ANNUAL REPORT

2020

ISRAEL DISCOUNT BANK

Link to an accessible report

Board of Directors and Management Report

Internal Control over Financial Reporting

Financial Statements

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

Appendices to the Annual Report

Board of Directors and Management Report

Board of Directors and Management Report – List of tables

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

• STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

The report for the year 2020 summarizes an unusual year both in global and domestic terms. The Corona epidemic which befell the world in this year, affected dramatically our way of life and disrupted countries, organizations, processes and systems. The epidemic has created the greatest financial and global crisis known to us in the last decades, a crisis which has an impact on the whole economy, including the Discount Group, which comprises a mainstay in the Israeli economy, for its customers, employees, shareholders and the public at large.

The year 2020 was a complex year that required us to face business continuity challenges alongside business challenges and a complex risk management. Even in this complex year, the Discount Group has demonstrated its solidness and strength. The Group ended the year 2020 with a net profit of NIS 975 million and return on equity of 5.1%. The results were affected this year by a number of events of a nonrecurring nature, headed by the early retirement plan, within the framework of which, 577 employees had retied until December 31, 2020 (79 additional employees are expected to retire during the first quarter of 2021, within the framework of this retirement plan). Elimination of these events brings net profit to NIS 1,287 million, and to return on equity of 6.7%.

Growth in all balance sheet items continued in the past year. Credit grew by 4.6% to an amount of NIS 188.7 billion, and the capital grew by 2.8% to an amount of NIS 19.7 billion. Capital ratio reached 10.2% and the liquidity coverage ratio stood at 147.5%, both at a significantly higher level than the regulatory goals.

Our subsidiary companies also summarize a year of abundant work and growth, while confronting the crisis. Growth in credit was restored at IDB Bank and the bank ended the year with an increase of 5.6% in the portfolio and a growth of approx. 10% in deposits. A fair growth of 3.6% was also recorded in the credit portfolio of MDB, which ended the year 2020 with return on equity, after eliminating retirement expenses, of 7.4%. ICC continued to grow in its market share and in the number of cards. Discount Capital recorded a steep rise in income, due to realization of nonfinancial investments, while concluding approximately twenty investment transactions in a total amount of US$192 million.

With the outbreak of the crisis and in the course thereof we have acted in support of the Israeli society and the Israeli economy, confronting its implications. Great responsibility has been laid on our doorstep, to act professionally, with resolve and sensitivity in order to assist and support our customers, on the one hand, and to maintain the stability of the Group, on the other hand.

All through the year, the Discount Group provided assistance and support to its customers and to the community. We have extended business hours on the different channels, offered loans to businesses and households, deferred or stayed repayment of loans and introduced new services to the different populations. We have even assisted fifteen hospitals in the purchase of respirators, intensive care stations, and more.

We summarize a year of abundant work at the Discount Group. Despite the many challenges, we have succeeded in the past year in carrying out a number of important moves, principally, the introduction of a five year strategy for the Group. The new strategic plan supports an ambitious vision – **being the best financial institution for its customers, which creates maximum value to its shareholders over time**, and which includes three focal areas: accelerated evolution of traditional banking, disruptive innovation and maximization of the Group's value.

Concurrently with the formation and introduction of the new strategy, we have carried out two moves formed under it. This, due to the high determination and implementation ability that the Bank had developed in recent years. The first move involved the implementation of a significant early retirement plan, in terms of which, 431 employees who had responded to the retirement offer at beneficial terms, retired from the Bank. An early retirement at beneficial terms had also been offered to employees of MDB and ICC, thus continuing the Group effort for greater efficiency and strict management of expenses, with a focus on reducing manpower and payroll expenses. The retirement of many employees who had manned significant positions across the Group and comprised a considerable workforce for many years, presents also an opportunity to refresh the ranks and support an organizational culture that encourages change, development and flexibility.

The second move involves a breakthrough agreement for cooperation with Shufersal Company for the establishment of an innovative financial enterprise – the digital wallet for customers of all banks on the basis of the payments platform PayBox, owned by the Bank. The aim of this cooperation is to turn the Application in the future into an open platform, on the basis of which would be offered products and services of third parties, designated for customers of all banks.

Much has been said regarding the banking world that changes dramatically. We are required to invent ourselves anew in order to offer our customers an advanced banking experience, which is customized to their changing needs and to the ever changing external circumstances. Our success in remaining the preferential choice of our customers depends mainly on the ability to identify their changing needs and make the required modifications speedily and efficiently, and this is what we are striving for. All these must happen while strictly maintaining high standards of compliance and of qualitative risk management. The newly formed strategy has led to a creative, ambitious and responsible multi-annual plan, which will bring about the realization of this aspiration.
With great sorrow we mourn the passing away last December of Dr. Yossi Bachar, of blessed memory, who had officiated as Chairman of the Board of Directors during the nine years ended at the end of 2018. In his office as Chairman of the Group, Yossi had always acted energetically and with a sense of mission to turn Discount into a leading banking group. His endeavors had always been accompanied by vision, thus leaving a mark on the Discount Group as well as on many areas of the Israeli economy. We all grieve his untimely departure.
I wish to thank the employees of Discount for an unusual year of strenuous work and for their commitment and great devotion to our customers. Furthermore, I wish to thank the Management of the Group for the professional and responsible leadership in the face of challenges of the past year, and for the determination that has accompanied and will continue to accompany the work being done on the road to realization of the business goals, for the benefit of Discount, its customers and employees.

March 15, 2021

Shaul Kobrinsky
Chairman of the Board of Directors

CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

The meeting of the Board of Directors, held on March 15, 2021, resolved to approve and publish the Bank's 2020 Annual Report.

The Discount Group – Condensed Description and Principal Areas of Operation

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

Domestic Operations

The Discount Group offers its customers comprehensive banking services in all fields of financial activity, by means of a chain of 177 branches in Israel (103 branches of the Bank and 74 branches of Mercantile Discount Bank Ltd.), online banking services and digital banking.
The activities in Israel cover additional fields, including:
- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use and clears transactions made by "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only);
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd. ("Tafnit"), which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting - the subsidiary "Discount Capital Ltd." is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company.

International Activity

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

Market share

Based on data relating to the banking industry as of September 30, 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

	September 30, 2020(1)	December 31, 2019
	In %	
Total assets	15.7	16.2
Net credit to the public	17.0	17.2
Deposits from the public	15.2	15.9
Net interest income	18.6	18.4
Total non-interest income	25.8	23.2

Footnote:
(1) For the first time, the data as of September 30 include the data of Union Bank, which was acquired by Mizrahi-Tefahot Bank.

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

Condensed financial information regarding financial position and operating results

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

	Year				
	2020	2019	2018	2017	2016
	In %				
Main performance indicators:					
Return on equity	5.1	9.4	9.3	8.4	6.6
Return on assets	0.35	0.70	0.66	0.57	0.41
Ratio of net credit to the public to deposits from the public	83.5	89.6	87.2	84.9	81.7
Ratio of common equity tier 1 to risk assets	10.20	10.31	10.24	10.00	9.83
Ratio of total capital to risk assets	13.06	13.86	13.67	13.92	13.82
Leverage ratio[1]	6.3	6.9	6.9	6.8	6.6
Liquidity coverage ratio[1]	147.5	121.2	124.8	126.7	146.5
Efficiency ratio	67.5	65.2	68.2	68.3	72.6
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	1.95	1.38	1.36	1.40	1.50
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	1.36	1.25	1.24	1.68	2.37
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.19	0.23	0.26	0.40	0.28
Ratio of credit loss expenses to the average balance of credit to the public	0.91	0.40	0.34	0.39	0.34
	In NIS millions				
Principal statements of profit and loss data for the reporting period:					
Net Profit Attributed to the Bank's Shareholders	**975**	**1,702**	**1,505**	**1,259**	**905**
Net interest income	5,898	5,893	5,526	4,975	4,557
Credit loss expenses	1,718	690	540	574	469
Non-financing income	4,007	3,771	3,494	3,358	3,410
Of which: fees and commissions	2,826	2,972	2,851	2,676	2,556
Non-financing expenses	6,681	6,299	6,148	5,694	5,785
Of which: salaries and related expenses	3,242	3,343	3,385	3,204	3,169
Comprehensive income, attributed to the Bank's shareholders	**559**	**1,782**	**1,661**	**939**	**613**
Total earnings per share attributed to Bank's shareholders (in NIS)	0.84	1.46	1.29	1.09	0.84
Principal balance sheet data for the end of the reporting period:					
Total assets	**293,969**	**259,823**	**239,176**	**221,221**	**219,577**
Of which:					
Cash and deposits with banks	42,936	26,044	21,858	28,026	29,311
Securities	42,785	37,745	37,898	32,703	38,818
Net credit to the public	188,718	180,467	164,804	148,757	140,760
Total liabilities	**274,242**	**240,630**	**221,507**	**205,153**	**204,641**
Of which:					
Deposits from the public	226,118	201,450	188,916	175,170	172,318
Deposits from banks	13,107	6,419	6,886	4,804	5,342
Bonds and Subordinated debt notes	10,201	13,129	8,476	7,639	8,498
Shareholders' equity	19,182	18,678	17,151	15,594	14,512
Total equity	**19,727**	**19,193**	**17,669**	**16,068**	**14,936**
Additional data:					
Share price	1,236	1,601	1,156	1,010	801
Dividend per share (in agorot)	4.19	21.92	10.13	-	-
Average number of positions at the Group during the year	8,431	8,542	8,668	8,641	8,842
The number of positions at the Group at the end of the year	8,027	8,509	8,550	8,578	8,558
Ratio of fees and commissions to total assets	1.0	1.2	1.2	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 below "Dividend distribution" and Note 24 D (4) to the financial statements.

Developments in the market price of the Discount shares

	Closing price at end of the trading day			
	March 11, 2021	December 31, 2020	December 31, 2019	Change in 2020 in %
Discount share	1,348	1,236	1,601	(22.8)
The TA 5 Banks index	2,334.12	2,037.01	2,606.44	(21.8)
The TA 35 index	1,596.81	1,499.05	1,683.29	(10.9)
Discount market value (in NIS billions)	15.69	14.39	18.64	(22.8)

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

Discount Group Segment of Operations - Condensed Description

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

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Large businesses segment" - businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Institutional Bodies Segment" - activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).

"Financial management segment" – includes: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other.

For additional details, see "Activity of the Group according to regulatory segments of operations - principal quantitative data and main developments" in Chapter B hereunder, Notes 29 and 30 to the financial statements and "Activity of the Group according to Regulatory Segments of Operation - Additional Details" in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

A Summary Description of the Principal Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure in accordance with the 3rd Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented below in Chapter C "Risks Review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2020 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2020 annual report.

Goals and business strategy

In the course of 2020, following the successful implementation of the multi-annual strategic plan introduced in 2014, a new multi-annual strategic plan for the Bank and the Group was introduced for the years 2021-2025.
The new strategic plan directs towards the realization of an ambitious vision of being **the best financial institution for its customers, which creates maximum value to its shareholders over time**. The strategic plan is made up of three central pillars – accelerated evolution of traditional banking, revolution in banking business by way of groundbreaking innovation and maximizing the value of the Group.

First pillar – Accelerated evolution of traditional banking

As part of the changes affecting the banking sector, the Discount Group will accelerate the evolution of banking activity with a view of improving competitive ability and increase its market share and profitability in banking activity. The said acceleration is to be achieved by way of focusing on five areas:

Winning customer experience

Goal: we shall be the bank with the best customer experience in the system

Changing reality requires us to improve customer experience quickly – customers expect another level of service, and the base for comparison is not necessarily other banks but the organizations leading in customer experience provided by them. Discount shall act to create a differentiating competitive advantage by way of a winning customer experience.
In order to realize this vision and become the best bank for its customers, Discount has introduced a comprehensive strategic project, intended to turn the whole Bank into a customer focused organization. This, by making a significant and extensive effort covering all units of the Bank and leading to a basic and deep change of work processes and of service and behavior principles.
The leading index measuring the success of the change is the customer recommendation index – Net Promoter Score. This index has been successfully implemented by thousands of leading organizations around the world. This index has been proven as directly connected to the increase in income, to attracting new customers and increasing customer loyalty.
Within the framework of this mechanism, the Bank will integrate processes involving attentiveness to customers, deep and methodological analysis of feedback from customers and the ability to translate the messages into effective initiatives for improving customer experience at all his interface points with the Bank.

Significant growth and increasing market share in focal segments

Goal: Growth at a faster rate than that of competitors in the credit portfolio and in income

- The Bank will act to increase income at a faster pace than market growth, and to maximize the potential of income from interest and fees and commissions, as well as non-interest financing income. The Bank shall endeavor to increase its credit portfolio at a faster pace than market growth, mainly in the housing and commercial banking fields and in additional focal fields;
- In order to enable the said growth, the Bank implements new operational models in retail and corporate banking areas, which are to include, inter alia, changes in service, sales and operating layouts.

Innovation

Goal: Positioning at the front of traditional banking innovation

- The Bank will act to enlarge the offer of digital services with a view of maximizing the usefulness of such services while providing response to expectations of customers and of the period;
- The Bank will leverage advanced data capabilities with the aim of improving value offers to customers and making banking personal, effective and valuable;
- The Bank will continue to intensify relations and cooperation with the fintech community in Israel and abroad, with a view of offering its customers and also customers of all banks, the most advanced services and products, both in banking and related areas.

Banking excellence

Goal: Creating an efficient organizational platform based on efficiency, operational excellence and a high level of performance

- In order to support all the strategic goals of the Bank, it is the Bank's intention to integrate operational excellence that would support customer experience, would reduce errors and operating risks and assist in obtaining significant efficiency;
- In this respect, the Bank will introduce automation, digitization and improvement of processes enabling greater efficiency, shortening of reaction time and improvement of measurement and monitoring capabilities, and will integrate new work methods improving central processes;
- The Bank will continue to perform efficiency measures leading to the reduction in manpower of the Discount Group; optimization regarding real estate areas; and savings in purchase expenditure and other expenses.

Winning organizational culture

Goal: Being the best employer for our employees

With the understanding of the importance and centrality of the Bank's employees in providing the best service to customers and the ability to realize the strategic plan, the Bank will act to strengthen its managers and employees and to design an organizational culture that promotes performance, excellence and continuous striving for improvement. Furthermore, the Bank will act to improve the feeling of commitment and organizational bonding of employees and managers and to modify their skills to the changing environment.

Second pillar – groundbreaking innovation

Goal: Being a leading player in the implementation of groundbreaking banking models that create competition

The financial field in general and banking business in particular, is in the midst of an accelerated process of change. The change is motivated by diverse trends headed by an ever growing transition to digital banking, competition encouraging regulation, entry of new players into the traditional banking areas, and growth in expectation of customers for more varied and customized value offers than in the past.

The competitive and singular positioning of the Discount Group which, on the one hand, is large enough in order to lead a change, and on the other hand is small enough in order not to be deterred by the implications of the change, creates for it a significant opportunity to establish its position as a leading banking-financial group, which encourages competition in the system, and to increase its market share, inter alia, by forming new initiatives, off-banking, based on extensive cooperation with third parties and fintech companies:

- The Bank will act to form initiatives in cooperation with fintech companies and other third parties, for the creation of products and services designed for customers of all banks;
- The first initiative of the Bank, in cooperation with Shufersal, will develop PayBox as the leading digital wallet in Israel, which combines an open platform on which will be offered products and services of third parties to customers of all banks. For details regarding this strategic cooperation, see "Management's handling of current material issues" below.

Third Pillar – maximizing the value of the Group

Goal: Utilization of the synergies between the Group companies and maximization of their value

- The Bank, as a holding company, will continue the implementation of the unique strategies defined for the central subsidiaries – IDB Bank, MDB, Discount Capital and ICC, with the aim of modifying their operations to the new competitive environment;
- The Bank will act to identify and utilize possible synergies among the group companies, both in the field of revenues and in the field of expenditure, which may contribute significantly to the Group's economic value;
- The Bank will act to assemble all Head Office units of the Group companies in a joint campus located in the Millennium Complex in Rishon LeTzion, with the aim of accelerating the realization of synergies and work processes, thus achieving significant real estate efficiency.

The strategic plan goals

The new strategic plan contains a financial plan for the years 2021 to 2025, as well as internal goals reflecting maximization of return on equity, improvement in the operating efficiency ratio, and a growth in the market share of the Discount Group.
At this time, in view of the continuation of the Corona crisis and the material uncertainty involved therein and in view of the positioning of a new strategic plan, the financial goals stated in the previous plan, are no longer relevant.

Forward-looking information. The aforesaid reflects the plans of the Bank’s management and its intentions, taking into consideration the information in its possession at the time of preparing the statements with regard to the development of the banking sector and the uncertainty involved in the long-range planning for several years. Material changes in the economic and regulatory environment or in the geo-political or defense situations, technological developments, actions of competitors operating in the banking sector and other potential competitors, and changes in consumer patterns and customer expectations, which are not under the Bank’s control, might results in changes in the ability to execute the Bank's plans as they exist at the time of publishing the statements.

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

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

Material trends, occurrences, developments and changes

Management's handling of current material issues

The year 2020 was 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 ratio of equity capital Tier 1 amounts to 10.23% and the liquidity coverage ratio amounts to 147.5%. This is the capital infrastructure that allows the Group to continue growing.
The central challenges and issues in 2020 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-June 2020, an additional widespread outbreak of the morbidity occurred during July-September 2020, and thereafter an additional significant outbreak, the third in number, in the months of December 2020 and January 2021. Following the additional outbreaks, additional lockdowns were imposed in Israel in the months of September to October 2020, and during January-February 2021, which brought about a significant reduction in economic activity and a rise in the rate of unemployment. It should be noted that, toward the end of 2020, several drug companies launched vaccines against the virus and vaccination of the population began.

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 six months with no need to visit the branch, along with a full exemption from commission on such activity.
- 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.

The Bank has continued to maintain the commission benefit arrangements, which are conditional on salary transfer, even when the salary has been discontinued, having taken into consideration the difficulties encountered by households due to the crisis.

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 (see below "Involvement and contribution to the community in Corona days"). At the same time, during the month of March 2020, 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.

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 2020, 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 2020, 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 2020.

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, as well as acting to maintain the level of service to customers by way of providing the ability to work from home in a secured manner for a wide scope of employees during the lockdown periods and the Corona routine.
The branch network operated in full during the second lockdown and the third 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 (for additional details, see "Capital and capital adequacy" below).
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 rise in borrower quality risk due to the impact of the crisis, and the potential for impairment in the quality of the credit portfolio;
- 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, evaluation of the risk environment has been raised from "Medium-high" to "High", on the background of the continuity of the crisis and its effect on both the global and domestic economies (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, but there is still uncertainty regarding the intensity of the crisis and how long its impact is expected to last. On the background of the above stated, the Bank has decided to increase the group allowance in 2020, 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 1,718 million were recognized in 2020, as compared to expenses of NIS 690 million in 2019, an increase of 149%. 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 and fourth quarters 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 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").
Continuing uncertainty conditions. The economic implications of the Corona crisis depend on the time range for the curbing of the pandemic spread, on the pace of vaccination of the population and the effect of the vaccination process upon the continuation of the development of the epidemic, 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.

Strategic cooperation for setting up a digital wallet

On January 19, 2021, the Bank signed a strategic cooperation agreement with Shufersal Ltd. to set up a digital wallet for customers of all the banks, based on the PayBox payments platform that is owned by the Bank.

The cooperation will take place using a company controlled by the Bank, with the Bank holding 50.1% of the rights in the company and Shufersal will hold 49.9% of the rights. The Bank will transfer to the company the PayBox assets in their current format. Shufersal will confer on the company an exclusive right to grant monetary benefits that are earmarked for its customers, the holders of a Shufersal card and the members of the Shufersal loyalty club, via PayBox (more than 2 million customers, of which approx. 641,000 are holders of a Shufersal loyalty club credit card, according to Shufersal's periodic report for 2020, as of March 3, 2021), as well as a right to match up the Shufersal credit card with the app, a right to present and redeem digital coupons, etc.

Within the framework of the cooperation, the PayBox operation will be expanded, and, in the first stage, it will become possible for approx. 1,500,000 of its customers to use a PayBox wallet as a means of payment, to redeem digital purchase coupons, to receive various benefits, and so forth. In addition, the company will offer its customers a virtual credit card that will be ascribed to the PayBox club, including for members of the Shufersal loyalty club who are not holders of a Shufersal loyalty club credit card.

The parties have agreed to take additional measures in the future in order to enable customers of all the banks to conduct additional financial and banking activity within the framework of PayBox, inter alia, by means of a platform on which financial services and products of various suppliers and fintech companies will be offered to customers of all the banks, with this being subject to the provisions of the law.

Consent of the Competition Commissioner to the merger transaction was received on March 1, 2021, within the framework of which PayBox Ltd. (a company in formation) and Shufersal Club Company Ltd. (provisional name) (a company in formation) would be merged.

Contingent cooperation agreement – the agreement is contingent upon receiving approvals from additional third parties, including from the Bank of Israel, and also on reaching accords with Israel Credit Cards Ltd. Accordingly, there is no certainty that the merger transaction will be completed.

Forward-looking information. The aforesaid reflects the assessment of the Bank's Management and its intentions, taking into consideration the information available to it at the time of preparing the reports with regard to the development of the payments field. Statutory and regulatory changes that are not known at the time of publishing the reports, including changes in existing initiatives and drafts, technological developments and/or actions of competitors and changes in consumption habits and customer expectations, as well as macro developments in Israel and around the world, which are not under the control of the Bank, might cause changes in the assessments or in the ability to execute the Bank's plans, as they are at the time of publishing the reports.

Additional issues

- **The 2020 retirement plan.** The Bank's Management has diligently engaged in the reported period in the preparation of a retirement plan and its implementation. For additional details, see below "The 2020 retirement plan";
- **Proceedings in Australia.** In January 2021, compromise arrangements and an arrangement with the Bank's insurers were signed with regard to the proceedings in Australia. For details, see Note 26 C 11.3 to the financial statements. For details regarding the special, independent committee regarding the proceedings in Australia, see below in the "Corporate Governance and Audit" chapter;
- **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 Note 26 C 15 to the financial statements and "Fixed assets and installations" below;
- **An early redemption in full of the subordinate capital notes (Series 1).** For details, see Note 25 1 N to the financial statements;
- **Realization of VISA Inc.** shares. For details, see Note 12 K to the financial statements;
- **Increase in competition and reduction in concentration Act.** The preparation for changes in the financial system is continuing, both at the Bank and at ICC, following the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act. For additional details, see Note 36 B to the 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 2019.

Growth. The global economy suffered a blow from the Corona virus outbreak and a sharp contraction was recorded in the first half of the year. The return to activity, following the shutdown, has led to a rapid recovery in activity since the third quarter of the year, as a result of expansionary fiscal and monetary policy of an unprecedented scale, with the recovery in the United States being considerably faster than that in the Eurozone. The product in Israel shrank in 2020 by an unprecedented rate of 2.5%, with the largest part of the decrease being accounted for by private consumption, while the export of high-tech services contributed significantly to offsetting the decrease.

Exchange rates. In 2020, the dollar basket ("the Dollar Index") weakened by approx. 7%, due to the narrowing of the interest margins between the United States and the rest of the world and the high liquidity. The shekel appreciated against the dollar during 2020 by approx. 7%, despite large-scale purchases of foreign currency by the Bank of Israel.

Inflation. Inflation around the world has risen but remains below the targets of the central banks that are indicating that their expansionary policies will remain in place for a considerable time. In Israel, the decline in the inflation rate environment, which had begun even before the crisis, intensified, with inflation slipping into negative territory; thus, inflation for 2020 ended at a negative rate of -0.7%. Despite the recovery process, one-year CPI contracts were being traded at approx. 0.3% at the end of December, considerably below the lower limit of the target.

Monetary policy. Since the outbreak of the crisis, the Bank of Israel, like other central banks, has followed an extremely expansionary monetary policy. This has been done through the implementation of several plans intended to deal with the liquidity difficulties that hit the financial system, to ensure the proper functioning of the financial markets, to ease the credit terms within the economy, and to support economic activity and financial stability. In addition, the Bank of Israel lowered its interest to 0.1% at the beginning of April.

