluding banks)	1,211		1,547		1,106	
Private customers active on the capital market	637		328		270	
Financial holding institutions	620		1,273		1,083	
Insurance and provident fund services	-		-		-	
Total financial services		2,468		3,148		2,459
Business and other services		26		33		31
Public and community services		98		63		62
Private individuals - housing loans		-		-		-
Private individuals - other		7		10		9
Total credit risk in respect of derivative instruments		**3,959**		**4,487**		**3,603**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.		(1,938)		(2,653)		(1,971)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)		**2,021**		**1,834**		**1,632**

2. Details of the investment in government bonds

Note 5 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	September 30, 2020		December 31, 2019	
	Book value	Fair value[(1)]	Book value	Fair value[(1)]
	In NIS millions			
Of the Israeli Government	27,494	27,806	23,784	24,026
U.S. government	705	705	1,591	1,591
Other governments	158	158	92	92
Total	**28,357**	**28,669**	**25,467**	**25,709**

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 4 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313.
Special mention debt	A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as "impaired", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net fees and commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 4 – 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. 5 – 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