Financial markets. For the year as a whole, most of the leading indices recorded price rises. This, being supported by the expansionary policies being followed by the central banks and governments. The equity indices on the Tel-Aviv Stock Exchange, which lagged slightly behind global equity indices, recorded steep rises during the last quarter and, as a result, the TA-125 Index wiped out the major part of the fall. Trading in government bonds was also affected by the massive intervention of the central banks, which led to returns stabilizing at a low level following high volatility at the beginning of the crisis. During the second half of the year, as inflation predictions became more optimistic, a rise in returns was recorded. Trading in government bonds in Israel was also characterized by a steep rise in returns at the beginning of the crisis, which caused the Bank of Israel to intervene in the bonds market and, as a result, a steep fall in returns was recorded, although during the last quarter, a rise in returns has been recorded, in accordance with the trend relating to US bonds.

First quarter of 2021. The vaccination of the population, the gradual return of economic activity and the expansionary policy followed by central banks and governments are supporting the recovery in activity scopes, with differences between countries, with the acceleration in economic activity in the United States particularly noticeable. The acceleration in economic activity and an expectation of large-scale expansionary government measures have supported market optimism and higher inflationary expectations. Equity and commodity indices have risen and, also, government bond returns. Despite the recovery in economic activity and the higher inflationary expectations, the central banks are expected to maintain their expansionary policies during the coming year.

In Israel, since the start of the year, the process of vaccinating the population has been undertaken at a rapid rate, a fact that has led to optimism. Nevertheless, due to the imposition of a third tight lockdown, a steep increase in unemployment was recorded in the second half of January. Subsequently, in correlation with the gradual exit from the lockdown, economic activity in the market has expanded dramatically, with a rise in optimism among both consumers and businesses. Throughout the period, the Bank of Israel increased its intervention in the foreign currency market. Consequently, and against the backdrop of the strengthening of the dollar globally, the shekel has weakened.

Concurrently with the global rise in returns, Israeli government bonds returns have also begun to rise, with this being supported by higher expectations of inflation over the whole length of the curve, particularly for the short terms. After the significant underperformance of the domestic equities market in 2020, as against the global equity market, equities have overperformed since the start of the year.

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

For further details, see "Main developments in Israel and around the world in 2020" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Material leading and developing risks

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

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

Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry and this alongside the continuing effects that the Corona crisis is expected to have on the business results of the banking system.

The dynamism, the competition, the pace of changes, and the ongoing effects of the Corona crisis, alongside the continuation of the low interest environment and the erosion of the margins, lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine forward looking, advanced and flexible solutions, which would ensure the continued positioning of the Group as a leading banking group also in the future.

Accordingly, the Group updates annually the list of strategic projects, emphasizing the continuation of efforts regarding strategic focal points, alongside consistent examination of changes in international and domestic banking. The Group directs significant efforts to the technology, data, and the digital fields, customer experience, innovation (Fintech) and the development of models for new banking.

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

Furthermore, with the focus intensification on technology-based banking and expertise, so does the need develops for proper management of the transformation required in the workforce and its suitability, along with developing the ability to continue attract and retain personnel in the fields of technology, cyber, models and analysis.

Concurrently with initiating new projects to improve the Group's readiness for the banking future, cross-organization measures are continually being implemented to improve efficiency and to cut costs, including measures to bring forward retirement processes, operational efficiencies and the digitalization of processes.

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

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

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, operational risk and in the cyber risk. There is still significant uncertainty surrounding the continuing effects of the crisis with regard to the depth of the crisis and the length of time that it is likely to impact global and Israeli economic activity and the banking sector, including the Discount Group. For additional details see "Outbreak of the Coronavirus" above.

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

Along with the aforesaid, the effects of the Corona crisis and the support granted by the government have negatively impacted the forecasting aptitude of the traditional financial models (credit, market, investments) that, in the main, are calibrated for more normal times. With the outbreak of the crisis, the Group analyzed the immediate effects of the crisis on the models and took immediate steps to mitigate the damage, primarily by utilizing tools other than the models, such as increased reliance on manual underwriting, changes in the authorizations' hierarchy and the underwriting thresholds, updating coefficients, etc.

Notwithstanding, the negative impact in the credit field is expected to continue into even the medium-long term and this will also have an effect on future development and validation processes and the Group is intensifying its efforts to analyze the effects of the crisis on the various models, with a risk-based approach and through aligning the work plan to the development and validation of models and adaptation to a policy that supports management of the risk.

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

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

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

Environment and climate risk. In recent years, the topic of managing environment and climate risks has become a primary focus of regulatory attention due to an understanding that the materialization of environment and climate risks might have an effect on the banking system and in extreme cases might even lead to global and systemic consequences. Accordingly, various regulators throughout the world, including the Banking Supervision Department, are preparing to map the operations relating to the banking system prior to future regulating of this topic. It should be noted that, in 2009, in light of a regulatory letter of expectation to the banking system on this topic, the Bank's activity on this topic was regulated, including as part of the credit policy and of the specific credit approval processes. Nevertheless, in light of the regulatory letters of expectation recently sent, the Bank is examining accepted practices throughout the world, in order to review its risk management preparations and their integration as part of the risk management processes with the relevant adjustments.

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 commenced, 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 December 31, 2020, is estimated at approx. NIS 52 million.

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

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

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

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

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

Regulation of the open banking API standard in Israel. For further details, see “Legislation and Supervision”.

Reform of bank account mobility. For further details, see “Legislation and Supervision”.

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".

The 2020 retirement plan

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 was offered to approx. 300 permanent employees of the Bank, belonging to the defined targeted population (ages 50-66). Retirees were 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 23 I to the financial statements). Accordingly, as assessed by the Bank’s management, up to approx. 800 Group employees in Israel are likely to retire during 2020-2021 (including natural retirement of approx. 150 employees, of whom 83 employees had actually retired as of December 31).

577 retirees of the Bank, of MDB and of ICC had completed the retirement process until December 31, 2020, within the framework of the retirement plans. During the first quarter of 2021, 79 additional employees (at the Bank, MDB and ICC) are expected to compete the retirement process.

The stated plans increased the liability stated in the books by approx. NIS 555 million (before tax effect; in excess of the cost of the legal severance pay and the surplus balance from a previous plan; NIS 365 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 25 C to the financial statements).

The amount of the settlement that was charged to profit and loss in 2020 (including in respect of the previous retirement plans) amounted to NIS 413 million (before tax effect). The Bank's Management estimates that in light of the number of retirees that would complete the retirement process until the end of the first quarter of 2021, within the framework of the retirement plans, the amount of the settlement to be charged to profit and loss in the first quarter of 2021, is expected to amount to approx. NIS 109 million (before tax effect). The remainder of the retirees will complete the process during 2021. 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.

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2020, the independent auditors drew attention to Note 26 C, section 12, regarding different proceedings filed against the Bank and against investee companies.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The Discount Group's Net profit in 2020 amounted to NIS 975 million, compared with NIS 1,702 million in 2019, a decrease of 42.7%.

Net return on shareholders' equity for 2020 was 5.1%, compared with 9.4% in 2019.

Net earnings per one share of NIS 0.1 par value amounted in 2020 to NIS 0.84, compared with NIS 1.46 in 2019.

The main factors that had an effect on the business results of the Group in 2020, compared with 2019:

a. An increase in credit loss expenses, in an amount of NIS 1,028 million (149%). The increase stems mostly from the implications of the Corona crisis, and in particular from the increase in the group allowance for credit losses, due to increase in uncertainty in view of the Corona crisis.

b. An increase in the total non-interest income, of NIS 236 million (6.3%), primarily an increase in non-interest financing income in an amount of NIS 400 million, which was mainly due to profits on the realization of bonds, to a rise in income from foreign currency exchange differences and from activity in derivatives, and to a rise in profits from the sale of nonmarketable shares, which was partly offset by a NIS 146 million decrease in fees and commissions (4.9%), primarily due to a decrease in credit card fees and commissions and account management fees.

c. An increase of NIS 382 million in operating and other expenses (6.1%), affected, mainly, from an increase of NIS 396 million in other expenses (21.3%), mostly the effect of the settlement, from a NIS 87 million rise in maintenance and depreciation of buildings and equipment (7.9%), which were partly offset by a decrease of NIS 101 million in salaries (3%).

d. Tax provision of NIS 549 million on earnings in 2020, compared with NIS 932 million in 2019.

Additional details and explanations are presented below.

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2020 amounted to NIS 264 million, compared with NIS 258 million in the third quarter of the year, an increase in a rate of 2.3%, and compared with NIS 325 million in the fourth quarter of 2019, a decrease of 18.8%.

The major factors affecting the business results of the Group in the fourth quarter of 2020, compared with the previous quarter, were:

a. An increase in net interest income, in an amount of NIS 28 million (1.9%).

b. An increase in credit loss expenses, in an amount of NIS 130 million (39.4%). The decline was affected by a decline in expenses for group allowance.

c. A decrease of NIS 95 million (9.4%) in non-interest income, which was affected mainly from a decrease of NIS 153 million in income from non interest financing income, which was partly offset by an increase of NIS 41 million in commission fees and by a decrease from other income in the amount of NIS 17 million, mainly due to the realization of assets.

d. An increase in operating and other expenses, in an amount of NIS 73 million (4.2%), which was effected by a decrease of 36 million in salaries and related expenses (4.3%), from an increase of NIS 48 million in maintenance expenses and depreciation of buildings and equipment (16.6%) and from an increase of NIS 61 million in other expenses (9.7%) (see hereunder).

e. In the fourth quarter of 2020, provision for taxes on the profit was recorded, in the amount of NIS 159 million, compared with NIS 134 million in the previous quarter.

Developments in Income and Expenses

Developments in certain profit and loss statement items in 2018-2020

	For the year ended December 31,			Change in %	
	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
	In NIS millions				
Interest income	6,987	7,567	7,053	(7.7)	7.3
Interest expenses	1,089	1,674	1,527	(34.9)	9.6
Net interest income	5,898	5,893	5,526	0.1	6.6
Credit loss expenses	1,718	690	540	149.0	27.8
Net interest income after credit loss expenses	**4,180**	**5,203**	**4,986**	**(19.7)**	**4.4**
Non-interest Income					
Non-interest financing income	1,142	742	586	53.9	26.6
Fees and commissions	2,826	2,972	2,851	(4.9)	4.2
Other income	39	57	57	(31.6)	-
Total non-interest income	**4,007**	**3,771**	**3,494**	**6.3**	**7.9**
Operating and other Expenses					
Salaries and related expenses	3,242	3,343	3,385	(3.0)	(1.2)
Maintenance and depreciation of buildings and equipment	1,185	1,098	1,039	7.9	5.7
Other expenses	2,254	1,858	1,724	21.3	7.8
Total operating and other expenses	**6,681**	**6,299**	**6,148**	**6.1**	**2.5**
Profit before taxes	1,506	2,675	2,332	(43.7)	14.7
Provision for taxes on profit	549	932	789	(41.1)	18.1
Profit after taxes	957	1,743	1,543	(45.1)	13.0
Bank's share in profit of affiliated associates, net of tax effect	50	16	6	212.5	166.7
Net profit attributed to the non-controlling interests in consolidated companies	(32)	(57)	(44)	(43.9)	29.5
Net Profit attributed to Bank's shareholders	**975**	**1,702**	**1,505**	**(42.7)**	**13.1**
Return on shareholders', in %	5.1	9.4	9.3		
Efficiency ratio in %	67.5	65.2	68.2		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**1,287**	**1,779**	**1,628**	**(27.7)**	**9.3**
Return on shareholders' equity , in %- Excluding certain components (see below)	6.7	9.9	10.0		
Efficiency ratio in % (see below)	62.5	64.0	66.1		

Profitability - excluding certain components

	For the year ended December 31			Change in %	
	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
	in NIS millions				
Net Profit Attributed to the Bank's Shareholders - as reported	975	1,702	1,505	(42.7)	13.1
Excluding[(1)]:					
Effect of settlement	272	38	58		
Gains on the sale of rights in Visa Europe	(44)	-	-		
A one-time award at MDB	-	-	37		
Subsidiary retirement plan	15	-	-		
Provision for claims, net of insurance indemnification	43	39	28		
Expenses of vacating the Management Building of IDB Bank	26	-	-		
Net Profit Attributed to the Bank's Shareholders - excluding the above components	**1,287**	**1,779**	**1,628**	**(27.7)**	**9.3**

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

Developments in certain profit and loss statement items in the fourth quarter of 2020, compared with the third quarter of 2020 and the fourth quarter of 2019

	2020		2019	Change Q4 2020 compared to	
	Q4	Q3	Q4	Q3 2020	Q4 2019
	In NIS millions			in %	
Interest income	1,724	1,730	1,860	(0.3)	(7.3)
Interest expenses	220	254	381	(13.4)	(42.3)
Net interest income	1,504	1,476	1,479	1.9	1.7
Credit loss expenses	200	330	261	(39.4)	(23.4)
Net interest income after credit loss expenses	**1,304**	**1,146**	**1,218**	**13.8**	**7.1**
Non-interest Income					
Non-interest financing income	148	301	145	(50.8)	2.1
Fees and commissions	739	698	768	5.9	(3.8)
Other income	24	7	38	242.9	(36.8)
Total non-interest income	**911**	**1,006**	**951**	**(9.4)**	**(4.2)**
Operating and other Expenses					
Salaries and related expenses	794	830	815	(4.3)	(2.6)
Maintenance and depreciation of buildings and equipment	337	289	294	16.6	14.6
Other expenses	689	628	557	9.7	23.7
Total operating and other expenses	**1,820**	**1,747**	**1,666**	**4.2**	**9.2**
Profit before taxes	395	405	503	(2.5)	(21.5)
Provision for taxes on profit	159	134	168	18.7	(5.4)
Profit after taxes	236	271	335	(12.9)	(29.6)
Bank's share in profit of associates, net of tax effect	36	6	5	500.0	620.0
Net profit attributed to the non-controlling interests in consolidated companies	(8)	(19)	(15)	(57.9)	(46.7)
Net Profit attributed to Bank's shareholders	**264**	**258**	**325**	**2.3**	**(18.8)**
Return on shareholders' equity, in %[1]	5.6	5.5	7.2		
Efficiency ratio in %	75.4	70.4	68.6		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**421**	**357**	**361**	**17.9**	**16.6**
Return on shareholders' equity, in %[1] - excluding certain components (see below)	9.1	7.7	8.0		
Efficiency ratio in % (see below)	65.8	63.3	66.3		

Footnote:
(1) On an annual basis.

Profitability - excluding certain components

		2020		2019	Q4 2020 compared to	
		Q4	Q3	Q4	Q3 2020	Q4 2019
	Notes	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported		264	258	325	2.3	(18.8)
Excluding[1]:						
Effect of settlement		246	16	12		
Gains on the sale of rights in Visa Europe		-	(44)	-		
Subsidiary retirement plan		(3)	18	-		
Provision for claims, net of insurance indemnification		(112)	109	24		
Expenses of vacating the Management Building of IDB Bank		26	-	-		
Net income attributed to the Bank's shareholders - excluding the above components		**421**	**357**	**361**	**17.9**	**16.6**

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 23 I to the 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 12 K to the financial statements).
One-time award at MDB. With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi in 2018, see "The Human Capital" below.
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 23 I (3) to the financial statements).
Provision for claims net of insurance indemnification. Changes in the provision for proceedings in Australia (net of insurance indemnification), see Note 26 C 11.3 to the financial statements.
Expenses of vacating the Management Building of IDB Bank. Principally the balance of lease improvements in the old Management building, which was written off in the fourth quarter of 2020, in view of the vacation of the building.

Following are details regarding material changes in statement of profit and loss items:
Net interest income. In 2020, net interest income, amounted to NIS 5,898 million compared with NIS 5,893 million in 2019, an increase of 0.1%. The rise in the net interest income, in the amount of NIS 5 million, is explained by a negative price impact of approx. NIS 430 million, and from a positive quantitative effect in the amount of approx. NIS 435 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).
The interest spread relating to balance sheet activity, reached a rate of 2.21% in 2020, compared with 2.45% in 2019.
The average balance of interest bearing assets has increased by a rate of approx. 13.9%, from an amount of NIS 220,394 million to NIS 251,063 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 11.4%, from an amount of NIS 170,925 million to NIS 190,449 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

	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	71.1	4,696	2.56	68.7	4,606	2.95
CPI-linked shekels	7.9	180	(0.04)	8.5	202	(0.49)
Foreign Currency	21.0	1,022	1.83	22.8	1,085	2.00
Net interest income and the interest spread	**100.0**	**5,898**	**2.21**	**100.0**	**5,893**	**2.45**

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

In the non-linked shekel segment, net interest income increased in 2020 at a rate of 2.0%. Income from this segment constituted 79.6% of total net interest income in 2020, compared with 78.2% in 2019.
The average balance of assets in this segment increased in 2020 by 17.8% compared with 2019.
The increase in the segment's profit is due to a rise in the scope of net interest-bearing assets, primarily credit to the public, which was set off by a decrease in the interest spread. The decline in the interest spread was affected, inter alia, by the change in the mix of assets and liabilities and from a decline in the Bank of Israel's interest rate.
The CPI-linked Shekel segment, net interest income decreased in 2020 at a rate of 10.9% and its proportion of total net interest income in 2020 was 3.1%, compared with 3.4% in 2019. The average asset balance in this segment in 2020 increased by a rate of 5.7% compared with 2019.
The Bank has a surplus of balance-sheet assets over its balance-sheet liabilities and the decline in profits stemmed mostly from the difference between the decrease in the CPI in 2020, at a rate of 0.6%compared to a rise of 0.3% in the Index in 2019. The decline in profits has been offset by a decline in cost of resources.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income decreased in 2020 by a rate of 5.8%. Its proportion of all Net profit was 17.3% in 2020, compared with 18.4% in 2019.
In 2020 the average balance of assets in this segment increased at a rate of 5.1% compared to 2019.
The decrease in the segment's profit is due to a decrease in the interest spread which was set off by a rise in the scope of net interest-bearing assets. The decrease in the interest spread was affected, inter alia, by a reduction in dollar interest on credit to the public.
Non-interest financing income increased in 2020 at a rate of 53.9%, compared with 2019. The increase stemmed mostly from an increase in profit from the realization of bonds and shares.
Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing profit from current activity, the net interest income and the non-interest financing income need to be aggregated.

Composition of net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2020		
Interest income	6,987	1,724	1,730	1,742	1,791
Interest expenses	1,089	220	254	279	336
Net interest income	5,898	1,504	1,476	1,463	1,455
Non-interest financing income	1,142	148	301	276	417
Total net financing income	**7,040**	**1,652**	**1,777**	**1,739**	**1,872**
			2019		
Interest income	7,567	1,860	1,751	2,150	1,806
Interest expenses	1,674	381	353	555	385
Net interest income	5,893	1,479	1,398	1,595	1,421
Non-interest financing income	742	145	195	230	172
Total net financing income	**6,635**	**1,624**	**1,593**	**1,825**	**1,593**

Analysis of the total net financing income

			2020		
	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
Financing Income from current operations	6,227	1,535	1,523	1,552	1,617
Effect of CPI	(35)	-	5	(16)	(24)
Net profit from realization and adjustment to fair value of bonds(1)	457	41	96	142	178
Profit (loss) from investments in shares(2)(3)	231	116	116	7	(8)
Adjustment to fair value of derivative instruments	(4)	(42)	14	18	6
Exchange rate differences, options and other derivatives(1)	161	(1)	23	36	103
Net profit on the sale of loans	3	3	-	-	-
Total net financing income	**7,040**	**1,652**	**1,777**	**1,739**	**1,872**
Footnotes:					
(1) Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	38	(9)	(1)	(7)	55
(2) Of which: income from realizations in Discount Capital in deduction of provision for impairment	130	115	18	(3)	-
(3) Of which – income from the realization of VISA Inc. shares.	88	-	88	-	-

Analysis of the total net financing income (continued)

	2019				
	Annual	Q4	Q3	Q2	Q1
	in NIS millions				
Financing Income from current operations	6,199	1,586	1,528	1,556	1,529
Effect of CPI	14	(12)	(33)	73	(14)
Net profit from realization and adjustment to fair value of bonds[1]	211	23	65	66	57
Profit from investments in shares[2]	123	5	37	71	10
Adjustment to fair value of derivative instruments	(36)	6	(51)	44	(35)
Exchange rate differences, options and other derivatives[1]	117	16	47	14	40
Net income on the sale of loans	7	-	-	1	6
Total net financing income	**6,635**	**1,624**	**1,593**	**1,825**	**1,593**
Footnotes:					
(1) Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	(53)	6	(19)	(5)	(35)
(2) Of which: income from realizations in Discount Capital.	53	(1)	14	36	4

Net financing income, increased in 2020 at a rate of 6.1%. The growth stemmed, mostly, from an increase of NIS 246 million in profits from realization and adjustment to fair value of bonds, from a rise in the profits on realization of Discount Capital shares and on the realization of the VISA Inc. shares (see Note 12 K to the financial statements), which were offset by a reduction of NIS 49 million in the effect of the CPI.

Rates of income and expenses. In 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 1.91% in 2020, compared to 2.04% in 2019.

Net financing income, increased in the fourth quarter of 2020, at a rate of 1.7%, compared with the corresponding quarter last year, and decreased at a rate of 7.0% compared with the third quarter of 2020.

The interest spread relating to balance-sheet activity reached a rate of 2.21% in the fourth quarter of 2020, as against 2.45% in the corresponding quarter last year and against 2.23% in the third quarter of the year.

Interest spread, including derivatives not for trading reached in the fourth quarter of 2020 a rate of 1.98%, compared to 2.08% in the corresponding quarter last year and compared to 1.97% in the third quarter of the year.

Development of net interest income, by regulatory operating segments

	For the year ended December 31,		
	2020	2019	Change
	In NIS millions		in %
Domestic operations:			
Households	1,975	1,959	0.8
Private banking	67	84	(20.2)
Small and minute businesses	1,435	1,563	(8.2)
Medium businesses	352	324	8.6
Large businesses	805	744	8.2
Institutional bodies	38	42	(9.5)
Financial management	394	260	51.5
Total Domestic operations	**5,066**	**4,976**	**1.8**
International operations:			
Private Individuals	85	123	(30.9)
Business operations	621	709	(12.4)
Other	126	85	48.2
Total International operations	**832**	**917**	**(9.3)**
Total	**5,898**	**5,893**	**0.1**

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

Credit loss expenses amounted to NIS 1,718 million in 2020, compared with NIS 690 million in 2019, an increase of 149.0%. 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, but there is still uncertainty regarding the intensity of the crisis and how long its impact is expected to last. On the background of the above stated, the Bank has decided to increase the group allowance in 2020, 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 2020 were mostly affected by the following factors:

- Recognition of expenses on a group basis in the amount of NIS 1,366 million, compared to NIS 481 million in 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 282 million, compared to NIS 181 million in 2019;
- Recognition of an expense regarding housing loans, in the amount of NIS 70 million, compared with NIS 28 million in 2019, an increase of 150%, 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 and fourth quarters 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 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 31 to the financial statements.

Details of the annual development in the credit loss expenses

	2020	2019
	In NIS millions	
On a specific basis		
Change in allowance	173	126
Gross accounting write-offs	349	275
Collection	(240)	(220)
Total on a specific basis	**282**	**181**
On a group basis		
Change in allowance	1,180	168
Gross accounting write-offs	544	602
Collection	(288)	(261)
Total on a group basis	**1,436**	**509**
Total	**1,718**	**690**
Rate of credit loss expenses to the average balance of credit to the public	(1)0.91%	0.40%

Footnote:

(1) Including an expense in an immaterial amount in respect of credit to banks and governments.

Details of the quarterly development in the credit loss expenses

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in allowance	86	18	10	59	84	34	18	(10)
Gross Accounting Write-offs	95	78	68	108	78	62	70	65
Collection	(68)	(49)	(67)	(56)	(50)	(72)	(46)	(52)
Total on a specific basis	**113**	**47**	**11**	**111**	**112**	**24**	**42**	**3**
On a group basis								
Change in allowance	62	227	432	459	69	44	(2)	57
Gross Accounting Write-offs	104	124	151	165	148	146	160	148
Collection	(79)	(68)	(62)	(79)	(68)	(62)	(64)	(67)
Total on a group basis	**87**	**283**	**521**	**545**	**149**	**128**	**94**	**138**
Total	**200**	**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:	0.42%	0.70%	(2)1.14%	1.42%	0.58%	0.35%	0.32%	0.33%
Cumulative rate since the beginning of the year:	(2)0.91%	(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 amounted to NIS 2,826 million in 2020, compared with NIS 2,972 million in 2019, a decrease of 4.9%. The decline in commission fees was mainly affected by a decline in management fees and a decline in credit card commission fees, which was partly offset by an increase in commission fees on activity in securities and certain derivative instruments.

Distribution of fees and commissions

	For the year ended December 31,		
	2020	2019	Change in %
	in NIS millions		
Account Management fees	438	470	(6.8)
Credit cards	1,310	1,406	(6.8)
Operations in securities and in certain derivative instruments	353	326	8.3
Fees and commissions from the distribution of financial products	142	153	(7.2)
Handling credit	178	182	(2.2)
Conversion differences	122	133	(8.3)
Foreign trade services	50	56	(10.7)
Net income from credit portfolio services	4	5	(20.0)
Fees and commissions on financing activities	156	163	(4.3)
Other fees and commissions	73	78	(6.4)
Total fees and commissions	**2,826**	**2,972**	**(4.9)**

Credit card fees and commissions. The Corona crisis caused a reduction in credit card activity as from the month of March 2020. The decrease amounted to NIS 96 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, third quarter and fourth 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 3,242 million in 2020, compared with NIS 3,343 million in 2019, a decrease of 3.0% (for details as to the components of this item, see Note 6 to the financial statements). Eliminating the effect of certain components as detailed below, an increase of 1.0% would have been recorded.

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

	For the year ended December 31		
	2020	2019	Change in %
	In NIS millions		
Salaries and Related Expenses - as reported	3,242	3,343	(3.0)
Awards	(122)	(285)	
Subsidiary retirement plan	(31)	-	
Salaries and Related Expenses - excluding certain components	**3,089**	**3,058**	**1.0**

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	794	830	794	824	815	824	857	847
Awards	(60)	(24)	(17)	(21)	(59)	(63)	(94)	(69)
Subsidiary retirement plan	7	(38)	-	-	-	-	-	-
Salaries and Related Expenses - excluding certain components	**741**	**768**	**777**	**803**	**756**	**761**	**763**	**778**

Other expenses amounted to NIS 2,254 million in 2020, compared to NIS 1,858 million in 2019, an increase of 21.3%. The increase stems mainly from the following factors:

- An increase of NIS 355 million in settlement payments affected by the retirement plans at the Bank and at MDB in 2020, compared to settlements at the Bank and at IDB Bank in 2019;
- An increase in the provision for the proceedings in Australia, net of insurance indemnification (see Note 26 C 11.3 to the financial statements) in the amount of NIS 5 million (in the fourth quarter – reduction in expense in the amount of NIS 174 million compared to the increase in expenses of NIS 168 million, in the third quarter of the year);
- An increase of NIS 63 million in fees and commissions, impacted mostly from the increase in payments by ICC to business partners;
- An increase in expenses and professional services in the amount of NIS 28 million, partly offset by a reduction in advertising and marketing expenses of NIS 45 million, and a reduction in long-term benefits of NIS 45 million.

For additional details, see Note 7 to the financial statements

Investments and Expenses in respect of the Information Technology System

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

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

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

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

Investments and expenses in respect of the information technology system

	December 31, 2020				December 31, 2019			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses in respect of the information technology system, as included in the statement of profit and loss:								
Payroll and related expenses	163	90	46	299	164	82	32	278
Acquisitions or license fees not capitalized to assets	161	4	-	165	125	4	-	129
Outsourcing expenses	31	28	41	100	52	25	17	94
Depreciation expenses	291	90	8	389	285	77	8	370
Other expenses	98	32	110	240	85	30	110	225
Total	**744**	**244**	**205**	**1,193**	**711**	**218**	**167**	**1,096**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	108	-	-	108	87	-	-	87
Outsourcing costs	246	-	-	246	234	-	-	234
Acquisition or license fee costs	144	16	-	160	96	7	-	103
Equipment, buildings and real estate costs	91	104	4	199	20	54	7	81
Total	**589**	**120**	**4**	**713**	**437**	**61**	**7**	**505**
Balances of assets in respect of the information technology system:								
Total amortized cost	**1,222**	**212**	**168**	**1,602**	**995**	**181**	**144**	**1,320**
Of which: in respect of salaries and related expenses	868	-	-	868	747	-	-	747

Developments in the Comprehensive Income

Condensed statement of comprehensive income

	For the year ended December 31,		
	2020	2019	Change
	in NIS millions		in %
Net Profit attributed to the Bank's shareholders	975	1,702	(42.7)
Changes in components of other comprehensive income , attributed to the Bank's shareholders:			
Other comprehensive income (loss) , before taxes[(1)]	(513)	258	
Related tax effect	97	(178)	
Other comprehensive income (loss) , attributed to the Bank's shareholders, after taxes	(416)	80	
Comprehensive income, attributed to the Bank's shareholders	**559**	**1,782**	**(68.6)**

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

Other comprehensive loss after taxes amounted to NIS 416 million in 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 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 112 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 2020, the exchange rate of the shekel against the US dollar appreciated by (7.0)%. 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 254 million (for additional details, see below "Exposure regarding the investment in Discount Bancorp Inc." in section "Capital and capital adequacy");
- 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 slight decline in return on bonds, which took place in 2020, the actuarial loss due to changes in the discounting rates, increased in an amount of approx. NIS 11 million, net of the tax allocation, and the other comprehensive loss increased by an amount of NIS 264 million, of which, an amount of NIS 94 million in respect of the 2020 retirement plan at the Bank and at MDB.

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

Developments of Assets and Liabilities

Total assets as at December 31, 2020 amounted to NIS 293,969 million, compared with NIS 259,823 million at the end of 2019, an increase of 13.1%.

Developments in the principal balance sheet items

	December 31, 2020	December 31, 2019	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	42,936	26,044	64.9
Securities	42,785	37,745	13.4
Net credit to the public	188,718	180,467	4.6
Liabilities			
Deposits from the public	226,118	201,450	12.2
Deposits from banks	13,107	6,419	104.2
Subordinated debt notes	10,201	13,129	(22.3)
Shareholders' equity	19,182	18,678	2.7
Total equity	19,727	19,193	2.8

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 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.

Deposits from banks

Deposits from banks increased significantly in 2020. Most of the amount relates to deposits from the Bank of Israel made within the framework of the measures taken by the central bank to expand credit to small businesses as a result of the Corona crisis.

Credit to the Public

General. Net credit to the public, as at December 31, 2020, amounted to NIS 188,718 million, compared with NIS 180,467 million on December 31, 2019, an increase of 4.6%. The ratio of net credit to the public, to total assets reached 64.2% at the end of 2020, compared with 69.5% at the end of 2019.
For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, at the Discount Group, see "Credit risk" in Chapter C hereunder. For details regarding the quality of credit, see Note 31 to the financial statements. Also, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Composition of Credit to the Public by Linkage Segments

Composition of net credit to the public by linkage segments

	December 31, 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	139,083	73.7	132,824	73.6	4.7
CPI-linked shekels	18,999	10.1	18,348	10.2	3.5
Foreign currency and foreign currency-linked shekels	30,636	16.2	29,295	16.2	4.6
Total	**188,718**	**100.0**	**180,467**	**100.0**	**4.6**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 4.6% 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$1,056 million as compared to December 31, 2019, an increase of 12.4%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency computed in dollar terms, increased by 5.2% as compared to December 31, 2019.

Composition of Credit to the Public by Regulatory Operating Segments

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

	December 31, 2020	December 31, 2019	change
	In NIS millions		in %
Domestic operations:			
Households*	72,620	69,211	4.9
Private banking*	364	326	11.7
Small and minute businesses	36,439	36,837	(1.1)
Medium businesses	12,865	12,628	1.9
Large businesses	45,687	39,529	15.6
Institutional bodies	1,007	676	49.0
Total Domestic operations	**168,982**	**159,207**	**6.1**
International operations:			
Private Individuals*	1,419	1,423	(0.3)
Business operations	22,078	22,361	(1.3)
Total International operations	**23,497**	**23,784**	**(1.2)**
Total credit to the public	**192,479**	**182,991**	**5.2**
Credit loss expenses	(3,761)	(2,524)	49.0
Total net credit to the public	**188,718**	**180,467**	**4.6**
*Of which - Mortgages	42,651	37,159	14.8

The attainment of the Bank's capital adequacy goals, enabled the Bank to accelerate the rate of growth in credit in the last years. The increase in credit to the public in 2020 reflects growth in the focus points determined in the updated strategic plan. Credit to large business grew by NIS 6,158 million (15.6%) and housing credit grew by NIS 5,492 million (14.8%). On the other hand, a reduction was recorded in credit to households, excluding housing loans, in the amount of NIS 2,039 million (6.3%).

Composition of Credit to the Public by Economic Sectors

Developments of overall credit exposure, by major principal sectors

Economic Sectors	December 31, 2020 Total credit to the public risk	Rate from total credit risk	December 31, 2019 Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	21,365	7.3	19,982	7.1	6.9
Construction and real estate - construction	33,302	11.3	31,382	11.2	6.1
Construction and real estate - real estate activity	24,579	8.3	22,973	8.2	7.0
Commerce	29,794	10.0	29,056	10.3	2.5
Financial services	27,070	9.2	24,224	8.6	11.7
Private individuals - housing loans	47,827	16.2	41,203	14.7	16.1
Private individuals - other	67,707	22.9	69,385	24.7	(2.4)
Other sectors	44,051	14.8	42,909	15.2	2.7
Total overall credit to the public risk	**295,695**	**100.0**	**281,114**	**100.0**	**5.2**

The data presented above indicates that in 2020, the overall risk regarding credit to the public increased by 5.2% compared with the end of 2019. This growth applied mostly to credit granted to private individuals - housing loans, financial services, construction and real estate - construction, construction and real estate - real estate and industry sectors. On the other hand, a decline occurred in the total credit risk in the private individuals – other sector.

Development of Problematic Credit Risk

For details regarding "problematic credit risk and nonperforming assets", see "Credit risk" in Chapter "C" below.
Following are details on credit to the public, as specified in Note 31 to the financial statements:
Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing and non-accruing) amounted at December 31, 2020 to NIS 2,207 million, compared to NIS 1,814 million at December 31, 2019, an increase at the rate of 21.7%.
Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2020 to NIS 1,424 million, compared to NIS 1,166 million at December 31, 2019, an increase at a rate of 22.1%.

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

Economic Sectors	December 31, 2020 Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	December 31, 2019 Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	21,365	1,017	4.8	19,982	856	4.3
Construction and real estate - construction	33,302	630	1.9	31,382	323	1.0
Construction and real estate - real estate activity	24,579	1,479	6.0	22,973	705	3.1
Commerce	29,794	814	2.7	29,056	1,048	3.6
Financial services	27,070	409	1.5	24,224	359	1.5
Private individuals - housing loans	47,827	327	0.7	41,203	378	0.9
Private individuals - other	67,707	717	1.1	69,385	566	0.8
Hotels, Hotel Services and Food	3,959	1,760	44.5	3,454	170	4.9
Transportation and Storage	7,025	458	6.5	7,759	283	3.6
Other Sectors	33,067	669	2.0	31,696	390	1.2
Total Public	**295,695**	**8,280**	**2.8**	**281,114**	**5,078**	**1.8**
Banks	7,126	-	-	5,188	37	0.7
Governments	35,904	-	-	29,904	-	-
Total	**338,725**	**8,280**	**2.4**	**316,206**	**5,115**	**1.6**

In 2020 the ratio of problematic credit risk to the overall credit risk increased, as compared with 2019. The rate of the problematic debt increased in 2020, mostly in the sectors of hotels, hotel services and food, construction and real estate - real estate activity, transportation and storage, construction and real estate – construction and industry. On the other hand, a decline occurred in the rate of the problematic debt, mostly in the commerce and private individuals – housing loans sectors.

The Balances of the Allowance for Credit Losses

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 3,761 million as of December 31, 2020. The balance of this allowance constitutes 1.95% 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 allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 505 million on December 31, 2020, compared to NIS 307 million on December 31, 2019.

The balance of the group allowance for credit losses. The balance of the group allowance for credit losses excluding housing loans, amounted on December 31, 2020 to NIS 2,997 million, compared to NIS 2,009 million as of December 31, 2019, comprising an increase in the current allowance in the amount of NIS 981 million, a rate of approx. 49.2%. Most of the growth stemmed from the application of conservative parameters regarding the crisis and their impact on the rate of the allowance.

The Risk Characterization of the Credit to the Public Portfolio

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

	For the year ended December 31			
	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	124	1.0	44	0.4
Construction and real estate - construction	112	0.7	73	0.5
Construction and real estate - real estate activity	253	1.2	(36)	(0.2)
Commerce	197	0.9	149	0.7
Hotels, hotel services and food	179	5.0	-	-
Transportation and storage	68	1.2	69	1.2
Financial services	13	0.1	(13)	(0.1)
Other Business Services	165	2.7	62	1.0
Public and Community Services	38	0.3	17	0.2
Other Sectors	33	1.5	(14)	-
Total Commercial	1,182	1.0	351	0.3
Private Individuals - Housing Loans	70	0.2	27	0.1
Private Individuals - Other	452	1.4	312	0.9
Total credit loss expenses to the public.	1,704	0.9	690	0.4
Total Banks	(1)	-	-	-
Total Governments	15	0.4	-	-
Total credit loss expenses	**1,718**	**0.91**	**690**	**0.40**

The data shown above indicates that the increase in the credit loss expense in 2020 was focused on the construction and real estate - real estate activity, hotels, hotel services and food, private individuals – other, other business services and industry activity sectors.

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

Approx. 99.4% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 37.9% of total credit to the public as at December 31, 2020, compared with 38.6% as at December 31, 2019. The credit bracket between NIS 1.2 million and NIS 200 million constitutes approx. 45.5% of all credit as at December 31, 2020, compared with 45.2% as at December 31, 2019. The 99 largest borrowers, in the credit brackets between NIS 200 million and NIS 6,385 million, were granted credit constituting approx. 16.6% of total credit to the public as at December 31, 2020, compared with 91 borrowers that were granted credit constituting 16.2% of the total credit as at December 31, 2019. For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 7, section 3.
For additional details, see "Credit risks" in Chapter "C" below, and also "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Issue of credit-linked debt notes. The Bank had issued credit-linked notes (CLN), the balance of which at December 31, 2020, amounted to approx. NIS 31 million, which is presented in the section "bonds and subordinated debt notes" (as of December 31, 2019: NIS 144 million).
A credit-linked debt note is a financial instrument that is connected to an asset of the Bank representing a debt of a third party legal entity and which bears the credit risk inherent in that entity. The purchaser of the note accepts the risk inherent in the debt asset. The Bank commits to redeem the amount of the liability (as well as interest in accordance with the terms of the note), when the Bank's liability is contingent on the non-materialization of the risk inherent in the debt asset. The deposit shall not be refunded to the purchaser of the note if the base asset, to which it is linked, would be in an insolvency situation, and the Bank shall only pay to the holder of the note the amounts it manages to collect in respect of the debt asset.
This product is considered collateral which is deductible in calculating the indebtedness of the customer, in accordance with Proper Conduct of Banking Business Directive No.313. It is also considered a qualified financial collateral in accordance with Sections 145 to 147 of Proper Conduct of Banking Business Directive No.203.

Securities

General. Securities in the nostro portfolio amounted to NIS 42,785 million as at December 31, 2020, compared with NIS 37,745 million at the end of 2019, an increase of 13.4%.
Following are securities included in the "nostro" portfolio of the Discount Group, the investment in which as of December 31, 2020, amounted to 5% or over of the total amount of the portfolio: "government variable 1130", the "shekel government 0330" and the "government variable 1121" security types, which amounted to approx. 7.7%, approx. 7.4% and approx. 5.3%, of the total portfolio, respectively.
As of December 31, 2020, approx. 71.8% of the portfolio is invested in Government bonds, and approx. 16.1% 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. 1.2% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE)). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the annual report", appendix 6, sections 1-3. For details regarding the distribution of the investment in government bonds according to principal governments, see "Appendices to the annual report" – appendix 7, section 4.
Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.
The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.
In 2020, the Bank's securities portfolio increased by 13.4%, stemming mostly from the growth in Israel bonds. Investments were made in accordance with the principles detailed above.

Composition of the Securities Portfolio by Linkage Segments

Composition of the securities portfolio by linkage segments

	December 31, 2020	December 31, 2019	Rate of change in %
	In NIS millions		
Non-linked shekels	25,814	20,486	26.0
CPI-linked shekels	991	685	44.7
Foreign currency and foreign currency-linked shekels	14,887	15,594	(4.5)
Shares - non-monetary items	1,093	980	11.5
Total	**42,785**	**37,745**	**13.4**

Securities in foreign currency and in Israeli currency linked foreign currency decreased by 4.5% compared with December 31, 2019. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency increased by US$118 million, an increase of 2.6% 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 16.3% 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 portfolio according to portfolio classification

	December 31 ,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	7,923	8,233	7,923	4,753	4,998	4,753
Available for sale	31,917	32,633	32,633	29,091	29,562	29,562
Trading	1,130	1,136	1,136	2,442	2,450	2,450
Shares						
Available for sale	1,051	1,092	1,092	935	967	967
Trading	1	1	1	12	13	13
Total Securities	**42,022**	**43,095**	**42,785**	**37,233**	**37,990**	**37,745**

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of December 31, 2020, includes investments in corporate bonds in the amount of NIS 2,789 million (of which an amount of NIS 448 million is held by IDB Bank), compared with NIS 3,601 million as of December 31, 2019, a decrease of 22.5%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 12 to the financial statements.

Data by economic sectors. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see "Appendices to the annual report" – Appendix 6, sections 1-3.

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

Investments in Mortgage and Asset Backed Securities

General. Discount Group's securities portfolio as of December 31, 2020 includes investment in mortgage-backed and asset-backed bonds in an amount of NIS 8,004 million, compared with NIS 7,444 million as of December 31, 2019. The amount includes investment in mortgage and asset backed bonds in the amount of NIS 7,469 million, which are held by IDB Bank, compared to an amount of NIS 6,857 million as at December 31, 2019, an increase of 8.9%. Approx. 86.1% of the mortgage backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA-AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2020, the portfolio of mortgage and assets backed securities included unrealized net gains of NIS 148 million, compared with NIS 2 million as of December 31, 2019.

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

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

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

CLO. IDB Bank holds secured bonds of the CLO class in a total amount of NIS 580 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds bonds of the CLO class in the amount of NIS 531 million. The said securities are rated AA-AAA. For details, see Note 12 to the financial statements.

Details regarding Impairment in Value of Available for Sale Securities

General. For details regarding the review of impairment of securities, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements.

Based on a review of the impairment of the said securities as of December 31, 2020, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that the impairment is of a temporary nature.

As of December 31, 2020 and 2019, unrealized accumulated losses on available-for-sale mortgage and assets backed securities amounted to total amounts of NIS 6 million and NIS 28 million, respectively. For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 12 D to the financial statements.

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

The balance of the adjustments presented as part of equity, in respect of stating available-for-sale bonds at fair value, including in respect of bonds on loan, amounted at December 31, 2020, to NIS 727 million unrealized gains before tax effect, compared to NIS 573 million (in respect of available-for-sale securities) as of December 31, 2019.

Customer Assets

Deposits from the public as at December 31, 2020, amounted to NIS 226,118 million, compared with NIS 201,450 million at the end of 2019, an increase of 12.2%. In 2020, 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.

Composition of deposits from the public by linkage segments

	December 31, 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	157,927	69.9	134,716	66.9	17.2
CPI-linked shekels	4,576	2.0	4,611	2.3	(0.8)
Foreign currency and foreign currency-linked shekels	63,615	28.1	62,123	30.8	2.4
Total	**226,118**	**100.0**	**201,450**	**100.0**	**12.2**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 2.4%, 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$1,812 million, an increase of 10.1% compared with December 31, 2019. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency computed in U.S. Dollar terms, increased by 14.6%, as compared with December 31, 2019.

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

	December 31, 2020	December 31, 2019	Change in %
	In NIS millions		
Domestic operations:			
Households	88,888	75,312	18.0
Private banking	17,959	16,368	9.7
Small and minute businesses	41,818	(1)36,561	14.4
Medium businesses	9,842	7,590	29.7
Large businesses	25,382	(1)20,218	25.5
Institutional bodies	14,615	(1)18,624	(21.5)
Total Domestic operations	**198,504**	**174,673**	**13.6**
International operations:			
Private Individuals	8,514	9,047	(5.9)
Business operations	19,100	17,730	7.7
Total International operations	**27,614**	**26,777**	**3.1**
Total deposits from the public	**226,118**	**201,450**	**12.2**

Footnote:
(1) Reclassified – improvement in the attribution of the balance of several customers' deposits (see Note 19).

The ratio of total net credit to the public, to deposits from the public was approx. 83.5% as at December 31, 2020, compared with 89.6% at the end of 2019.
Deposits from the public of the three largest depositor groups amounted as of December 31, 2020, to NIS 3,617 million.
Securities held for customers. On December 31, 2020, the balance of the securities held for customers at the Bank amounted to approx. NIS 187.12 billion, including approx. NIS 1.58 billion of non-marketable securities, compared to approx. NIS 191.47 billion as at December 31, 2019, including approx. NIS 1.61 billion of non-marketable securities, a decrease of approx. 2.3%. For details as to income from security activities, see Note 4 to the financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2020, amounted to NIS 10.15 billion, compared with NIS 11.71 billion in December 31, 2019, a decrease of 13.3%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2020, amounting to NIS 21.3 billion, compared with NIS 19.6 billion as of December 31, 2019, an increase of 8.6%.

Capital and Capital Adequacy

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

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

Transitional instructions. In accordance with the transitional instructions, capital instruments not recognized any longer as regulatory capital, were recognized as from January 1, 2014, in an amount of up to 80% of their outstanding balance included in the regulatory capital at December 31, 2013, and in each consecutive year this maximum balance is being reduced by an additional 10% until January 1, 2022. In accordance with the above, the maximum balance in 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 Note 25 item 1 C to the financial statements.

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 policy 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. On March 7, 2021, the Supervisor of Banks announced the extension of the equity reliefs to September 30, 2021, as set forth in the draft circular of that date.

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 0.25% in the Tier 1 capital ratio, in December 31, 2020 terms.

For details regarding the purchase of credit risk insurance, including guaranties, see "Large business segment (Domestic operations) – additional details".

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

Common Equity Tier 1 goal and total capital goal

At least once a year, the Board of Directors approves the Bank's capital goals, which comprise a Common Equity Tier 1 goal and a total capital goal. These goals are based on the policy that has been approved by the Board of Directors, which expresses the Bank's appetite for risk, pursuant to which the Bank is required 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 adopted a minimum Common Equity Tier 1 goal at a level of 9.9% and a minimum total capital goal at a level of 12.8%, for 2020. It should be noted that these goals take into account, inter alia, the results from the Bank's internal processes for determining the capital goals (the ICAAP results) and the results of the last SREP that was carried out, which includes a dialogue between the Bank and the Banking Supervision Department in relation to the specific risks of the Bank at the time when this process was carried out and the uniform stress tests were conducted[2].

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). The total capital goal was adjusted accordingly.

On December 20, 2020, the Bank's Board of Directors, based on the ICAAP and the SREP proceedings as stated, including the uniform stress tests that were conducted, and the provisional instruction mitigating the capital requirements in order to confront the Corona crisis, adopted a Common Equity Tier 1 ratio goal at a rate of 8.9%, in effect until the end of the transitional instructions period – April 1, 2021.

For details regarding the Banking Supervision Department's intention to extend the validity of the Temporary Directive, see above. For further details, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in the outline, which enables attainment of the Board of Directors' goals while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived. The allocation of the risk assets between the business units and the subsidiaries is in line with the strategic plan, while optimizing the Group's return on equity.

The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations in accordance with transitional instructions. The Bank examines a number of scenarios in arriving at the prescribed capital ratios.

As part of the capital management process, the Bank routinely examines its ability to attain the internal capital targets set by the Board of Directors and included in the work plan. Should the forecasted capital ratio differ considerably from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.

For additional details, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2020 Annual Report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

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

The activity of the Discount Group during 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 2020, 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 year, offset the effects observed in the first quarter. In total for 2020, the capital reserves in respect of available-for-sale bonds, net of gains from sale of the said bonds, have increased and had a positive impact on the Bank's capital ratios.

2 For the meaning of the term "uniform stress testing" and for further details, see "Stress testing" in Chapter 3 below, as well as "Assessing the capital adequacy" in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document.

Exposure regarding the investment in Discount Bancorp Inc.

A US dollar exposure (structural position) in the amount of US$1,153 million exists as of December 31, 2020, stemming from the investment in the banking subsidiary in New York (Discount Bancorp Inc.). This exposure prevents material fluctuations in the ratio of capital to risk components caused by the effect of exchange rate of the US dollar on the credit risk. On the other hand, changes in the exchange rate of the dollar affect the shekel value of the investment in the said subsidiary and lead to fluctuations in other comprehensive profit and in the equity capital of the Bank.

Components of Capital

Total capital as at December 31, 2020, amounted to NIS 19,727 million, compared with NIS 19,193 million at December 31, 2019, an increase of 2.8%. The increase stems, mostly, from the profit for the year.

Shareholders' equity as at December 31, 2020, amounted to NIS 19,182million, compared with NIS 18,678 million at December 31, 2019, an increase of 2.7%.

The change in shareholders' equity in 2020 was affected, among other things, by the net earnings during the year, by an increase of NIS 112 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 254 million in financial statements transactions adjustments and from the net actuarial loss in the amount of NIS 275 million.

The ratio of total capital, to total assets as at December 31, 2020, stood at 6.7%, compared with 7.4% as of December 31, 2019.

Components of the Regulatory Capital as of December 31, 2020

Ratio of common equity tier 1 on December 31, 2020, amounted to 10.20%, as compared with 10.31% on December 31, 2019.

Total capital ratio as of December 31, 2020, amounted to 13.06%, as compared with 13.86% on December 31, 2019.

Components of the regulatory capital as of December 31, 2020

	December 31,	
	2020	2019
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	19,707	19,009
Additional tier 1 capital after deductions	356	534
Tier 1 capital	20,063	19,543
Tier 2 capital	5,170	6,021
Total capital	**25,233**	**25,564**
2. Weighted risk assets balance		
Credit risk(2)	173,317	165,883
Market risk	3,337	2,858
CVA risk	1,763	1,489
Operational risk	14,815	14,216
Total weighted risk assets balance	**193,232**	**184,446**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.20	10.31
Ratio of total capital to risk assets	13.06	13.86
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1(1)	8.18	9.20
Total capital ratio(1)	11.68	12.70

Footnotes:

(1) With an addition of 0.18% (December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see Note 25 section 1 B to the financial statements.

(2) The total weighted balances of the risk assets have been reduced by NIS 439 million (December 31,2019: NIS 10 million) due to adjustments in respect to the efficiency plan.

Raising of Resources

Issuances of tier 2 capital. In January 2020 the Coco bonds issue in an overall scope of NIS 100 million was concluded. On June 21, 2020, an additional Coco issuance was concluded, with an overall scope of NIS 440 million. For additional details, see Note 25 O to the financial statements.

Subtraction of regulatory capital instruments in 2021. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2021. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2021. Regulatory capital instruments, which are to be subtracted in the course of 2021, in accordance with the transitional provisions, amount to NIS 369 million (in accordance with the Basel II instructions an amount of NIS 191 million would have been deducted).

The Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2021 and market conditions, in order to maintain the total capital targets for 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 Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Dividends Distribution

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

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

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

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, and the clarification of the circumstances. The Temporary Directive was due to lapse on March 31, 2021. On March 7, 2021, the Banking Supervision Department announced its intention to extend the validity of the Temporary Directive, until September 30, 2021 (see "Capital and capital adequacy" above).

For details of the dividends paid as from the first quarter of 2018, see Note 24 E (5) to the financial statements. For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 D (2) to the 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 Supervisor of Banks, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of business customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments.

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

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

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

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

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

Validation and updating of the expense allocation model. 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 29 C to the financial statements.

Administrative Structure

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

The Bank's business operations in 2020 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.

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

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

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

The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.

In addition, alongside the above mentioned divisions, two additional business activities divisions operate at the Bank: the Digital, Data and Innovation Division, which is responsible for the online channels area, the data, the CRM, the PayBox cellular payments application and the innovation, and the Planning, Strategy and Finance Division, which is responsible, among other things, for pension advisory services activity.

Household Segment (Domestic operations)

General

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

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 2020 amounted to NIS 144 million, compared to a net profit in an amount of NIS 111 million in 2019. The decrease in profit, turning into a loss, has been affected by a steep rise in credit loss expenses as well as to an increase in the operating and other expenses with respect to the settlement effect.

Credit loss expenses in this segment amounted to NIS 518 million in 2020, compared to NIS 339 million in 2019, an increase of 52.8%. 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 Household segment (Domestic operations)

	For the year ended December 31,	
	2020	2019
	in NIS millions	
Total income	3,475	3,561
Credit loss expenses	518	339
Total Operating and other expenses	3,194	[(1)]3,008
Net Profit (Loss) Attributed to the bank's shareholders	(144)	111

Footnote:
(1) Reclassified - see Note 29 C to the 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 year 2020 was typified by fluctuations in the markets and by declining interest rates due to the Corona crisis. The instability in the capital markets and concern regarding the impact of the epidemic on the economy have caused restraint among customers, who, despite the steep rise in market prices characterizing the second half of the year, were still hesitant in returning to investing in the capital market.

Scale of Operations and Net Profit of the Segment

The segment's loss in 2020 amounted to NIS 20 million, compared with NIS 3 million in 2019. The loss was affected, among other thigs, by an increase in the provision of NIS 65 million for claims in 2020 net of insurance indemnification.

Principal data regarding the Private banking segment (Domestic operations)

	For the year ended December 31,	
	2020	2019
	in NIS millions	
Total income	146	152
Credit loss expenses	1	2
Total Operating and other expenses	162	[(1)]154
Loss Attributed to the bank's shareholders	(20)	(3)

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

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

Small and minute businesses Segment (Domestic operations)

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;
- Rescheduling and deferment of loan repayments;
- Since the outbreak of the crisis, the Bank assists its business customers having difficulties in meeting their loan repayments due to the impact of the crisis. Among other things, the Bank allows customers to defer loan repayments and/or spread the debt in order to facilitate the cash flows of the customer during the crisis period.

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. Discount Bank received on April 1, 2020, the first allocation within the framework of the Fund in the amount of NIS 350 million. Since the signing of the agreement with the Government, the Bank and MDB have made quick preparations and have structured an efficient work interface and the ability to provide response to customers in accordance with the terms of the Fund. The first loans within the framework of the Fund were already established on April 6. The Bank and MDB have received a NIS 4,028 million allocation from the fund. Through December 31, 2020, the two banks approved 9,568 loans, in a total amount of NIS 4,028 million. Through March 7, 2021, the two banks approved 9,906 loans, in a total amount of NIS 3,378 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. 325 loans out of the Fund, were approved by the two banks until December 31, 2020, which amounted to NIS 165 million. 378 loans out of the Fund, were approved by the two banks until March 7, 2021, which amounted to NIS 185 million.

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2020 amounted to NIS 28 million, compared with NIS 396 million in 2019, a decrease of 92.9%. The reduction in profit was affected by a steep increase in credit loss expenses.

Credit loss expenses in this segment amounted to NIS 593 million in 2020, compared to NIS 234 million in 2019, an increase of 153.4%. 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 year ended December 31,	
	2020	2019
	in NIS millions	
Total income	1,974	2,153
Credit loss expenses	593	234
Total Operating and other expenses	1,329	(1)1,302
Net Profit Attributed to the bank's shareholders	28	396

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

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

Medium businesses Segment (Domestic operations)

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

Net profit of the segment in 2020 amounted to NIS 7 million, compared with NIS 75 million in 2019, a decrease of 90.7%. The decline in profit was affected by a steep increase in credit loss expenses and from an increase in operating and other expenses, which was partly offset by a slight increase in total income.
Credit loss expenses amounted to NIS 198 million in 2020, compared to NIS 107 million in 2019. The increase in expenses stemmed, partly 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 Medium businesses segment (Domestic operations)

	For the year ended December 31,	
	2020	2019
	in NIS millions	
Total income	477	451
Credit loss expenses	198	107
Total Operating and other expenses	267	(1)232
Net Profit Attributed to the bank's shareholders	7	75

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

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

Large businesses Segment (Domestic operations)

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. Until March 7, 2021, the Bank had approved 8 loans in a total amount of NIS 255 million.

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2020 amounted to NIS 202 million, compared with NIS 391 million in 2019, a decrease of 48.3%. The reduction in profit was affected by a steep increase in credit loss expenses.

Credit loss expenses in this segment amounted to NIS 261 million in 2020, compared to expense reversal in an amount of NIS 21 million in 2019. 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 year ended December 31,	
	2020	2019
	in NIS millions	
Total income	1,163	1,114
Credit loss expenses (expenses reversal)	261	(21)
Total Operating and other expenses	589	(1)539
Net Profit Attributed to the bank's shareholders	202	391

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

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

Institutional Bodies Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The segment's loss in 2020 amounted to NIS 9 million, compared with NIS 1 million in 2019.
Credit loss expenses in this segment amounted to NIS 2 million in 2020, compared to expense reversal of NIS 5 million in 2019.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the year ended December 31,	
	2020	2019
	in NIS millions	
Total income	47	48
Credit loss expenses (expenses reversal)	2	(5)
Total Operating and other expenses	59	(1)55
Loss Attributed to the bank's shareholders	(9)	(1)

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

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

Financial Management Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The segment's net profit in 2020 amounted to NIS 767 million, compared to NIS 429 million in 2019, an increase of 78.8%. 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 12 K to the financial statements).
Credit loss expenses for 2020 amounted to NIS 15 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 year ended December 31,	
	2020	2019
	in NIS millions	
Total income	1,575	1,041
Credit loss expenses	15	-
Total Operating and other expenses	386	(1)356
Net Profit Attributed to the bank's shareholders	767	429

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

Main Developments in the Segment

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

Income from trading activities

The income from trading activities in the financial management segment amounted to NIS 312 million in 2020, compared with NIS 361 million in 2019 (see Note 29 H to the financial statements). The income from trading activities that was included within the framework of interest income and within the framework of non-interest financing income amounted to NIS 339 million in 2020, compared with NIS 398 million in 2019 (see Notes 2 and 3 to the financial statements).
The gap between income from trading activity in the financial management segment (Note 29 H to the financial statements) and the income from trading activity included within the framework of interest income and within the framework of non-interest financing income (Notes 2 and 3 to the financial statements) is due to overseas activity, which is included only within the framework of the non-interest financing income (NIS 57 million in 2020, compared to NIS 58 million in 2019) and to commission from securities and inter-segment net interest income, which are included only in income from trading activity in the financial management segment (NIS 30 million, net, in 2020, compared to NIS 21 million, net, in 2019).

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

International Operations Segment

Scale of operations and Net Profit of the Segment

The net gain in 2020 amounted to NIS 144 million, compared to NIS 304 million in 2019, a decrease of 52.6%.
Credit loss expenses in this segment in 2020 amounted to NIS 130 million, compared to NIS 34 million in 2019. The increase in expenses stemmed mostly from the Corona crisis.

Principal data regarding the International operations segment

	For the year ended December 31,	
	2020	2019
	in NIS millions	
Total income	1,048	1,144
Credit loss expenses	130	34
Total Operating and other expenses	695	653
Net Profit Attributed to the bank's shareholders	144	304

During 2020, IDB Bank 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

General

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2020, amounted to NIS 10,658 million, compared with NIS 10,317 million on December 31, 2019, an increase of 3.3%.

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit				
	For the year ended December 31,				
	2020		2019		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	421	43.2	906	53.2	(53.5)
Mercantile Discount Bank	211	21.6	305	17.9	(30.8)
Overseas - Discount Bancorp	144	14.8	288	16.9	(50.0)
Other Activities:					
Israel Credit Cards	70	7.2	123	7.2	(43.1)
Discount Capital	144	14.8	63	3.7	128.6
Other financial services	(15)	(1.6)	17	1.1	(188.2)
Net profit	**975**	**100.0**	**1,702**	**100.0**	**(42.7)**

At the end of 2020, 22.54% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 11.9% were assets of the overseas consolidated company. The contribution to the Net profit by the consolidated companies in Israel amounted to NIS 436 million in 2020 (NIS 499 million in 2019). The contribution to the Net profit by overseas consolidated companies amounted to NIS 118 million in 2020 (NIS 289 million in 2019). No contribution to net profit was recorded in 2020 in respect of associates (NIS 8 million in 2019).

The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 554 million in 2020, compared with NIS 796 million in 2019, a decrease of 30.4%.

Following are the main developments in principal investee companies.

Discount Bancorp, Inc.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB Bank). IDB Bank is a commercial bank that is registered in the State of New York, a member of the FDIC (the Federal Deposit Insurance Corporation), and is the largest Israeli bank operating overseas. Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB Bank may not be sold by Bancorp unless the Bank has given its consent.
The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

Discount Bancorp, Inc. – principal data

	Fourth Quarter		Year	
	2020	2019	2020	2019
	In US$ millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	1	21	58	100
Net profit attributed to the shareholders	10	21	67	100
Net interest income	59	61	237	250
Credit loss expenses	10	1	37	9
Non-financing income	15	19	72	77
Non-financing expenses	68	51	204	190
Principal balance sheet data for the end of the reporting period:				
Total assets	11,010	9,777	11,010	9,777
Net credit to the public	7,155	6,778	7,155	6,778
Securities	2,746	2,440	2,746	2,440
Deposits from the public	9,001	8,164	9,001	8,164
Total equity	1,153	1,078	1,153	1,078
	In %			
Main performance indicators:				
Return on equity	0.4	7.9	5.1	9.8
Return on equity	3.4	7.9	5.9	9.8
Efficiency ratio	91.9	63.8	66.0	58.1
Efficiency ratio	75.2	63.8	62.0	58.1
Ratio of total capital to risk assets	15.3	15.2	15.3	15.2
Ratio of credit loss expenses to the average balance of credit to the public	0.57	0.09	0.54	0.14
Total net return on interest bearing assets	2.39	2.63	2.44	2.74

Footnote:
(1) Excluded component – expenses of vacating the Management Building (2020).

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$37 million (an increase of US$28 million, 311.1%) 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$13 million (-5.2%), as a result of cutting interest rates in the United States.
Distribution of dividend. In March 2020, Bancorp distributed dividend to Discount Bank in a total amount of US$15 million (2019–US$4.4 million).
The contribution of Bancorp to the Bank's net results reached a profit of NIS 144 million (after deducting a provision for taxes of NIS 41 million) in 2020, compared with NIS 288 million in 2019 (net of provision for taxes in the amount of NIS 58 million).
The annual financial statements of Bancorp and of IDB Bank are available for review on the Internet website of IDB Bank. Annual and quarterly financial data is available for review on the Internet website of FDIC.

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank. At the end of 2020, MDB operated through 74 branches (compared with 75 branches in 2019).

Mercantile Discount Bank Ltd. – principal data

	Fourth Quarter		Year	
	2020	2019	2020	2019
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	40	77	211	305
Net profit attributed to the shareholders	63	77	236	305
Net interest income	301	313	1,219	1,201
Credit loss expenses	46	58	320	188
Non-financing income	90	97	426	367
Non-financing expenses	282	233	999	913
Principal balance sheet data for the end of the reporting period:				
Total assets	50,937	44,434	50,937	44,434
Net credit to the public	33,118	31,967	33,118	31,967
Securities	6,300	4,806	6,300	4,806
Deposits from the public	40,842	36,232	40,842	36,232
Total equity	3,239	3,058	3,239	3,058
	In %			
Main performance indicators:				
Return on equity	5.1	10.6	6.6	10.5
Return on equity	8.3	10.6	7.4	10.5
Efficiency ratio	72.1	56.8	60.7	58.2
Efficiency ratio	63.2	56.8	58.4	58.2
Ratio of total capital to risk assets	13.72	13.65	13.72	13.65
Ratio of credit loss expenses to the average balance of credit to the public	0.56	0.83	0.98	0.69
Total net return on interest bearing assets	2.54	3.49	2.71	3.40

Footnote:
(1) Excluded component: effect of settlement (2020).

The principal factors affecting the business results. The Corona crisis has materially affected the business results of MDB. The profit in 2020, compared to 2019, was affected, inter alia, from an increase of NIS 18 million in net interest income (1.5%); from an increase of NIS 74 million in non-interest financing income (194.7%), from an increase of NIS 132 million in credit loss expenses (70.2%) and from a growth of NIS 86 million in other expenses. As a result, inter alia, of the ramifications of the voluntary retirement plan that was implemented in the last quarter of 2020.

The increase in net interest income is explained by the growth in the average balance of income bearing assets, which was partly offset by a decline in the interest spread – both factors resulting from the consolidation 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 and by the increase in allowances for credit losses in respect of "private individuals".

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

The ratio of capital to risk assets. In continuation to the relief granted by the Supervisor of Banks in the Provisional Instruction (see above "Capital and capital adequacy"), The Board of Directors of MDB decided on April 20, 2020, to reduce the limitations to the following levels: primary capital ratio – 8.5%, overall capital ratio – 12.0%.

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 served 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 MDB as stated. 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. Following these developments, the Head of the Commercial Division has been sent on leave, and at this stage he is being replaced by the CEO of MDB.

Distribution of dividend. During 2019-2020 Mercantile Discount Bank did not distribute dividend.

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

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.

Merger of Municipal Bank. On December 1, 2019, the merger of Municipal Bank with and into MDB was concluded. For details see Note 26 C 16 to the financial statements.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits and additional proceedings filed against MDB, see Note 26 C to the financial statements, sections 11.3, 12.4 and 12.5.

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

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2020, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First International Bank held the balance of the rights in ICC.

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

Israel Credit Cards Ltd. – principal data

	Fourth Quarter		Year	
	2020	2019	2020	2019
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	28	52	115	201
Net profit – excluding one-time components(2)	23	52	90	188
The contribution to the Bank's business results(1)	18	32	70	123
Income from credit card transactions	323	352	1,254	1,356
Net interest income	128	130	530	505
Non-financing income	(1)	2	73	2
Non-financing expenses	415	412	1,716	1,587
Of which: Credit loss expenses	33	30	223	147
Principal balance sheet data for the end of the reporting period:				
Total assets	18,535	19,159	18,535	19,159
Interest bearing credit to the public	5,959	6,502	5,959	6,502
Total equity	1,930	1,821	1,930	1,821
	In %			
Main performance indicators:				
Return on equity	6.0	11.8	6.2	11.0
Return on equity - excluding one-time components (2)	5.0	11.8	4.8	10.3
Efficiency ratio	84.9	78.9	80.4	77.3
Efficiency ratio - excluding one-time components (2)	86.4	78.9	81.5	78.2
Ratio of total capital to risk assets	14.8	14.0	14.8	14.0
Turnover of credit card transactions – in NIS millions	28,105	28,171	107,929	107,096
Number of active cards – in thousands	2,968	2,877	2,968	2,877

Footnotes:
(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.
(2) Excluded components: gains on the sale of rights in Visa Inc. and retirement plan cost (2020); excluding certain components (2019).

Outbreak of the Corona virus. The activity of ICC is directly affected by the activity on the Israeli economy, accordingly, measures adopted by the Government following the outbreak of the virus, as well as changes in consumer behavior, have materially affected the volumes of transaction turnover of the company during the reported period. Due to the implications caused by the spreading of the virus and to the measures adopted in the wake thereof, the income and profitability of the company suffered a material decline in 2020, as well as in the beginning of 2021. 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 23 I (3) to the 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 2020 were mostly affected by an increase in the allowance for credit losses amounting to NIS 223 million, compared to NIS 147 million in the corresponding period last year (51.8%), 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. On the background of the considerable uncertainty, the risk exists that actual credit losses will increase in the future, although, at this stage, it is not possible to determine the scope and timing of the actual losses. This, inter alia, in view of supportive measures taken by the Government and the banking system, which may help the economy to get through the crisis, though, if these are not successful, the result would be only deferral of the materialization of the credit risks. Furthermore, the results were adversely affected during the reported period from the reduction in collecting commission on foreign operations of Israelis (and respectively, the goals set by the international organizations may not be reached, being dependent on the volume of impairment), the reduction in cross-commission income stemming from the volume of operations in the affected economic sectors, 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 economy in Israel and abroad, 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 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 ratio of capital to risk assets. A resolution of the Board of Directors of ICC states a targeted initial capital ratio of 9.7% and a targeted total capital ratio of 13.2%.

Distribution of dividend. In 2019, ICC distributed dividends in the amount of NIS 200 million (the Bank's share – NIS 143.6 million). During 2020, ICC did not distribute a dividend.

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

The strategic focal points of ICC are:

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

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 chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and in Note 36 to the financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, see Note 26 C to the financial statements, sections 11.1, 11.4 and 11.6.
The annual and quarterly financial statements of ICC are available for review on the Internet website of ICC.

Discount Capital Ltd.

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

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the year:	2020	2019	Change in %
Net profit attributed to the shareholders	161.2	78.2	106.1
The contribution to the Bank's business results[1]	144.0	62.9	128.9
Principal balance sheet data for the end of the reporting period:	December 31, 2020	December 31, 2019	Change in %
Total assets	1,779.9	1,621.0	9.8
Total equity	982.1	829.7	18.4

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

The profit in the years 2019-2020 was affected mainly by different realizations.
Cooperation agreement. Discount Capital signed in July 2020, an exclusive cooperation agreement with Lincoln International, a global investment bank focusing on Mid-Market companies in the technology, communication, industry, retail, health, energy and infrastructure fields, about one-half of its activity being centered on the United States and the balance worldwide.
During 2020, Discount Capital, through a subsidiary, participated in 59 public offerings of which, one public offering for the Discount Group and in 23 private placements, with a total volume of approx. NIS 20.3 billion (in 2019 - 56 public offerings of which, two public offerings for the Discount Group, and 22 private placements with a total of approx. NIS 27.2 billion).
For additional details regarding activity in the investment field, see "Investments in non-financial corporations", in the Chapter "Activity of the Group according to Regulatory Segments of Operation - Additional Details" and Note 30 B to the financial statements.

• CHAPTER "C" – RISKS REVIEW

General Description of the Risks and Manner of Management thereof

Risk Profile of the Discount Group - Risk Environment

The Discount Group is engaged in a wide range of financial operations involving risk taking. The Group maintains international presence through the New York subsidiary only. The complexity of the risk environment (domestic and international, regulatory and internal), as well as the dynamics and pace of changes occurring in the risk environment, create challenges in the risk management field alongside the business challenges. In 2020, management of the activities and the risks was impacted by the Corona crisis and its domestic and global ramifications. For a wider discussion in the matter of main developments in the economic environment, see above "Principal economic developments" under "Material trends, occurrences, developments and changes".
Following are the major external effects, to which the Group is exposed, are:
- **Intensified competition, profitability risks and the business model.** The forecasts for the continuation of a low interest environment and the erosion of margins, as well as the ongoing effects of the crisis along with further regulation intended to support greater competition, innovation and technology are leading to constant challenges in improving the business model and in

identifying new growth engines, streamlining and preparations for the future banking. These topics are in the focal points of the new strategic plan, within the framework of which goals and supporting projects have been defined, including the initiation of new products and services and the promotion of collaborations with third parties, primarily in the fields of innovation and technology;

- **Efficiency measures.** The pace of the changes deriving from competition, alongside the effects of the crisis, require the constant initiation of streamlining measures. In 2020, a retirement scheme was launched at the Group, in a scope unprecedented in its history, within the framework of which, some 800 employees, primarily at the Bank, are set to retire in 2020-2021 (including through natural retirement). The process was accompanied by strict risk management, including advance arrangements for identifying and mitigating risk foci, implementing supporting organizational changes and the filling of key positions, alongside the deployment of automation and new technologies supporting the streamlining of the workforce;
- **Development of digital banking.** Recent years have witnessed a growing trend of shifting activities to digital, which has accelerated due to the crisis. This development, together with regulation, supports competition, such as: the clearing field, mobility reform, Proper Conduct of Banking Business Directives concerning open banking, and so forth, that lead to wider services and growing cooperation with third parties (outsourcing of operations, acquisition of new technologies, cooperation with third parties and technology companies, combining robotics and artificial intelligence in processes and services, the development of open banking etc.). These changes comprise on the one hand business opportunities and on the other hand create new challenges with respect to risk management, with an emphasis on data protection and cyber aspects as well as the supply chain, quality assurance and controls, data leakage and privacy protection and also model development and validation aspects.
  The Group is engaged in the continuous improvement of the risk management processes and of the supporting tools, including improvements in models, updating of policy documents, forming standardization, contractual regulation and processes as well as conducting "new product" processes for new products or operations. In addition, as the focus on expertise and technology-based banking has intensified, a need is also developing for the correct management of the transformation required in the workforce and in its qualifications, along with developing the capability to continue recruiting and retaining personnel in the technology, cyber, models and analysis fields;
- **Cybernetic risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber risks and to the regulators and supervisory authorities, in Israel and globally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, may develop also into a strategic business risk. The Corona crisis has increased exposure to cyber risks and data security in light of the growth in distance working and the expansion in digital activity. The Group has a cyber policy and strategy as well as a multiannual work plan for improvement of cyber defense, including the strengthening of the network defense and its components, improving forestallment and monitoring tools, identification of irregular activity and upgrading infrastructure. In view of the potential effect of the events, the importance of verifying propriety of business continuation processes intensifies with respect to a variety of reference scenarios, including aspects of communication regarding the flow of information at the time of the event;
- **Fairness and decency.** The important values of fairness, decency and transparency vis-à-vis the Bank's customers, including the prevention of prohibited discrimination between customers, are also a developing risk that is managed as an integral part of the Bank's compliance risk management. The Bank works continuously to assimilate these values across the spectrum of relevant processes and is raising employees' awareness to their importance.
- **Protection of privacy.** Privacy protection considerations continue to gain force and importance both in Israel and globally, against the background of increased digital and data use and the matter has been identified by the Group as a developing risk. The Group is investing considerable efforts in implementing the regulations and in integrating privacy protection aspects in the human resources processes, systems, models and training, including by drawing up a Group policy on this matter. The Group is working to maintain a proper balance between the use of information for the Bank's purposes and safeguarding the various aspects of protecting its customers, employees and suppliers' privacy. Privacy protection considerations constitute an important element in examining new products and/or technologies and/or services and/or models, alongside assuring proper protection of sensitive information and protection against potential data leakage.

Model risks. The ever-increasing emphasis on digital banking, alongside customers' higher expectations for value propositions, insights and products that are tailored, timely and readily available, is leading to a situation where organizations in general and the banking system in particular are becoming more and more dependent on data and models, including the integration of sophisticated models based on artificial intelligence and machine learning. These aspects are creating growing challenges both in the field of model development and also in the fields of models validation and risk management. The Group is implementing a multi-year work plan for the development of sophisticated models, as well as for the constant improvement of the tools and methodologies that support the model risks management.

The effects of the Corona crisis and the support provided by the government have led to degradation of the forecasting ability of the traditional financial models (credit, market and investments), which by their nature are calibrated for normal times. The Group has analyzed the immediate effects of the crisis on the models and has taken immediate steps to mitigate the damage, primarily through the use of tools that are not reliant on models, such as greater reliance on manual underwriting, changes in the authorizations hierarchy and in underwriting thresholds, updating coefficients, and so forth.
The Table of risk factors below presents the principal changes that had occurred in the Group's risk profile.
For details regarding the breakout of the Corona virus and its implications, see above "Management's handling of current material issues" and "Principal economic developments".

Principles of Risk Management

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process. The Bank is studying the various risks to which the Group is exposed from a forward looking Group standpoint. The Board of Directors and Management apply great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.
High-level principles for risk management in the Discount Group:

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

Risk Appetite

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

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

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

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

The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith. Once a year, concurrently with the planning processes for the work plan, the capital and the liquidity, a review is carried out of the risk appetite and the Group declaration document is updated and approved by the Board of Directors.

During 2020 none of the limits set by the Board of Directors on this topic were exceeded. Nevertheless, some of the internal warning thresholds were crossed due to the effects of the Corona crisis and fluctuations in the markets.

Risk Management Policy and Tools

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

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

Assessment of the Risk Profile

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

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

In this framework, the Bank also reviews material changes in the quality of risk management, including their impact on the quality and effectiveness of the risk management processes, and subjects and issues are brought up, allowing the focusing of discussions and the passing of risk based resolutions.
Once a year, the Groups conducts a process of capital adequacy evaluation, intended to verify that the capital of the Group is adequate and supports the entirety of risks inherent in its operations, both in the ordinary course of business and in stress situations. In this framework, the Bank tests also the quantitative effects on the capital of the Group while using different scenarios and stress tests as detailed below.

Stress Tests

One of the main tools for assessing the risks and their potential impact on the capital and the risk appetite is the use of stress tests with a forward looking view point as a complementary tool for the risk management processes.
The use of stress tests is intended to provide management with a warning of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.
The Group operates within the framework of an organized methodology, which has been developed over time, and which has been implemented at the Bank and at the Group companies for assessing the impact of the stress tests on credit risks, market risks and on certain components of the statement of profit and loss by means of internal models which enable to examine the effects of changes in macro-economic parameters on the statement of profit and loss items and on the equity and on identified vulnerability areas/specific risk centers. Noted is the increased usefulness of the results of the scenarios and the stress tests as a tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.
In addition to the macroeconomic financial stress tests, the Group ran two stress tests in 2020 against the background of the Corona virus crisis (that are based on a uniform scenario of the Banking Supervision Department). Furthermore, the frequency of running the stress tests has been stepped up, including making use of a platform for estimating the losses, allowances and the changes expected in the portfolio profile, as well as sensitivity analyses that do not constitute a stress situation at the present time.

Disclosures in accordance with the Third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank`s website together with the Bank's 2020 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2020 annual report.

Credit Risks

Credit Risks and the manner of Management thereof

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

Credit Policy Documents

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

Credit Risks Measurement and Reporting

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

Structure and Organization of the Credit Risks Management Functions

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

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

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

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

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

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

The Otzar system (new credit and attachments management system). The system is used for the management of the process for underwriting and management of credit at the Bank and at MDB. The system has been integrated at the Corporate Division at Discount and in selected units of MDB. The infrastructure that had been developed serves as a platform for reporting to the Supervisor of Banks with respect to the credit field and allows today the real-time computerized monitoring of a part of the internal and regulatory limitations.

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 gradual exit from the third lockdown finds the Israeli economy in a fairly stable condition. The year 2020 has ended in a decline of only 2.4% in the product. A more moderate decline when compared to most countries around the world. Notwithstanding the above, the rates of unemployment have remained at a high level and the recovery of certain sectors of the economy is expected to take a long time. 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 C 5 (2) to the 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. In addition, and further to the publication of the additional outlines for deferring payments, from November 30, 2020 and December 10, 2020, the Banking Supervision Department issued two more letters to the banking corporations in December 2020, titled "The Corona crisis – main points regarding the additional outline for deferring payments" and "The Corona crisis – main points regarding the additional outline for deferring payments for small businesses", within the framework of which, it was specified that a banking corporation is entitled not to classify, as a troubled debt restructuring, housing loans, other loans to private individuals and loans to small businesses, which were not in arrears for 30 days or more at the time of deferring the payments, with regard to which a payments deferral was granted by March 31, 2021 within the framework of the additional outlines for deferring payments, even if the aggregate deferral exceeds six months.

Within the framework of the letter of the Supervisor of Banks dated December 3, 2020, in the matter of "the Corona crisis – focal points in the matter of the additional outline for the deferment in repayments", it is stated that a banking corporation that had elected not to classify as restructure of a troubled debt, loans that were not in arrears of 30 days or over at date of deferral of repayments, in respect of which deferral of repayments had been granted until March 31, 2021, within the framework of the additional outline for deferment, shall include in the quarterly and annual financial statements to the public in 2021, a pro-forma disclosure presenting the principal effects of implementing the said choice upon the financial statements.

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 December 31, 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									
	March	April	May	June	July	August	September	October	November	December
Deferral requests,(Number of loans)	48,616	31,861	7,212	4,370	4,601	2,675	4,540	3,623	1,818	1,093
Balance of loans in deferral, in millions	8,861	16,388	17,771	18,371	18,852	19,385	19,445	19,673	19,963	20,124

Note:
The balances are shown in "deferral execution date" terms.

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 in this matter.

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

	December 31, 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	Amount of deferred repayments	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	697	20	47	589	-	-	108	108	9	99	755	-
Medium businesses	145	40	20	-	-	-	145	145	85	15	668	-
Small businesses	1,004	4,481	153	253	58	-	693	751	334	184	4,178	51
Private individuals without Housing loans	580	14,498	85	143	89	-	348	437	161	132	1,134	18
Housing loans	3,097	4,660	176	89	655	-	2,353	3,008	615	2,017	5,430	64
Total Lending Activity in Israel	5,523	23,699	481	(4)1,074	802	-	3,647	4,449	1,204	2,447	12,165	133
IDB Bank	1,589	53	41	(5)823	31	-	735	766	338	62	703	25
Total as at 31.12.2020	**7,112**	**23,752**	**522**	**1,897**	**833**	**-**	**4,382**	**5,215**	**1,542**	**2,509**	**12,868**	**158**
Total Lending Activity in Israel as at 30.9.2020	**7,018**	**37,152**	**691**	**(4)706**	**613**	**5**	**5,694**	**6,312**	**3,482**	**1,259**	**11,143**	**124**
IDB Bank as at 30.9.2020	**1,595**	**49**	**35**	**(5)272**	**570**	**-**	**753**	**1,323**	**785**	**219**	**438**	**-**
Total Lending Activity in Israel as at 30.6.2020	**15,743**	**73,770**	**1,061**	**259**	**1,438**	**7**	**14,039**	**15,484**	**1,235**	**70**	**2,404**	**10**
IDB Bank as at 30.6.2020	**1,595**	**47**	**27**	**273**	**573**	**-**	**749**	**1,322**	**791**	**220**	**-**	**-**
Total Lending Activity in Israel as at 31.3.2020	**8,225**	**37,351**	**700**	**92**	**676**	**3**	**7,454**	**8,133**	**264**	**12**	**1**	**-**

General note: the balances are shown as of the reporting date.

Footnotes:

(1) Debts – balance of debts before accounting write-offs..

(2) The balance of debts with repayments deferral as of January 31, 2021 amounts to NIS 5,612 million (Of which: IDB Bank amount of NIS 1,827 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 amount to NIS 39 million (as of September 30, 2020 – NIS 40 million).

(5) Of which: impaired debts not accruing interest income amount to NIS 140 million (as of September 30, 2020 – NIS 15 million).

In the course of the crisis period and until December 31, 2020, the Bank and MDB (domestic activity) allowed the deferral of loan repayments in respect of credit in the amount of NIS 17,688 million, of which, housing loans in the amount of NIS 8,527 million.

Until December 31, 2020, in respect of 68.8% of all loans (domestic activity), and in respect of 63.7% of housing loans (domestic activity), the deferral period had ended and repayment of loans has been resumed. Of the outstanding balance of the loans, the deferral period in respect of which had ended, loans in the amount of NIS 1,074 million were classified as problematic (19.4%). Of the outstanding balance of the loans, the deferral period in respect of which had ended, NIS 133 million are in arrears of 30 days or more. The segment that has the highest rate of loans classified as problematic and loans in arrears is the large business segment.

It is noted that borrowers, in respect of whom, as of December 31, 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

December 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.

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	The diamond sector experienced significant impairment at the global and domestic levels due to impairment of the chain of supply, decline in demand and high inventory, which led to fluctuation in prices. In Israel, recovery is being noticed since the beginning of the fourth quarter in relation to the low point recorded at the height of the crisis.
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.
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.
Private individuals	The high unemployment rate increases uncertainty regarding the ability of repayment of debts, alongside the impact on buying power.
Oil products industry	Surplus inventories and a decline in demand have led to a reduction in the quantity produced and to erosion in margins.

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 and fourth quarters 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".

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

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

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

Alternatives for a technological solution were examined during 2020, and an alternative based upon extending a development on the basis of the existing system has been selected and the implementation stage has started. The work teams are making progress in characterizing the computing requirements in accordance with the selected methodology for the measurement and evaluation in respect of the different credit portfolios. Moreover, the development and modification of the models and methodologies supporting the measurement processes is continuing.

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

It is noted, that due to the Corona crisis, the planned progress in the assignments of the project has been delayed. The Bank is taking all required steps in order that the primary application of the principle would be made at the required date.

Credit Quality and Problematic Credit Risk

Problematic Credit Risk and Non-Performing Assets

	December 31, 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	120,945	41,808	28,221	190,974	[5]119,519	34,684	31,778	185,981
Off-balance sheet credit risk	45,594	4,367	35,656	85,617	44,021	3,344	35,466	82,831
Total credit risk in Credit Granting Rating	**166,539**	**46,175**	**63,877**	**276,591**	**163,540**	**38,028**	**67,244**	**268,812**
Credit risk not in Credit Granting Rating:								
1. Not problematic	4,618	516	2,763	7,897	[5]2,284	2,097	1,450	5,831
2. Problematic								
Special Mention[3]	3,131	121	365	3,617	1,476	153	235	1,864
Substandard	1,452	204	81	1,737	653	225	136	1,014
Impaired	[4]1,959	2	259	[4]2,220	[4]1,635	-	189	[4]1,824
Total problematic[2]	6,542	327	705	7,574	3,764	378	560	4,702
Total balance sheet credit risk	**11,160**	**843**	**3,468**	**15,471**	**6,048**	**2,475**	**2,010**	**10,533**
Off-balance sheet credit risk	2,462	809	362	3,633	938	700	131	1,769
Total credit risk not in Credit Granting Rating	**13,622**	**1,652**	**3,830**	**19,104**	**6,986**	**3,175**	**2,141**	**12,302**
Of which: non-impaired debts in arrears of 90 days or more[3]	65	318	30	413	62	359	57	478
Total overall credit risk of the public	**180,161**	**47,827**	**67,707**	**295,695**	**170,526**	**41,203**	**69,385**	**281,114**
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	[4]1,362	2	73	[4]1,437	[4]1,068	-	108	[4]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 13 million (December 31, 2019 – total of NIS 10 million).

(5) Reclassified - following improvement of data.

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

	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
An addition stemming from the merger of Municipal Bank	-	-	-	1	-	1
Debts classified as impaired during the period	1,733	376	2,109	749	301	1,050
Debts no longer classified as impaired	(71)	-	(71)	(2)	-	(2)
Impaired debts written off	(277)	(232)	(509)	(206)	(209)	(415)
Impaired debts settled	(1,042)	(72)	(1,114)	(383)	(58)	(441)
Other	(22)	-	(22)	(12)	-	(12)
Balance of impaired debts as of end of the year	**1,946**	**261**	**2,207**	**1,625**	**189**	**1,814**
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
An addition stemming from the merger of Municipal Bank	-	-	-	1	-	1
Debt restructurings performed during the period	941	194	1,135	222	104	326
Debts that have again been classified to unimpaired due to a following restructuring	(12)	-	(12)	-	-	-
Restructured troubled debt written off	(50)	(56)	(106)	(23)	(40)	(63)
Restructured troubled debt settled	(567)	(51)	(618)	(352)	(32)	(384)
Other	(43)	-	(43)	(57)	(5)	(62)
Balance of restructured troubled debts at the end of the year	**1,154**	**245**	**1,399**	**885**	**158**	**1,043**
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	488	255	743	284	154	438
Collections and write-offs	(356)	(189)	(545)	(212)	(142)	(354)
Balance of allowance for credit losses as of end of the year	**373**	**132**	**505**	**241**	**66**	**307**

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

	December 31, 2020	December 31, 2019
Ratio of balance of impaired credit to the public to balance of credit to the public	1.15%	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	0.21%	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)	1.95%	1.38%
The ratio of the balance of the group allowance for credit loss, to the balance of credit to the public	1.56%	1.10%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public(1)	170.41%	139.14%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.80%	1.81%
Ratio of credit loss expenses to the average balance of credit to the public(2)	0.91%	0.40%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.19%	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(3)	9.70%	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)	143.55%	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	1.36%	1.25%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.74%	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

	December 31, 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	Periodic Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	15,116	13,900	796	420	234	122	13	346
Construction and Real Estate - Construction'[6]	33,119	31,700	630	789	153	115	39	342
Construction and Real Estate - Real Estate Activity	13,186	12,492	356	338	140	137	-	223
Commerce	22,581	21,085	639	857	181	215	49	560
Hotels, Hotel Services and Food	2,126	1,619	393	114	112	83	(3)	102
Transportation and Storage	6,177	5,523	446	208	193	65	10	176
Financial Services[7]	16,492	16,050	357	85	299	7	2	96
Other Business Services	7,871	6,930	284	657	73	167	32	235
Public and Community Services	9,884	9,621	131	132	23	24	-	53
Other Business Services	8,665	8,388	130	147	91	30	10	158
Total Commercial	**135,217**	**127,308**	**4,162**	**3,747**	**1,499**	**965**	**152**	**2,291**
Private Individuals - Housing Loans	47,628	45,994	321	1,313	2	69	19	255
Private Individuals - Other	65,857	62,037	711	3,109	259	449	185	973
Total Public	**248,702**	**235,339**	**5,194**	**8,169**	**1,760**	**1,483**	**356**	**3,519**
Banks in Israel and Government of Israel	34,686	34,686	-	-	-	-	-	-
Total Lending Activity in Israel	**283,388**	**270,025**	**5,194**	**8,169**	**1,760**	**1,483**	**356**	**3,519**
Total Public - Lending Activity Outside of Israel	**46,993**	**41,252**	**3,086**	**2,655**	**525**	**221**	**9**	**540**
Banks and Governments Outside of Israel	8,344	8,344	-	-	-	14	-	15
Total Lending Activity Outside of Israel	**55,337**	**49,596**	**3,086**	**2,655**	**525**	**235**	**9**	**555**
Total	**338,725**	**319,621**	**8,280**	**10,824**	**2,285**	**1,718**	**365**	**4,074**

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 199,508 million, NIS 41,692 million, NIS 1,074 million, NIS 6,399 million, NIS 90,052 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.
(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 214 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 6,385 million, issued by GNMA and in the amount of NIS 504 million, issued by FNMA and FHLMC.
(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,022 million.
(9) The balance of commercial debts includes housing loans in the amount of NIS 212 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 Recognized during the Period	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	[10]6,479	275	69	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**	**122,633**	**2,682**	**964**	**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	**234,578**	**225,638**	**3,619**	**5,321**	**1,596**	**656**	**416**	**2,391**
Banks in Israel and Government of Israel	27,806	27,806	-	-	-	-	-	-
Total Lending Activity in Israel	**262,384**	**253,444**	**3,619**	**5,321**	**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**	**303,867**	**5,115**	**7,224**	**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.

(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.

(10) Reclassified - following improvement of data.

Exposure to Foreign Countries - consolidated

	As of December 31					
	2020			2019		
	exposure			exposure		
The Country	balance sheet[2]	Off-balance sheet[2][3]	Total	balance sheet[2]	Off-balance sheet[2][3]	Total
	In NIS millions					
United States	15,148	7,679	22,827	[7]16,236	8,094	24,330
Other	7,108	[5]6,217	13,325	5,966	[5]5,451	11,417
Total exposure to foreign countries[1]	**22,256**	**13,896**	**36,152**	**22,202**	**13,545**	**35,747**
Of which - Total exposure to the PIGS countries[4]	21	213	234	19	340	359
Of which - Total exposure to LDC countries[6]	329	122	451	577	203	780
Of which - Total exposure to countries having liquidity problems	35	17	52	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. 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 December 31 2020 in the following countries: Switzerland – an amount of NIS 2,291 million and Germany – an amount of NIS 2,188 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 data.

(8) The total exposure to foreign countries as of December 31, 2020, includes exposure on a consolidated basis to United Kingdom, in the amount of 2,365 NIS million.

Credit Exposure to Foreign Financial Institutions

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

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

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

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

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

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

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.

It is noted, that within the framework of updating the policy, the effectiveness of risk management procedures was tested in 2020, and in this framework certain of the internal limitations had been updated.

Distribution of the Bank's exposures in the fourth 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.

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 91% of the exposure as of December 31, 2020, is to financial institutions rated "A-"rating or higher.

The states in respect of which the Bank has exposure as stated above as of December 31, 2020, include, inter-alia the United States, Great Britain and Canada.

In 2020, impairment of securities was not made with respect to the exposure to financial institutions.

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

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of December 31, 2020		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	550	5	555
A+ to A-	4,500	570	5,070
BBB+ to BBB-	258	71	329
BB+ to B-	4	21	25
Not rated	163	23	186
Total present credit exposure to foreign financial institutions	**5,475**	**690**	**6,165**
Balance of problematic bonds	-	-	-
	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.

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 Bank (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB Bank are negligible (housing credit in the amount of NIS 143 million as of December 31, 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. The growth trend in the volume of housing loans granted by the whole banking system continued in 2020, and despite the Corona crisis, no slowdown in the demand for mortgage loans has been noticed. Concurrently, with the progress of the "price for the house purchaser" plan, in 2020 an increase in the performance rate in this segment, was noticed in relation to the rate of performance in 2019, at the banking system as a whole and particularly at Discount Bank.

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.

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

In addition, the following actions are taken:

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

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

The volume of the Group's housing loan portfolio as of December 31, 2020, amounted to NIS 42,863 million (December 31, 2019 - NIS 37,392 million).

Certain risk characteristics of the Group's housing loans portfolio

	December 31, 2020	2019
	%	
Rate of housing loans financing over 75% of the value of the property	1.5	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)	58.8	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

	December 31, 2020	2019
Average amount of loan (in NIS thousands)	861	800
Average financing ratio for housing loans (in %)	55.0	54.7
Average financing ratio for general purpose loans (in %)	24.4	28.2

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

	December 31,			
	2020		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	32,608	76.5	29,342	78.9
Between 1,200 and 4,000	9,386	22.0	7,408	19.9
Over 4,000	610	1.5	434	1.2
Total	**42,604**	**100.0**	**37,184**	**100.0**
Of which:				
Housing loans that were granted abroad	143		184	

Footnotes:

(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 259 million (31.12.2019: NIS 208 million).

(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 212 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 loans

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
December 31	In NIS millions			Change in %
2020	42,863	(4)328	71	0.8
2019	37,392	(4)378	78	1.0

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2020 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 70 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 0.44% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 187 million as at December 31, 2020.(as at December 31, 2019: NIS 129 million and other group allowance of NIS 1 million).

(4) Including an amount of NIS 7 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 212 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

	2020		2019	
Loan to value (LTV) ratio[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	2,814	28.0	2,265	27.8
Between 45% and 60%	3,433	34.2	2,906	35.6
Over 60%	3,790	37.8	2,980	36.6
Total	**10,037**	**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.

The average loan period of housing loans at the Bank in 2020, was 21.2 years, compared with 22.2 years in the industry. The amount of credit for a period of over twenty years amounted to 48% of the whole credit portfolio of housing loans.
The data regarding the distribution of extended credit as of December 31, 2020, by period of loan shows that the granting of loans in 2020 for periods of over twenty years reached a rate of 59% of the portfolio.

Developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			Foreign currency linked credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit (1)(2)
2020	12,386	17,111	69.2	4,698	8,246	30.4	45	118	0.4	42,604
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 212 million, which are intergrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2019:NIS 233 million).
(2) The balance of credit is after deduction of allowance for credit losses of NIS 259 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 December 31, 2020, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 16.9 billion, comprising 49.0% of the total housing loans portfolio.

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

	2020		2019	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	9,049	99.5	7,266	99.6
Over 40%	43	0.5	31	0.4
Total	**9,092**	**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.

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

Credit Risk of Private Individuals (excluding Housing Credit Risk)

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

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

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

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

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

Development in balances

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

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	December 31, 2020				
Level of income to the account					
Excluding permanent income to the account	1,363	104	1,467	473	1,940
Less than NIS 10 thousand	4,134	876	5,010	3,151	8,161
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,874	1,613	5,487	3,462	8,949
Greater than NIS 20 thousand	3,032	2,755	5,787	4,528	10,315
Total	**12,403**	**5,348**	**17,751**	**11,614**	**29,365**
	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

	December 31,	
	2020	2019
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,608	1,591
Over 1 year and up to 3 years	4,721	5,210
Over 3 years and up to 5 years	4,124	4,648
Over 5 years	2,257	2,482
Total	**12,710**	**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

	December 31,	
	2020	2019
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	3,589	3,942
Between 40 and 150	9,406	10,227
Over 150	4,756	5,651
Total	**17,751**	**19,820**

Distribution by exposure to changes in interest rates

	December 31,	
	2020	2019
	in NIS million	
Fixed interest credit	5,184	6,071
Variable interest credit	12,567	13,749
Total	**17,751**	**19,820**

Distribution of collateral securing the credit

	December 31,	
	2020	2019
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,400	1,514
Other collateral	910	821
Total	**2,310**	**2,335**

Development of problematic credit risk in respect of private individuals

	December 31,			Rate from total balance-sheet to credit to the public December 31,	
	2020	2019	Change in	2020	2019
	in NIS million		%	%	
Problematic credit risk	387	262	47.6	2.2	1.3
Of which: impaired credit risk	124	133	(6.5)	0.7	0.7
Debts in arrears of 90 days or more	30	57	(47.4)	0.2	0.3
Net accounting write-offs	73	150	[(1)](51.2)	[(1)]0.4	0.8
Balance of allowance for credit losses	569	401	42.0	3.2	2.0

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (in the Bank and MDB), pledged, amounted to NIS 1,102 million at December 31, 2020, compared with NIS 956 million as of December 31, 2019, an increase of 15.3%.

Background

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

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

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

Development of the Risk

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

The Corona virus crisis, which broke out in the first quarter of 2020, caused a fall in product and a significant rise in unemployment. Most of the rise in unemployment came about as a direct result of the lockdowns policy that was intended to reduce the level of morbidity. It should be noted that, even if the effect of the jump in unemployment during the lockdown is ignored, unemployment is still at an extremely high level compared to the last decade. Nevertheless, it is important to emphasize that, compared to the business sector, households enjoyed relatively more significant government support and benefited, almost without exception, from unemployment pay for an extended period. This payment puts the credit risk for households in a better position compared to the business segment, particularly when compared to small businesses.

Looking at the credit risk in 2021, the rates at which the newly unemployed return to work takes on added significance as the economy recovers and the payment of the unemployment allowance ends.

Risk Mitigating Measures

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

The Fairness Principle

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

Monitoring and Control

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

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

Quantitative data regarding credit granted to private individuals in ICC

A decline at the rate of 4.6% was recorded in 2020 in the balance of credit granted to private individuals in ICC. This credit amounted on December 31, 2020 to NIS 8,698 million, compared to NIS 9,113 million on December 31, 2019. The interest bearing credit to private individuals as of December 31, 2020, amounted to NIS 5,159 million, compared with NIS 5,460 at the end of 2019 (a decrease of 5.5%), and comprises 59.3% 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 3,539 million, as compared to NIS 3,653 million as of December 31, 2019 (a decrease of approx. 3.1%). This credit does not carry interest, reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.

Credit losses expenses in respect of private individuals amounted in 2020 to NIS 208 million, compared to NIS 137 million in the corresponding period last year. The growth in credit loss expenses stemmed, mainly, from the expected implications of the spreading of the Corona virus on the quality of the credit portfolio. On the other hand, an offsetting effect has been noted due to a decrease in the scope of debts in arrears.

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 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 26% 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 after December 31, 2025, 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 the "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof" chapter.

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

	December 31, 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	12,262	342	2.8	11,363	244	2.1
Construction – general building contracting	2,538	170	6.7	2,186	126	5.8
Residential projects financing	24,427	201	0.8	24,294	55	0.2
Acquisition of building land	7,418	84	1.1	5,605	26	0.5
Subcontracting	2,388	53	2.2	2,615	137	5.2
Civil engineering work	3,228	150	4.7	2,858	30	1.0
Other	4,531	140	3.1	4,602	83	1.8
Total(2)	**56,792**	**1,140**	**2.0**	**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 acquisition of building land.
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 "Purchase of a credit risk insurance policy" below.

Credit risk in respect of Leveraged Finance

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

Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.
Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.
Following are data regarding credit risk pertaining to leveraged finance as of December 31, 2020. Disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

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

	December 31, 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	148	-	148	-	78	62	140	-
Communication and Computer Services	161	-	162	-	-	-	-	-
Other Business Services	-	-	-	-	147	-	-	-
Total	**309**	**-**	**310**	**-**	**225**	**62**	**140**	**-**

Exposure to leveraged finance as of December 31, 2020 amounted to NIS 309 million, compared to NIS 225 million at the end of 2019, an increase of 37.3%. 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 December 31, 2020, amounted to NIS 1 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 December 31, 2020, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.

Market Risks

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

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

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

Strategy and Policy

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and defines the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.
Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the uncontrolled acceptance of risk.
The policy and the principles in the policy document are on a Group basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an overall Group standpoint and within a framework of mandatory professional guidance.
As part of the updating of the market risk management policy, the effectiveness of limitations applying to market risk at the Bank and at the Group is reviewed, including in the trading portfolio, intactness of the exposure population is being examined, while identifying vulnerable areas, and comparison is being made with principal risk indices in relation to the system. Within the framework of updating the policy in 2020, a number of limitations had been updated in order to improve effectiveness, including limitations relating to stress tests respective to the updated structure of market risk stress tests.

Risk Appetite

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.
The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.
The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses, accounting scenario of an ordinary business situation (intermediate testing), historical VAR model and stress tests, while taking into consideration different time spans – short-term and long-term.
In order to effectively manage and analyze the exposures and to display a concise picture to the decision makers, two categories of risk indices have been defined – primary risk indices, which serve the first line of defense in taking ongoing or periodic decisions regarding exposure scopes, and the additional risk indices, which are the remaining risk indices, that complete and set out the risk picture, in respect to some of which the Board of Directors has set limits, in respect to some, limits are set at division head level, and there are also risk indices which are only subject to monitoring without any limits being set.
The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and Processes

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:
First line of defense. The collective Group management of interest, is being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group including the asset and liability management activity, the investment activity and the trading activity at the Bank, at IDB Bank and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.
Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.
Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted in accordance with a work plan that is approved by the boards of directors of the Bank Group companies.

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

Mechanisms that enable an immediate response to exceptional market developments

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

Within the framework of the ongoing management of market risk, the Risk Management Division measures a large number of indicators in order to identify and give warning of changes in market trends (KRIs, "red lights"). This serves as an additional tool for identifying and giving warning of the development of crisis situations in the markets and a possible change in market risk.

Measurement and Reporting

Measurement of exposure to market and liquidity risks, including the calculation of the main risk estimates is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.

The second line of defense measures and controls the exposures to market risks in accordance with additional risk indices, using an independent calculation, at weekly intervals for the Bank standalone and at monthly intervals for the Group.

The risk management system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted through the system on all the transactions at the Bank and Group levels and on activities/portfolios (for trade and banking), and a variety of risk indices are calculated, including the interest exposures (it should be noted that the system is also used to measure the fair value for financial reporting purposes).

This system is also used by MDB in computing its exposure to market and liquidity risks.

IDB Bank. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a weekly monitoring of the central risk assessing factors.

The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Models and Risk Indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.

The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in intermediate scenarios.

The additional indices and models include the Value at Risk (VaR), the potential losses in high volatility scenarios (IRRBB), and in Stress Tests, an analysis of anticipated interest income - the NII (Net Interest Income) and in the Earnings at Risk (EaR). In addition, there are models that express assumptions regarding customers' behavior in various scenarios, including a model for spreading credit balances having no maturity dates, and models for estimating early repayments of credits and deposits.

All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out in accordance with the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined in accordance with the level of risk attributed to each model on a specific basis.

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 second half of the year.

Exposure to Interest Rate Risk

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

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments - consolidated

	December 31 2020			December 31 2019		
	Israeli currency	Foreign currency[2]	Total	Israeli currency	Foreign currency[2]	Total
	In NIS millions					
Net adjusted fair value[1][3]	9,684	5,442	15,126	10,885	5,375	16,260
Of which: the banking book	8,709	5,590	14,299	11,087	5,862	16,949

Footnotes:
(1) Net fair value of financial instruments, excluding non-financial 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 - consolidated

	December 31 2020			December 31 2019		
	Israeli currency	Foreign currency[4]	[5]Total	Israeli currency	Foreign currency[4]	[5]Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	(107)	354	247	70	(89)	(19)
Of which: the banking book	(127)	347	220	61	(76)	(15)
A parallel decrease of 1%	229	(391)	(162)	99	(74)	25
Of which: the banking book	248	(384)	(136)	98	(93)	5
Non-parallel changes						
Curving[2]	(387)	38	(349)	(256)	(13)	(269)
Flattening[3]	373	(7)	366	217	(47)	170
Interest rise in the short-term	282	128	410	217	(144)	73
Interest decline in the short-term	(292)	(224)	(516)	(202)	25	(177)

Footnotes:
(1) Net fair value of financial instruments, excluding non-financial 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.

A parallel increase of 1% in foreign currency. As of December 31, 2020, assessment of the effect of an increase of 100 basis points on equity in foreign currency amounted to a profit of approx. NIS 354 million, as compared with a loss of approx. NIS 89 million as of December 31, 2019. Most of the difference stems from changes in the interest environment in the United States and its effect on sensitivity to a rise in the interest rate at IDB Bank. In view of the steep decline in the interest rate, which occurred at the beginning of the year in the US, some of the deposits have reached the "interest floor" - the minimum rate of interest paid of certain deposits regardless of the market rate of interest. In view of the fact that the market interest rate is below the "interest floor", the assumption is that under a scenario of a rise in the interest rate, the interest rate on such deposits would not rise and would not increase the interest expense, thus creating growth in the net interest income. In addition, the decline in interest rate has led to a decline in the average duration of the MBS, thus reducing the average duration of interest sensitive assets.

A parallel decline of 1% in foreign currency. As of December 31, 2020, assessment of the effect of a decline of 100 basis points on equity in foreign currency amounted to a loss of approx. NIS 391 million, as compared with a loss of approx. NIS 74 million as of December 31, 2019.

The change stemmed from the shortening of the average duration of MBS described above, as well as from the "interest floor" on a part of the deposits at IDB Bank as described above. In view of the steep decline in interest, which occurred in the first quarter in the US, under a scenario of a decline in the interest rate, the interest on a part of the deposits remains fixed at the "floor level" while the interest on loans declines in full.

A parallel increase and decline of 1% in Israeli currency. During the course of the year, the Bank purchased bonds both for the available-for-sale portfolio and for the held-to-maturity portfolio, thus lengthening the duration of assets so that sensitivity to changes in interest has increased by approx. NIS 300 million. This effect has mostly been offset by the shortening of the duration of mortgage loans following the updating of the premature redemption rate, which is included in the model forecasting their rate, as well as the lengthening of the duration of liabilities resulting from the updating of the model for the distribution of current accounts. Most of the change that occurred in 2020 as a result of changes of 1% in the shekel interest rate stemmed from the decline in margins and from the updating of the capitalization graphs used for calculating sensitivity.

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

	December 31 2020			December 31 2019		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	1,000	48	1,048	682	76	758
Of which: the banking book	989	55	1,044	662	75	737
A parallel decrease of 1%	(1,174)	(51)	(1,225)	(862)	(82)	(944)
Of which: the banking book	(1,164)	(58)	(1,222)	(851)	(81)	(932)

As of December 31, 2020, the estimated effect of a parallel increase of 1% on interest income amounted to an increase of NIS 1,048 million, whereas the estimated effect of a parallel decrease of 1% amounted to a decrease of NIS 1,225 million. This compared to estimates as of December 31, 2019, which amounted to an increase in interest income of NIS 674 million, in a scenario of a parallel increase of 1%, and to a decrease in interest income of NIS 864 million, in a scenario of a parallel decrease of 1%. The increase in the effect of these scenarios compared to 2019 stems from the growth in liquidity balances of the Bank, including the growth in credit balances of current accounts.

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

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

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

The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.

The assessment of the present value of future cash flows was done in accordance with the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly

different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.
It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.
In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.
Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.
Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.
For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements.

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

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

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

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

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2020		
An increase of 100BP in interest rates	(219)	(164)	294	4	(85)
A decrease of 100BP in interest rates	280	146	(353)	(14)	59
			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 that had occurred in sensitivity to interest are described above in the item "The impact of scenarios of changes in interest rates on the net adjusted fair value - consolidated", where differences between the changes presented in the two tables, stem, mainly, from the effect of the change in margins on sensitivity to changes in interest.

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 the disclosure regarding preparations towards termination of the use of the LIBOR interest, on the background of disclosure guidelines published by the SEC in the matter.

Discontinuation of the use of LIBOR interests. In accordance with the pronouncement made by the UK's Financial Conduct Authority (FCA) in July 2017, it has been decided to gradually terminate the use of the LIBOR interests in stages through the end of 2021. Further to this decision, various work teams have been set up around the world in order to determine interest indices, as an alternative to the LIBOR interest rates. In May 2020, the Bank informed the relevant customers with respect to the anticipated change and the preparations made by the Bank in the matter.

ICE Benchmark Administration Company, the administrator for the dollar LIBOR interest, announced on November 30, 2020, its intention to defer to June 2023, the termination of publishing the US dollar LIBOR interest in respect of the most material tenors (one month and three months).

Furthermore, the International Swaps and Derivatives Association (ISDA), published on October 23, 2020, the ISDA 2020 IBOR Fallbacks protocol, which includes swap mechanisms for LIBOR interest. The Bank adopted the said protocol on February 1, 2021.

The main risks and the Bank's preparations therefor. The discontinuation of the use of LIBOR interests 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 forms, contracts and exposures.

The Bank is in the process of examining the expected effect of discontinuing the publication of LIBOR interest's rates, including examination of possible alternatives with respect to each of the relevant currencies, the financial implications likely to result from the transition to using the above alternatives and preparations necessary from the business aspect, from the aspect of the risk management of the new exposures as well as from the legal aspect.

The Bank 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.

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

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

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

	As of December 31, 2020		As of December 31, 2020	
	Number of transactions	Number of transactions	Number of transactions	Book value in NIS million
Loans	2,381	12,388	2,204	10,108
Deposits	-	-	12	43
Securities	35	1,135	16	548
Total	**2,416**	**13,523**	**2,232**	**10,699**
Derivatives (volume transactions)	1,673	74,580	1,269	72,699

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

Inflation and exchange rate risk

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

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of December 31, 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 IDB Bank, was canceled in the past, in order to reduce the sensitivity of the capital ratio to changes in exchange rates (see above "Exposure regarding the investment in Discount Bancorp Inc." in section "Capital and capital adequacy").

The Bank's capital sensitivity of changes in exchange rates

	As of December 31, 2020			
	in NIS millions			
Segment	10%	5%	5%-	10%-
USD	286	140	(140)	(282)
EUR	-	1	-	4
Other Foreign Currencies	(89)	44	(43)	(84)

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

Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of December 31, 2020.

Sensitivity of the capital to changes in the CPI

	As of December 31, 2020	
	in NIS millions	
	3% increase	3% decrease
	122	(132)

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

Share Price Risk

Shares Position in the Banking Book

Strategy and processes

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

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

Investments in shares

	December 31	
	2020	2019
	In NIS millions	
Investments in shares of associates[1]:		
Non marketable shares	348	171
Shares in the available-for-sale portfolio:		
Marketable shares	92	128
Non marketable shares	1,000	839
Total shares in the available for sale portfolio	**1,092**	**967**
Total investment in shares	**1,440**	**1,138**

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

Capital requirement regarding share position

	December 31	
	2020	2019
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	211	191
In respect of investments in other shares[3]	80	63
Total capital requirement regarding share position[1]	**291**	**254**

Footnotes:
(1) The capital requirement was computed according to 12.7% and does not include capital requirement in respect of investment in shares in the trading portfolio.
(2) These investments are weighted at risk weight of 150%.
(3) These investments are weighted at risk weight of 100% and 250%.

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

Management of Positions in the Trading Portfolio

The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank’s activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.
In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.

The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.
In 2020, no deviations from limitations set by the Board of Directors were recorded.

Liquidity and Financing Risks

Liquidity risk is a risk to the stability of the Group, stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk.
Liquidity risk is perceived as one of the material risks for any financial institution. The objective in managing this risk is to avoid a situation in which the Bank will have difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directives No. 342 (The Internal Liquidity Model) and No. 221 (Liquidity Coverage Ratio).
The "Liquidity Risk Management Policy" document is updated and approved once each year by the Management and the Board of Directors.
Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event.
As part of the routine management, the liquidity risk is estimated using an internal model for different periods, from one day to one year. The internal model computes the liquidity ratio and the liquidity gaps under various stress scenarios. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events. In addition, the liquidity risk is also measured by means of the uniform regulatory model (LCR).
In addition to the internal model, over its various scenarios, the Bank makes use of additional indices and tools to monitor the liquidity risk:

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

Plan for dealing with a Liquidity Crisis

In Principle 11 of the Basel Core Principles document from 2008, it is prescribed that a banking corporation should have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. According to the document, the plan should outline policies to manage a range of scenarios, establish clear lines of responsibility, include reporting procedures, including reporting in the event of escalation, and should be regularly tested and updated to ensure its operational validity.
From the aspect of the Directive, materialization of the liquidity risk occurs in a situation where a banking corporation is compelled to raise funds at high prices or to realize assets at a loss in order to meet its liabilities.
The establishment of an orderly process to deal with possible crisis situations raises the level of awareness and readiness of the various parties in the organization, and hence its importance and contribution in mitigating the risk of crises occurring and in their correct management should a crisis occur. The Bank's Management conducts exercises from time to time to test the contingency plan, while drawing conclusions.

The Bank's CFP clearly describes the range of practical measures required to be implemented in times of emergency. The plan describes the processes and the parties that will be responsible for identifying a crisis situation, for managing the crisis, including prescribing spheres of responsibility and authority, for reporting processes and frequency of reporting, for Group management and coordination, for declaring the restoration of a normal business situation, and for establishing processes for lesson learning. In addition, the plan presents at every level a variety of alternatives for action which require great consideration before their activation, through examining their implications.

The plan for managing a liquidity crisis constitutes a set of defaults and focal points that the organization will activate when a liquidity crisis develops. Nevertheless, it does not constitute an alternative to exercising judgment and taking real time decisions– at the various levels of the Bank's management and which are obligatory given the reality of a volatile and unexpected crisis situation, such as a liquidity crisis.

The main focal points to which the plan provides a solution are:

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

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

The principal aspects of the plan are being reviewed and approved annually, within the framework of approving the liquidity risk management policy document.

Group management

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

Reporting

Daily –measurement of liquidity risk is performed on a daily basis by an internal liquidity model and by a regulatory model (LCR), by means of the Bank's market and liquidity risks management system. Measurement results are reported to the risk managers and control parties. As from January 1, 2017, the Group has a daily Group LCR computing and reporting capabilities.

Weekly – a special purpose liquidity forum convenes at least once a week and discusses current liquidity topics. Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.

Monthly – the Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.

Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

Liquidity Coverage Ratio

As of December 31, 2020, the liquidity coverage ratio of the Discount Group, on the basis of 79 observations average, stood at 147.51%, compared with 121.2% as of December 31, 2019, higher than the minimum requirements according to the instructions. For additional details, see Note 25 to the financial statements, section 3.

Liquidity and the Raising of Resources in the Bank

The surplus liquidity of the Bank grew significantly in the course of 2020, mostly due to the growth in volume of deposits from the public steeply increased in the first quarter, following the Corona crisis, in which customers transferred a part of their investments in the capital market to deposits with the Bank, and continued to rise during the year, though at a lesser intensity. The following trends have been noticed during the year:

- An increase of approx. NIS 19.2 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of approx. 18.2%, of which an increase in retail deposits of approx. NIS 15.6 billion and an increase in corporate deposits of approx. NIS 5.4 billion. On the other hand, redemption of debt notes totaling approx. NIS 2.4 billion;
- The amount of foreign currency deposits increased by approx. US$800 million, comprising a rate of approx. 8.3%, of which retail deposits in the amount of approx. US$340 million. Including the exchange rate effect, foreign currency deposits rose by approx. NIS 0.5 billion.

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

In 2020, the Bank, through Discount Manpikim Ltd. issued bonds of the CoCo class in the amount of approx. NIS 540 million. For additional details, see Note 25 O to the 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 (at the Bank)

	December 31, 2020	December 31, 2019	Change compared to December 31, 2019	
	In NIS millions		In NIS millions	in %
Non-linked shekels	125,367	107,645	17,722	16.5
CPI-linked shekels	4,769	5,446	(677)	(12.4)
Foreign currency and foreign currency linked shekels	33,397	33,068	329	1.0
Total	**163,533**	**146,159**	**17,374**	**11.9**
Foreign currency and foreign currency linked shekels - In US$ millions	**10,388**	**9,568**	**820**	**8.6**

Deposits from Banks (at the Bank)

	December 31, 2020	December 31, 2019	Change compared to December 31, 2019	
	In NIS millions		In NIS millions	in %
Non-linked shekels	4,958	1,330	3,628	272.8
CPI-linked shekels	30	36	(6)	(16.7)
Foreign currency and foreign currency linked shekels	850	396	454	114.6
Total	**5,838**	**1,762**	**4,076**	**231.3**

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

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

Operational Risks

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

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

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

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

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

Identification of material risks continued during 2020, however, as a whole, no material changes have been observed with respect to the number of reports regarding risk realization and the respecting amount of the damage, which might have an impact on the overall operational risk profile.

The year 2020 has been characterized by a growth trend in fraud and identity theft attempts with a focus on the direct digital channels, inter alia, as a result of expanding the digital services that the Bank provides to its customers. Furthermore, the trend of implementing changes in work processes continues, deriving from the realization of the strategic plan or from new products, as well as from increased efficiency in view of the massive retirement process. These changes create potential for increased risk, mainly in the short term. At the same time, management quality is improving, inter alia due to the increase and absorption of awareness for the reporting of events, the strengthening of interfaces and controls and the mechanizing of processes.

No deviations from tolerance limitations to operating risk have been recorded during the year.

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. A notice regarding this event has been delivered to users of PayBox.

The Bank estimates that no material effect on the Bank is expected as a result of the malfunction.

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.

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 lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 C section 12.2 to the financial statements. For details regarding the Privacy Protection Authority, see “Proceedings regarding Authorities” below.

Business continuity. The issue of business continuity is managed by means of the policy for the management of business continuity, which defines the solution concept for facing a crisis, by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.
At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services. Mapping of the business continuity risks and the assessment and monitoring thereof is performed as part of the identification and evaluation of operational risks.
The Corona crisis has placed in front of the Bank many challenges regarding the business continuity world, including distance work, which was implemented at the Bank since the beginning of the crisis, allowing regular work in an emergency format.
Notwithstanding the above, the Bank is preparing for upgrading the business continuity field by means of the updated identification of business impact analysis (BIA) processes, a renewed definition of the operation in period of emergency concept, including integrating cyber aspects and synchronization with financial scenarios and exercises.

Outsourcing and Supplier Risks

Outsourcing and Supplier Risks are managed as part of the operational risk. Against the background of activities being outsourced and due to collaborations that are occurring with non-banking entities in relation to core banking activities, outsourcing and supplier risks require that the monitoring and control processes be upgraded. Preparations for the risk management made by the Bank in accordance with Proper Conduct of Banking Business Directive No. 359A "Outsourcing", include a renewed definition of the policy document and of risk tolerance and work procedures relating to the identification of a material outsourcing and the determination of the way of treatment thereof, including upgrading the monitoring and control processes relating to such activities, taking a risk-based approach.

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

Other Risks

Cross-border Risks

The Group's activity with customers in Israel and abroad involves risks stemming, among other things, from exposure to liability for evasion by the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of foreign laws applicable to the services and products provided by the Group to its customers.
Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.
Realization of this risk may have considerable implications on the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high".
Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, this risk appetite has been determined and identification, monitoring, control and reporting processes have been added. The action for reducing the Group's international presence, within the framework of the implementation of the strategic program of the Bank, also contributed to the reduction of cross-border risks exposure. In addition, in view of the intensification of regulation and enforcement trend, led by the Tax Authority, relating to funds of Israeli resident customers, the origin of which may be in tax evasion or in income not reported to the Tax Authority in Israel, as required, amendment of the Money Laundering Prohibition Act to include tax offences as a predicate offence, as well as for the purpose of reducing money laundering risks, also in circumstances of a voluntary disclosure process, the Group acts towards the integration of a risk-based approach, for identifying and monitoring accounts and activities of Israeli resident customers, in response to that stated above.

Legislation Amendments in Israel

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

Information Technology Risks

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

Strategic Risk

The strategic risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense, and the Head of the Planning, Strategy and Finance Division acts a manager of this risk. Challenges of the competitive environment, development of digital banking and expected changes in the concept of operation of the banking industry, constitute a challenge in the management of this risk.
The Bank and the Group continue in promoting a multi-annual strategic plan which includes different projects, including projects in the innovation field, that are expected to provide solutions for the principal challenges.
The plan is examined once in each year, with attention being paid to changes in the local and global competitive environment, while studying the need for the updating of focal items and/or introduction of new projects at the Bank and at the subsidiaries. Within this framework, the Bank continues the emphasis on innovation, digital and customer experience, alongside the improvement and maximization of Group synergy and the value created by the activities of the subsidiaries. The Risk Management Divisions at the Bank and at the principal subsidiaries closely accompany material and strategic projects with the intention of verifying the uncovering and reduction of risk issues, including by way of performing new product processes, where required.

Reputation Risk

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

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

Furthermore, reputation risk management aspects include also preparations for confrontation with different crisis situations, including being a derivative of crisis events having a potential impact of the second order on the reputation of the Group.

Data and cyber protection risks

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

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

In 2020, the fundamental risk picture was affected by two significant events (which were sometimes being intertwined and sometimes being felt separately): the corona pandemic, which necessitated expanding “remote connectivity” for the Bank’s employees in order to maintain business continuity, resulted in enlarging the area of the Bank vulnerable to attack, and a significant rise in cyber-attacks in Israel’s cyberspace by sophisticated players utilizing advanced and effective capabilities. On more than one occasion, successful attacks were used in “Shaming” the attacked targets and hence the reputation of such companies was harmed.

Environmental Risks

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

Letter of the Supervisor of Banks to banking corporations and credit card companies regarding environmental risk management. A letter in this matter was sent by the Supervisor of Banks on December 1, 2020. The Banking Supervision Department views with great importance the promotion of the environmental risk issue, and sees in the banking corporations important partners in the transition to sustainable environmental economy, inter alia, by way of formation of appetite for environmental risk, credit policy, investments, allocating capital to "green" financing and investments, etc. The Supervisor further states that as preparation for the implementation of the treatment of environmental risks (over and above the requirements stated in the previous letter by the Supervisor of June 2009), the Supervisor intents to begin a round of discussions with banks, in order to start the preliminary process, which is required in order to design and characterize the environmental risk purpose and management by the banking system. The supervisor intends to hold meetings with banks for the sharing and obtaining of information regarding the level of awareness and readiness and regarding practices, to the extent formed, regarding the matter of environmental risk management and their agreement with expectations. On February 3, 2021, a questionnaire was sent to the banks with respect to environmental risks, the answers to it will serve as a basis for the continuation of discussions with risk managers at the banking corporations.

Legal Risks

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

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

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

The principal risk factors for legal risk exposure are: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.

The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks.

The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.

The Bank maintains a Group legal risk management policy, which is updated from time to time. The policy was recently updated and approved by the Board of Directors in September 2020.

Within the framework of this update, it has been defined that 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 Bank's legal risk management policy has been adopted, mutatis mutandis, by the principal subsidiaries in Israel and by IDB Bank.

Compliance Risks

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

Prohibition of Money Laundering and Terror Financing

Discount Group’s activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity.

On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.

On February 20, 2019, the Director-General of the Ministry of Finance contacted the Bank and informed it, inter alia, that the earliest that the government company would be able to provide services to banks operating in the Palestinian Authority territories would be the first half of 2021, with this being a cautious assessment. The Director-General at the Ministry of Finance emphasized the supreme importance of the Bank continuing to provide – during the interim period until the government company begins its operations –the correspondent services to the banks acting in the Palestinian Authority, with this, taking into consideration the possibility of extending the letters of indemnification and immunity, at the discretion of the Accountant-General and the Attorney-General.

On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021 (with the State being authorized to extend this date to May 31, 2021). Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State’s undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.

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.

In January 2021, representatives of the Ministry of Finance and the Bank commenced talks aimed at reviewing the continued provision of the services, through extending the letters of immunity and indemnification.

Conduct Risk

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

Risk Factors Table

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

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

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

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

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

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 rise in borrower quality risk due to the impact of the crisis, and the potential for impairment in the quality of the credit portfolio;
- 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 continuity of the crisis and its effect on both the global and domestic economies.

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.

Risk Factors Table

Risk factor	Risk Factor Impact	Basing the assessment
1. Risk environment[3]	High	The Corona crisis and its local and global implications have led to a steep growth in the risk environment due to the material and continuous impact of the crisis on the economy and on the business results of the banking sector. This, alongside the continued growth of the challenges in the competition environment, mainly resulting from technological developments and extended cooperation with third parties. In addition, regulating actions continued with an emphasis on fairness, transparency and privacy protection requirements. Cyber and data protection risks continue to comprise a significant threat to the financial system, also due to distance work, increased use of the digital channels and the increased attack attempts directed against the financial system. As regards the internal risk environment, the significant retirement moves that were made at the end of 2020 and in January 2021, which included also retirement of senior Bank officers, have created a challenge regarding the arrangements made in order to avoid the loss of knowhow and to ensure management continuity.
2. Overall impact of credit risk	Medium-High	On the background of the crisis, the risk impact has been raised to a "Medium-High" level, in view of the increase in allowances for credit losses, with an expectation for a rise in credit defaults among Bank customers, which has not yet been reflected in a significant manner in the specific expenses, inter alia due to extensive Government support. The Bank is expected to continue implementing the growth strategy, in accordance with the strategic plan, alongside the continuing management and close monitoring of the risk in the credit portfolio and adjustments of the risk appetite. On the background of the crisis, the forecasting ability of the models supporting the granting of credit had been impaired. The Group has taken immediate action in confronting the implications of the crisis by means of diverse tools and solutions, which include adjustments of the rating processes, changes in authority and in authorizations, and increased reliance on manual underwriting processes and second opinions regarding credit applications. Concurrently, the intensified monitoring and control processes continue, with frequent examination of the implications of the crisis and the adjustments required at the different plains.

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

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
2.1 Quality of borrowers and collaterals risk	Medium-High	In view of the Corona crisis and its continuation, a rise in the risk profile of borrowers has been recorded. The Bank acts to reduce the risk by means of increasing monitoring and control at all business lines at the Bank, adjustments of policy and of the risk appetite, use of advanced tool for analyzing and examining stress tests, as part of the risk management.
2.2 Industry concentration risk	Medium	The Group complies with the regulatory restrictions.
2.3 Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.
3. Overall impact of market risks	Low-Medium	In the course of the crisis, a rise in the structured risk has been identified, mainly as a result of external impacts of the crisis and of market fluctuations. Accordingly, the frequency of monitoring and reporting of developments regarding financial risks has been increased at the Bank and the Group. During the second half of the year the markets stabilized and concurrently, there was an improvement in the quality of risk management (the upgrading of models and stress tests, measurement of interest risk in accordance with the Basel 4 instructions, improvements in interfaces, in monitoring and in reporting), and therefore, the overall evaluation of market risk has not changed.
3.1 Interest rate risk	Low-Medium	The scope of the interest exposure (both economic and accounting) compared to the capital of the Bank is not large and is similar to the system. However, in view of the lengthening of the average maturity period of the portfolio, a higher economic risk has been created for a rise in the market interest rate. The risk management quality is in a continuous improvement trend.
3.2 Inflation and exchange rate risk	Low	Maintaining a low exposure level alongside the strict monitoring of its effect.
3.3 Share price and credit spreads risks relating to the holding of securities	Low-Medium	The level of risk has not changed, mostly on the background of the stabilization of fluctuations in the equities markets and the reduction in credit margins in corporate bonds. The quality of risk management is showing a continuous improvement trend.
4. Liquidity risk	Low	The crisis has led to an increase in surplus liquidity in the whole system and therefore, the risk profile has remained Low. The Group continues to enjoy robust liquidity both in shekel and foreign currencies and is implementing a clear financing strategy. This, alongside the continuous improvement of tools and models supporting risk management at the Group aspect.
5. Operating risk	Medium-High	As stated above, the evaluation if the risk impact had been raised at the beginning of the crisis to the level of "Medium-High", mostly on the background of changing to distant work, a multitude of regulatory adjustments that had to be implemented at short time schedules, and changes and adjustments of work procedures. Notwithstanding the above, preparations made by the Bank in the matter had been prompt and proper, including adjustments made to the control environment and the addition of controls with respect to newly identified risk centers. The risk level continues to be High, also in the light of the impact of the retirement process, which has increased the risk potential at the preparation range, due to manpower shortage and/or loss of knowhow and skill. The Group is preparing for the identification of potential risk centers arising from the retirement process, including formation of appropriate risk mitigating plans.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
6. IT risk	Medium	Routine business activity is materially dependent on the orderly operation of the technological layout. In addition to this dependency, the Corona event has demonstrated the importance of maintaining flexible and updated infrastructure that allows a speedy transition to working from home in a secured manner. The Bank continues the realization of a computer plan, which is compatible with the strategic focal points and is being updated annually, taking into consideration the updating of the strategic projects and the projects supporting business focal points. The increased use of cloud applications, including by way of cooperation with third parties, is conducted while maintaining strict risk management, concurrently with the continuing improvement of the supporting infrastructure, including the cloud development environment and the determination of standards for cloud applications involving third parties. All these, alongside adjustment and improvement of monitoring and control procedures and the strengthening of infrastructure and technological redundancy. The Bank continues to promote open banking and cooperation with startup companies, while strictly maintaining meticulous risk management processes, focusing on privacy protection and data protection aspects. At the same time, improvements are being made to tools and methodologies supporting risk management.
7. Data protection and cyber risks	Medium-High[4]	The growth in threats and the increase in power, ingenuity, complexity and level of probability of cyber risks continue. The Group continues to allocate significant resources for the reduction of exposure, which includes: the focusing on stronger protection of the network and its components, improvement of forestallment and monitoring tools, improving the ability to contain and manage events, management of cyber risk applying to the supply chain, reducing exposure applying to money outflow routes, central management of authorization concepts, and more. At the same time, the Bank continues to develop aspects of policy and risk appetite, including determination of indicators and thresholds in qualitative and quantitative terms, alongside the conduct of exercises and improvements in the security layout and data protection at the Bank and at the Group. The strengthening continues of the Group risk management activities in the second and third defense lines.
8. Legal and regulatory risk	Medium	The risk level remains stable despite the increase in scope of the regulatory changes and the developing regulation, partly on the background of the crisis and partly as competition supporting regulation (the clearing field, mobility reform, proper conduct of banking business directive regarding open banking, and more), or regulation regarding consumer issues (the Payment Services Act, proper conduct of banking business directive regarding the management of consumer credit, changes in insolvency laws, and more). All these, alongside the increase in approaches made by different regulators, which require preparation and allocation of appropriate inputs. The Bank has signed a compromise arrangement settling the proceedings that had been conducted against it in Australia and related actions. Management quality is being constantly improved, including adjustments in the organizational structure and in qualifications.
9. Cross-border risks	Medium-High	On the background of the dynamics of the risk and increased enforcement, there is no material change in the risk profile. The continuing intensification of the foreign and domestic regulation, alongside the enlarged enforcement and the continuing exchange of information between countries with respect to tax evasion within the framework of investigation processes, create a high risk environment. The Group continues preparations for regulating the activity in respect of providing banking services having foreign connections, in compliance with a letter of the Supervisor of Banks in the matter. Continuing the investment in mechanization and in the introduction of changes in the Bank's systems, in support of the CRS-FATCA and QI requirements.

4 Evaluation of the risk impact derives mostly from the identification of risk as developing and system risk and as a derivative of an increase in their risk environment, and not on the background of identification of risks that are singular to the Group.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
10. Compliance, Money Laundering and Financing of Terror risks	Medium	The Corona crisis has led to increased regulatory changes and to different supervisory regulation letters, which require preparations and investment of many inputs at short time schedules. A highly focused management attention regarding international regulation and its application to the Bank and the Group. Continuing highly focused management attention regarding privacy protection, fairness and decency as well as competition aspects. The Group continues to put together resources in order to promote integration of the compliance culture, while emphasizing training and application of controls in a risk based approach and the integration of fairness and decency aspects in the processes of credit sales and debt collection, in all Group companies. From the aspect of money laundering prohibition, the implications of the crisis and the transition to digital constitute a factor that increases the risk of financial crime as regards the banking system as a whole. Accordingly, preparations are made to continue strengthening the monitoring and control tools and the models supporting risk management. The upgrading of the Actimize System supporting risk management was effected in 2020, alongside the continuing improvement of the independent monitoring ability with respect to irregular activity. A change was implemented in the concept activating compliance officers at the branches, while strengthening the independent second line control layout. This change with the addition of the retirement of employees having a wide professional knowhow and experience lead to an increase in risk in the short term. Despite the increased complexity of risk management, exposure level has, in the opinion of the Bank, remained unchanged, due to the improvements made in risk management, together with an increase in the short term risk following the retirement process.
11. Reputation risk	Low-Medium	It is noted that during the second and third quarters, it had been decided to raise the evaluation of the reputation risk impact from "Medium-Low" to "Medium". This, in view of the high public sensitivity during the crisis period. In view of the quieted down protest waves, alongside the effort made by the banking system and the Supervisor of Banks to provide crisis adjusted solutions to customers, it has been decided to revert the risk level to the level prior to the crisis. During the year 2020, all Group companies implemented significant efficiency plans, which are expected to support improvement in the efficiency ratio of the Group with a forward looking viewpoint. This, alongside the continuing implementation of new strategic projects, the aim of which is to support the continuing strengthening the Group's position as a leading and competition generating banking group.
12. Strategic risk (including risk of the business model)	Medium	The financial results for 2020 had been affected by the crisis, and the Group assesses that the effects are expected to continue also in 2021. However, the Group continues in its growth strategy and in implementing new strategic projects intended to provide response to the significant challenges and to the changes in traditional banking, by implementing new banking and by strengthening the Group's abilities. Within the framework of the new banking route, diverse initiatives are being promoted in the area of open banking, cooperation with fintech companies and the conversion of PayBox into a digital wallet, which would compete in the banking sector by means of a singular and differentiating value offer that promotes transparency values, fairness and supports increased competition in this field. For this purpose, a cooperation agreement has been signed with Shufersal Company, which, inter alia, is subject to obtaining approvals of the Bank of Israel and of the Competition Authority. This, alongside the continuing implementation of efficiency measures, which include retirement of employees, process efficiency, digitalization and mechanization of processes. The strategic plan continues to be managed from a Group viewpoint, and all Group companies have their own challenging strategic plans.

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

Critical Accounting Policies and Critical Accounting Estimates

General

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

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

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

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

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

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

Allowances for Credit Losses

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

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

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

Allowance for credit losses – allowances on a group basis

As stated, 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 16% at the end of 2020 and a decline in the GDP at the rate of 4%[5] 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 and fourth quarters 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, the rating of the borrower and additional risk characteristics.

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 December 31, 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 16% and a reduction in the product of 4%, had been assumed.

The Bank estimates that a growth of 2.0% in the rate of unemployment during 2021 and a reduction of additional 2.0% in the rate of the GDP at the end of 2021, would cause an increase of between NIS 140 and 180 million in the allowance for credit losses.

The Bank estimates that a decrease of 2.0% in the average unemployment rate during 2021 and an increase of 2.0% in the rate of the GDP at the end of 2021, would cause a reduction of between NIS 140 and 180 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.

5 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.

Contingent Liabilities

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

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

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

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

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

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

Impairment of Available for Sale Bonds

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

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

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

The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments, assumptions and features upon which they are based may have a significant effect upon the financial statements.

For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

Measurement of Financial Instruments according to their Fair Value

Directives of the Supervisor of Banks. The Bank implements the directive regarding Measurement of fair value based on the U.S. financial accounting standard ASC 820. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

ASC 820 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.

These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

This class includes also significant derivative financial instruments, the adjustment for credit risk in respect thereof is not based on observable inputs.

For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.

As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 12.9% at December 31, 2020, compared with 12.0% at December 31, 2019.

The income on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 670 million in 2020, compared to an income of NIS 535 million for 2019.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions, corporations and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and as the case may be, also to broker quotations that are not the issuers of the securities (in the case of a material change in the monthly level), which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

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

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

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

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

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

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

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

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

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

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.

Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.

The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.

Adjustment of the credit risk relating to assets and liabilities in respect of derivative instruments, resulted in 2020 in a loss of NIS 20 million, compared to a loss of NIS 7 million in 2019. It should be noted that, from the fourth quarter of 2019, the Bank also takes into consideration the potential exposure component in calculating the credit risk adjustment.

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

	December 31, 2020	December 31, 2019
	in NIS millions	
Assets in respect of derivative instruments	6,410	4,558
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(20)	(10)
Liabilities in respect of derivative instruments	7,375	4,866
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	16	6

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

Employee Rights

The Bank applies U.S. accounting principles as regards employee rights. For additional details, see Note 1 D 15.1. The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions.

Certain aspects regarding the implementation of the accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and is based on past experience and on the limitations determined in this respect by the Bank's Management. The limitations determined by the Management are detailed in Note 1 D 15.7 to the financial statements.

The actuarial computation is based on several parameters, including: life expectancy, retirement age of employees prior to the retirement date, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated and the discount rate. These parameters were determined, inter-alia, based on forecasts prepared by the actuary and the experience accumulated in the Bank. The actuarial computation was based on a computed discount rate, in accordance with instructions of the Supervisor of Banks.

Furthermore, implementation of the accounting policy involves assessments and judgment with respect to the following matters:

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

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of December 31, 2020. The actuarial opinion also includes a computation of the actuarial provision amount for severance pay that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority's "deep market" guideline.

The actuarial assessment as of December 31, 2020, as compared to the assessment at December 31, 2019, has been mainly affected by the 2020 retirement plan and by the changes in the rate of retirement assumed in the assessment. For additional details, see Note 1 D 15.7 and Note 23 I to the financial statements.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[6] is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website, together with the Bank's 2020 Annual Report (this Report).
Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in remuneration, on the liability for the forecasted benefit, before the tax effect, see Note 23 C to the financial statements, section 3.2.

Examination of impairment in value of non-financial assets

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.
Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States. For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.
The written down balance of in-house software development costs amounted at December 31, 2020 to NIS 970 million (December 31, 2019: NIS 835 million).

Controls and Procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.
In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.
Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.
During 2020, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.
Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

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

Changes in Internal Control

During the fourth quarter ended on December 31, 2020, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting, 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.
In addition, during the fourth quarter, a retirement plan of unprecedented scope has been deployed at the Bank, within the framework of which 577 employees had retired through December 31, 2021, of which many were middle-grade managers or higher. In the course of preparing for these retirements, efforts were made for a smooth transfer of duties and for the retention of know-how. Moreover, measures were taken to reorganize work processes, to reallocate tasks and – in some instances – to close manpower gaps, both through employee mobility and also through recruiting new employees. As part of the aforesaid, steps were taken to allocate the applicable processes and controls within the framework of these processes.

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

March 15, 2021	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer

Internal Control over Financial Reporting

Certification

I, Uri Levin, certify that:

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

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

March 15, 2021

Uri Levin,
President & Chief Executive Officer

Certification

I, Joseph Beressi, certify that:

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

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

March 15, 2021

Joseph Beressi
Senior Executive Vice President
Chief Accountant

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

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

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

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2020, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of December 31, 2020, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2020 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 123, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2020.

Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 15, 2021

Financial Statements

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

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2020 and 2019, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2020, and our report dated March 15, 2021, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C section 12 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 15, 2021

Somekh Chaikin

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

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and consolidated: Balance sheets as at December 31, 2020 and December 31, 2019, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended December 31, 2020. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2020 and 2019, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2020, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C section 12 regarding different proceedings filed against the Bank and against investee companies.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 15, 2021, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 15, 2021

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2020	2019	2018
		in NIS millions		
Interest income		6,987	7,567	7,053
Interest expenses		1,089	1,674	1,527
Net interest income	2	5,898	5,893	5,526
Credit loss expenses	13,31	1,718	690	540
Net interest income after credit loss expenses		**4,180**	**5,203**	**4,986**
Non-interest Income				
Non-interest financing income	3	1,142	742	586
Fees and commissions	4	2,826	2,972	2,851
Other income	5	39	57	57
Total non-interest income		**4,007**	**3,771**	**3,494**
Operating and other Expenses				
Salaries and related expenses	6	3,242	3,343	3,385
Maintenance and depreciation of buildings and equipment	16	1,185	1,098	1,039
Other expenses	7	2,254	1,858	1,724
Total operating and other expenses		**6,681**	**6,299**	**6,148**
Profit before taxes		1,506	2,675	2,332
Provision for taxes on profit	8	549	932	789
Profit after taxes		957	1,743	1,543
Bank's share in profit of associates, net of tax effect	15	50	16	6
Net profit:				
Before attribution to non-controlling interests		1,007	1,759	1,549
Attributed to the non-controlling interests		(32)	(57)	(44)
Net Profit Attributed to the Bank's Shareholders		**975**	**1,702**	**1,505**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9**	**0.84**	**1.46**	**1.29**

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

Date of approval of the financial statements:	Shaul Kobrinsky	Uri Levin	Joseph Beressi
	Chairman of the Board of Directors	President & Chief Executive Officer	Senior Executive Vice President, Chief Accountant
March 15, 2021			

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

		The Bank		
	Notes	2020	2019	2018
		in NIS millions		
Interest income		3,979	4,257	3,996
Interest expenses		680	985	907
Net interest income	2	3,299	3,272	3,089
Credit loss expenses	13,31	1,045	323	300
Net interest income after credit loss expenses		**2,254**	**2,949**	**2,789**
Non-interest Income				
Non-interest financing income	3	753	566	403
Fees and commissions	4	1,166	1,224	1,246
Other income	5	104	108	115
Total non-interest income		**2,023**	**1,898**	**1,764**
Operating and other Expenses				
Salaries and related expenses	6	1,876	1,995	2,015
Maintenance and depreciation of buildings and equipment	16	730	729	698
Other expenses	7	996	725	662
Total operating and other expenses		**3,602**	**3,449**	**3,375**
Profit before taxes		675	1,398	1,178
Provision for taxes on profit	8	254	492	415
Profit after taxes		421	906	763
Bank's share in profit of associates, net of tax effect	15	554	796	742
Net profit attributed to bank's shareholders		**975**	**1,702**	**1,505**

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

Consolidated Statement of Comprehensive Income for the year ended December 31

	2020	2019	2018
	in NIS millions		
Net profit before attribution to non-controlling interests	1,007	1,759	1,549
Net profit attributed to non-controlling interests	(32)	(57)	(44)
Net profit attributed to the Bank's shareholders	**975**	**1,702**	**1,505**
Other comprehensive income (loss), before taxes:			
Net adjustments for presentation of available-for-sale bonds at fair value[3]	157	790	(377)
Adjustments from translation of financial statements	(254)	(283)	252
Adjustments of liabilities in respect of employee benefits[2]	(417)	(259)	259
Net profit (loss) in respect of cash flows hedge	(1)	4	(1)
Other comprehensive income (loss), before taxes	**(515)**	**252**	**133**
Related tax effect	97	(176)	23
Other comprehensive income (loss), before attribution to non-controlling interests, after taxes	(418)	76	156
Other comprehensive loss, attributed to non-controlling interests	(2)	(4)	-
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**(416)**	**80**	**156**
Comprehensive income, before attribution to non-controlling interests holders	589	1,835	1,705
Comprehensive income, attributed to non-controlling interests holders	(30)	(53)	(44)
Comprehensive income, attributed to the Bank's shareholders[1]	**559**	**1,782**	**1,661**

Footnotes:

(1) See Note 10.

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

(3) In 2018 - available-for-sale shares .

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

Balance sheet as at December 31

		Consolidated		The Bank	
	Notes	2020	2019	2020	2019
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	42,936	26,044	32,370	19,996
Securities (of which:10,489, 2,897, 8,110, 2,354 respectively, pledged to lenders)	12,27	42,785	37,745	26,545	23,640
Securities borrowed or purchased under agreements to resell		1,074	531	1,074	531
Credit to the public	13,31	192,479	182,991	125,245	118,016
Provision for credit loss	13,31	(3,761)	(2,524)	(2,343)	(1,477)
Net credit to the public		188,718	180,467	122,902	116,539
Credit to Governments	14	3,473	3,515	3,447	3,515
Investment in investee companies (consolidated – associates)	15	348	171	10,658	10,317
Buildings and equipment	16	2,995	2,577	1,943	1,698
Intangible assets and goodwill	17	164	164	-	-
Assets in respect of derivative instruments	28	6,400	4,545	5,731	4,256
Other assets	18	5,076	4,064	3,081	2,242
Total Assets		**293,969**	**259,823**	**207,751**	**182,734**
Liabilities and Equity					
Deposits from the public	19	226,118	201,450	163,533	146,159
Deposits from banks	20	13,107	6,419	5,838	1,762
Deposits from the Government		344	181	126	16
Securities lent or sold under agreements to repurchase		161	346	-	-
Bonds and Subordinated debt notes	21	10,201	13,129	3,524	3,891
Liabilities in respect of derivative instruments	28	7,365	4,839	6,580	4,513
Other liabilities(1)	22	16,946	14,266	8,968	7,715
Total liabilities		274,242	240,630	188,569	164,056
Equity capital attributed to the Bank's shareholders		19,182	18,678	19,182	18,678
Non-controlling interests in consolidated companies		545	515	-	-
Total equity		19,727	19,193	19,182	18,678
Total Liabilities and Equity		**293,969**	**259,823**	**207,751**	**182,734**

Footnote:

(1) Of which NIS 298 million and NIS 223 million in the consolidated, and NIS 226 million and NIS 171 million in the bank, as of December 31, 2020, and December 31, 2019, provision for credit loss in respect of off-balance sheet credit instruments. See Note 31 (E).

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

Statement of Changes in Shareholders' Equity

	Capital reserves									
	Paid up share capital	Share premium	Other reserves	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	in NIS millions								
Balance at December 31, 2017	676	4,174	215	5,065	(717)	11,246	15,594	474	16,068
Net Profit for the year	-	-	-	-	-	1,505	1,505	44	1,549
Dividend paid	-	-	-	-	-	(118)	(118)	-	(118)
Other comprehensive income, net after tax effect(1)	-	-	-	-	156	14	170	-	170
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)
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**
Changes in 2020:									
Net Profit for the year	-	-	-	-	-	975	975	32	1,007
Dividend paid	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	(6)	(6)	-	-	(6)	-	(6)
Other comprehensive loss , net after tax effect	-	-	-	-	(416)	-	(416)	(2)	(418)
Balance at December 31, 2020	**676**	**4,174**	**209**	**5,059**	**(897)**	**15,020**	**19,182**	**545**	**19,727**

Footnote:

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

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

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
			in NIS millions			
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling interests in consolidated companies	1,007	1,759	1,549	975	1,702	1,505
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed profits of associates	(54)	(14)	(7)	(636)	(884)	(802)
Depreciation of buildings and equipment (including impairment in value)	491	466	424	298	304	273
Provision for impairment in value of securities	29	31	14	5	-	8
Credit loss expenses	1,718	690	540	1,045	323	300
Gain on sale of credit portfolio, net	(3)	(7)	(6)	(3)	(7)	(6)
Profit on sale of available-for-sale bonds and shares not for trading	(647)	(250)	(154)	(299)	(98)	(64)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(91)	2	(63)	(88)	10	(64)
Non realized gain on adjustment to fair value of shares no for trading	(8)	(39)	-	(7)	(38)	-
Gain from realization at an investment in investee companies	-	(13)	-	-	(13)	-
Gain on realization of buildings and equipment, net	(32)	(42)	(46)	(27)	(34)	(46)
Net deferred taxes	(353)	(115)	34	(269)	(91)	77
Severance pay – increase in excess of provision over the deposits	201	336	(151)	209	144	(32)
Net change in current assets:						
Assets in respect of derivative instruments	(1,855)	(816)	(771)	(1,475)	(755)	(651)
Trading securities	1,441	(252)	(659)	1,323	(550)	(251)
Other assets	360	(40)	(374)	205	268	(554)
Effect of changes in exchange rate on cash and cash equivalent balances	150	(1)145	(1)(188)	150	(1)204	(1)(186)
Accrual differences included in investment and financing activities	1,272	1,440	(1,161)	593	544	9
Net change in current liabilities:						
Liabilities in respect of derivative instruments	2,526	1,590	16	2,067	1,485	(48)
Other liabilities	1,106	1,049	873	7	235	26
Adjustments in respect of exchange rate differences on current assets and liabilities	(143)	(185)	239	-	-	-
Dividends received from associates	18	13	37	101	175	191
Net Cash Flows from Operating Activities	**7,133**	**5,748**	**146**	**4,174**	**2,924**	**(315)**

Footnote:

(1) Improvement of the data.

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

Statement of Cash Flows for the year ended December 31 (continued)

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
			in NIS millions			
Cash Flows to Investing Activities						
Net change in Deposits with banks	(372)	42	(45)	(440)	(130)	(57)
Net change in net credit to the public	(5,610)	(8,930)	(13,798)	(6,372)	(5,903)	(8,250)
Net change in Credit to the Governments	1,931	571	(393)	1,956	571	(393)
Net change in Securities borrowed or purchased under agreements to resell	(543)	243	180	(543)	243	180
Acquisition of held-to-maturity bonds	(3,920)	(766)	(2,676)	(3,709)	(615)	(2,485)
Proceeds from redemption of held-to-maturity bonds	556	1,715	1,333	400	1,473	973
Purchase of available-for-sale bonds and shares not for trading	(19,086)	(13,133)	(14,240)	(10,580)	(8,212)	(8,821)
Proceeds of sale of available-for-sale bonds and shares not for trading	13,131	10,739	5,794	8,975	5,929	3,725
Purchased credit portfolios	(7,926)	(4,162)	(3,838)	(4,272)	(4,162)	(3,838)
Gain on sale of credit portfolio	74	940	254	56	787	137
Proceeds of redemption of available-for-sale bonds	3,543	3,197	5,576	1,319	871	2,866
Purchase of shares in associates	(160)	(62)	(12)	(9)	(5)	-
Business combinations - see Annex A	-	449	-	-	-	-
Net Proceeds of the sale of investments in associates	-	27	-	-	27	-
Investment in deferred debt notes of a subsidiary company	-	-	-	-	(160)	-
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	-	-	-	13	13	63
Acquisition of buildings and equipment	(916)	(592)	(473)	(574)	(347)	(266)
Proceeds from sale of buildings and equipment	60	65	59	51	52	59
Net Cash Flows to Investing Activities	**(19,238)**	**(9,657)**	**(22,279)**	**(13,729)**	**(9,568)**	**(16,107)**
Cash Flows from Financing Activities						
Net change in Deposits from banks	6,688	(488)	2,082	4,076	(118)	390
Net change in Deposits from the public	25,125	7,453	13,867	17,832	8,862	11,869
Net change in Deposits from the Government	163	(76)	(10)	110	(12)	(22)
Net change in Securities borrowed or purchased under agreements to resell	(185)	(780)	(817)	-	-	-
Issuance of subordinated debt notes	540	3,899	1,493	-	-	-
Redemption of subordinated debt notes	(3,438)	(1,327)	(773)	(366)	(261)	(164)
Dividend paid to the shareholders	(49)	(255)	(118)	(49)	(255)	(118)
Dividend to non-controlling interests	-	(56)	-	-	-	-
Net cash flows from Financing Activities	**28,844**	**8,370**	**15,724**	**21,603**	**8,216**	**11,955**
Increase (decrease) in cash	16,739	4,461	(6,409)	12,048	1,572	(4,467)
Cash balance at beginning of period	25,777	21,549	27,762	19,585	18,218	22,499
Effect of changes in exchange rate on cash and cash equivalent balances	(251)	(1)(233)	(1)196	(146)	(1)(205)	(1)186
Cash balance at end of period	**42,265**	**25,777**	**21,549**	**31,487**	**19,585**	**18,218**
Interest and taxes paid and/or received						
Interest received	6,947	7,576	7,074	4,383	4,301	4,016
Interest paid	(1,260)	(1,712)	(1,563)	(1,007)	(1,006)	(1,049)
Dividends received	27	26	48	108	177	193
Taxes on income paid	(1,066)	(1,265)	(927)	(630)	(837)	(563)
Taxes on income received	207	37	280	154	18	213

Footnote:

(1) Improvement of the data.

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

Appendix A – merger with Municipal Bank

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

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

	2020	2019	2018
	in NIS millions		
The Bank:			
Income from sale of rights in Visa Europe	646	-	-
Purchase of fixed assets	1	-	16
Lending of securities	(1,262)	(121)	486
Consolidated:			
Recognition of a right-of-use asset in consideration for a leasing liability	895	-	-
Purchase of fixed assets	54	9	30
Lending of securities	(1,574)	173	648

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

Notes to the Financial Statements

1. Significant Accounting Policies

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 15, 2021.

B. Definitions

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

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

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

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

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

"Investee companies" - consolidated subsidiaries and associates.

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

C. Basis for the preparation of the financial statements

1. **Principles of financial reporting**

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

2. **Functional Currency and Presentation Currency**

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

3. **Basis of measurement**

   The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:
   - Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
   - Bonds classified as available-for-sale;
   - Non-current assets held for sale and a group of assets held for sale;
   - Deferred tax assets and liabilities;
   - Provisions;
   - Assets and liabilities in respect of employee benefits;
   - Investments in associates.

1. Significant Accounting Policies (continued)

4. Use of estimates

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

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

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

Starting with the period beginning January 1, 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 in accounting policy adopted in the financial statements and a description of the manner of initial implementation and its effect, 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 Bank 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$117 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.

   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.

1. Significant Accounting Policies (continued)

- 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.

  In addition, and further to the publication of the additional outlines for deferring payments, from November 30, 2020 and December 10, 2020, the Banking Supervision Department issued two more letters to the banking corporations in December 2020, titled “The Corona crisis – main points regarding the additional outline for deferring payments” and “The Corona crisis – main points regarding the additional outline for deferring payments for small businesses”, within the framework of which, it was specified that a banking corporation is entitled not to classify, as a troubled debt restructuring, housing loans, other loans to private individuals and loans to small businesses, which were not in arrears for 30 days or more at the time of deferring the payments, with regard to which a payments deferral was granted by March 31, 2021 within the framework of the additional outlines for deferring payments, even if the aggregate deferral exceeds six months.

  Within the framework of the letter of the Supervisor of Banks dated December 3, 2020, in the matter of "the Corona crisis – focal points in the matter of the additional outline for the deferment in repayments", it is stated that a banking corporation that had elected not to classify as restructure of a troubled debt, loans that were not in arrears of 30 days or over at date of deferral of repayments, in respect of which deferral of repayments had been granted until March 31, 2021, within the framework of the additional outline for deferment, shall include in the quarterly and annual financial statements to the public in 2021, a pro-forma disclosure presenting the principal effects of implementing the said choice upon the financial statements.

1. Significant Accounting Policies (continued)

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

1. Foreign currency and linkage

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

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

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

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

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

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

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

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

				Annual rate of change		
	2020	2019	2018	2020	2019	2018
CPI (in points):						
Known at balance sheet month	100.2	100.8	100.4	(0.6)	0.3	0.4
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.215	3.456	3.748	(7.0)	(7.8)	(9.8)
Euro	3.944	3.878	4.292	1.7	(9.6)	2.7

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

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

   2.2 **Subsidiary companies.** These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

   Non-controlling interests. These are rights representing the equity capital of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling interests are measured at fair value at date of the business combination.

   Allocation of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling interests will be negative.

1. Significant Accounting Policies (continued)

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are being treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling interests in consolidated subsidiaries is charged to the owners' share of the Bank, directly to capital.

2.3 **Investments in associates.** Associates are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in associates are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of associates treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives implemented by a non-financial affiliate, which applies the IFRS rules.

2.4 **Transactions eliminated upon consolidation.** Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with associates were eliminated against the investment according to the rights of the Group in the associates. Unrealized losses were eliminated in the same manner in which profits have been eliminated, as long as no evidence of impairment exists.

2.5 **The treatment in the Bank's standalone financial statements.** In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks. The Bank’s standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

3. The basis of recognition of income and expenses

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

3.2 Commission income in respect of the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain fees and commissions, such as commission in respect of guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 **Fees and commissions regarding the setting-up of credit facilities.** Fees and commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

3.5 **Credit allocation fees and commissions.** Credit allocation fees and commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the fees and commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitments being realized is not remote.

3.6 **Changes in terms of loans.** In cases of refinancing or of restructuring of non-problematic loans, the Bank examines whether the debt terms had been changed so that they are advantageous to the Bank, at least as the terms of similar debt instruments of other customers having similar risk characteristics, and whether the terms of the loan were materially changed. In such cases, the outstanding fees and commissions not yet amortized as well as early repayment fees and commissions collected from the customer in respect of the change in the terms of credit are recognized in the statement of profit and loss. Otherwise, the said fees and commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

1. Significant Accounting Policies (continued)

3.7 **Early repayment commission.** Fees and commissions charged in respect of early repayments are recognized immediately as part of interest income.

3.8 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.9 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments are recognized based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.10 Other income and expenses are recognized on an accrual basis.

4. Impaired debts, credit risk and allowance for credit loss

General. In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, the Bank is implementing the guidelines of the Supervisor of Banks regarding "Dealing with problematic debts".

Credit to the public and other debt balances. The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under agreements to resell, credit to the public, credit to the government, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date.

Identification and classification of impaired debts. The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

Definition of the primary source of repayment upon the classification of a problematic debt. Determination of the proper classification of a debt, until a default event occurs or until expectation for such an event becomes highly probable, is based on the repayment ability of the borrower, namely: the expected strength of the primary repayment source (a sustainable source of cash over a period of time that must be under the control of the borrower and which must be explicitly or in substance separated for the repayment of the debt), and this, despite the support of second and third place repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Reinstatement of an impaired debt as an unimpaired debt. An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).

1. Significant Accounting Policies (continued)

- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, do not apply to debts classified as impaired as a result of a restructure of a troubled debt.

Reinstatement of an impaired debt as an impaired debt accruing interest. A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as an impaired debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

Allowance for credit losses. The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses. The allowance covering credit losses anticipated is assessed in one of two ways: "specific allowance" or "group allowance".

The said examination of debts for the purpose of determining the allowance and the treatment of the debt, is consistently applied in respect of all debts in accordance with the quantitative level and the Bank's credit management policy, and no changes are being made between the specific examination track and the group basis examination track during the life of the debt, unless a restructure of a troubled debt had been made as stated below.

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 500 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

A collateral-dependent debt is defined as a debt, the recovery of which is expected to be exclusively effected by the collateral pledged in favor of the Bank, or when it is expected that an asset held by the borrower would serve to repay the debt, even if no specific pledge exists on the asset, and everything when the borrower has no other material available and reliable repayment sources.

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", and in accordance with instructions of the Supervisor of Banks, based on historical loss ratios in various economic sectors, differentiating between problematic and non-problematic credit, within the range of years in the period beginning on January 1, 2011 and ending on the reporting date. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, for the purpose of determining the proper amount of the allowance, the Bank takes into account relevant environmental factors, including trends in the scope of credit in each sector and conditions in the sector, macro-economic data, assessment of the general quality of the credit to an economic sector, changes in volume and trends of balances in arrears and impaired balances and the effect of changes in the credit concentration.

1. Significant Accounting Policies (continued)

In accordance with the directives of the Supervisor of Banks, the Bank has formed a measurement method for the allowance on a group basis, which takes into account both the rate of past losses and the adjustments in respect of the relevant environmental factors. With respect to credit granted to private individuals, the rate of adjustment in respect of environmental factors shall not be less than 0.75% of the outstanding balance of the non-problematic credit at each reporting date, with reference to the average rates of loss in the range of the years. Excluded from the above is credit created by bank credit card transactions bearing no interest charge.

The required allowance in respect of off-balance sheet credit instruments - is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business Directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach".

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. Calculation of the allowance based on the extent of arrears applies to all housing loans, excluding loans that are not repayable in periodic installments and loans that finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank verifies that the balance of the group allowance for credit loss, in respect of housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Furthermore, in view of the Corona crisis - the need has arisen to assess inherent credit losses in respect of borrowers affected 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 and with deterioration coefficients that are based on an assessment of the risk of the various economic sectors. Also conducted 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 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, the rating of the borrower and additional risk characteristics.

Recognition of interest income. On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of profit and loss but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt that has formally undergone troubled debt restructuring and following the restructure it is reasonably certain that the debt would be repaid and would perform in accordance with its new terms, shall be treated as an impaired debt that accrues interest income. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see section 3.1 above.

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over. These debts are subject to assessment methods of an allowance for credit losses, which ensure that the Bank's profit is not inclined upwards. Commission charged on arrears in these debts are recognized as income on date on which the Bank is entitled to receive it, on condition that collection thereof is reasonably certain.

Accounting write-off. The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral.

1. Significant Accounting Policies (continued)

With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (in most cases over 150 consecutive days in arrears) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Notwithstanding that stated above, the need for an immediate write-off is examined in respect of loans examined on a group basis and classified as impaired due to the restructuring of a troubled debt. In any event, the accounting write-off of such debts is made no later than the date on which the debt was sixty days or over in arrear, with reference to the restructuring terms.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

The Bank does not classify a debt as a restructured troubled debt if within the framework of the arrangement the borrower has been granted an immaterial deferment in repayments, considering the frequency of the installments during the contractual maturity period and the expected average maturity of the original debt. In this respect, where several arrangements have been made involving changes in the terms of the debt, the Bank takes into consideration the cumulative effect of prior arrangements for the purpose of determining whether the deferment in repayments is not material.

The treatment of structured debts and of following debt restructuring. Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, are classified as troubled debts and assessed on a specific basis for the purpose of performing the allowance for credit losses.

As a general rule, a restructured troubled debt continues to be measured and classified as an impaired debt until repaid in full. Notwithstanding, under certain circumstances, when a debt had undergone troubled debt restructuring, and at a later date the banking corporation and the debtor enter into an additional restructuring agreement, the banking corporation is not required to treat the debt as a restructured troubled debt if the following two conditions apply:

- The debtor is no longer in financial difficulties at date of the following restructure;
- According to the terms of the following restructure, no waiver had been granted to the debtor (including no waiver of principal amounts on a cumulative basis since the original date of the loan).

A debt as above, that has undergone a following restructure and the classification thereof as an impaired debt has been removed, is to be assessed on a group basis for the purpose of determining the allowance for credit losses, and the recorded amount of the debt has not changed upon the following restructure (except where cash had been received or paid).

If in following periods, a debt as above has been examined on a specific basis and is found to require the recognition of impairment in value or where the restructure of a troubled debt is applied, the bank reclassifies the debt as impaired and treats it as a restructured troubled debt.

5. Securities

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified as follows:

(a) Held to maturity bonds - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

1. Significant Accounting Policies (continued)

(b) Available-for-sale bonds – bonds not classified as held-to-maturity bonds or as trading bonds. Available-for-sale bonds are stated in the balance sheet at fair value on the reporting date. Unrealized profits or losses on adjustment to fair value are not included in the statement of profit and loss and are reported net, after deduction of provision for taxes, in a separate item of capital in accumulated other comprehensive income, except for losses on impairment in value, which are of a nature other than temporary.

(c) Trading securities - purchased securities held for sale in the near period or securities, which the Bank has chosen to measure at fair value through the statement of profit and loss under the fair value alternative, except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. unrealized profits or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(d) Shares not for trading

- Shares, for which available fair value exists, are stated in the balance sheet at their fair value at the reporting date. Unrealized profits or losses and realized profits or losses on adjustment to fair value are stated in the statement of profit and loss;
- Shares, for which available fair value does not exist, are stated in the balance sheet at cost, net of impairment in value with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of the same issuer. Unrealized and realized profits and losses on adjustment to changes in observable prices, as stated, are recorded in the statement of profit and loss.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the statement of profit and loss.

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, as to whether the decline in the fair value of bonds classified to the available-for-sale portfolio or to the held-to-maturity portfolio is of a nature other than temporary. And for which no fair value is available, which are not measured according to fair value, a qualitative test is performed regarding the need for a provision for impairment. In case the qualitative estimate indicates impairment in value of the investment in shares, then impairment is recognized in the statement of profit and loss in an amount equal to the difference between the fair value of the investment and its book value.

The review is based on the following considerations:

- In the case of bonds –
  - The ratio of loss to depreciated cost, as of balance sheet date and examination date;
  - Duration of the period in which the fair value of the bond is lower than its cost;
  - The rate of yield to redemption in the case of bonds;
  - The credit rating of the bond, including changes in its rating;
  - Comparison with a similar bond or with the average margin of bonds having similar terms in the market and in the sector and with historical fluctuations embedded in the fair value of the bonds, and following changes in value subsequently to balance sheet date;
  - Events of default in the payment of interest and/or of principal in accordance with the terms of the bond;
  - Actions taken by the Trustee/bondholders;
  - Forecast of changes in the expected cash flow from the bond;
  - Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;

1. Significant Accounting Policies (continued)

    - Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates.
    - Analysis of changes in the financial condition of the debtors backing asset-backed bonds, as well as reference to changes in quality of credit reinforcements.
- In the case of shares:
    - Events of reduction due to the distribution of dividends or its cancellation;
    - Significant deterioration in profitability, in credit rating, or in the business forecasts of the corporation;
    - Significant negative change in the economic, technological or regulatory environment of the corporation;
    - Significant negative change in the geographical market terms and/or the industry of the corporation;
    - The price for an identical or similar share is an amount lower than the book value of the investment;
    - Factors that raise significant doubt as to the ability of the corporation to continue operations as a going concern.

The Bank recognizes impairment of a nature other than temporary in the following cases:

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.
  "Significantly lower" –
  In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;
  In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;
  Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization;
- Securities which the Bank intends to sell until date of publication of the financial statements; and/or which the Bank intends to sell within a short time following the date of publication of the financial statements; and/or it is more likely than not that the Bank would be required to sell the securities prior to the recovery of their cost;
- An intention or demand for the partial sale of a security would not in itself require recognition of a loss on impairment with respect to that part of the security not sold and examination of impairment would be required in its respect in accordance with the abovementioned considerations;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least 3 notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase.

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of profit and loss when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the statement of profit and loss (the new cost base).

6. **Derivative financial instruments and hedge transactions.** The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.
   Hedge of fair value - The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

1. Significant Accounting Policies (continued)

Hedge of cash flows - The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the change in the fair value of a derivative designated to hedge a cash flow risk, in respect of components included in the hedge effectiveness assessment, is reported as a component of "other comprehensive income", and thereafter, in the period in which cash flows have an effect on the statement of profit and loss, it is reclassified to the statement of profit and loss.

For further details, see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the price that would have been received on a sale of an asset or the price that would have been paid upon the transfer of a liability, in an ordinary transaction between participants in the market at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the Bank.

Sub-Topic 820-10 of the Codification details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, to which the Bank has access at date of measurement;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

Securities. The fair value of trading securities, available-for-sale bonds and equity securities the fair value of which is readily available is stated on the basis of market prices quoted on a principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price at the most beneficial market. In such cases, the Bank’s fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted in respect of the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is unavailable, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk and such like).

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted at the most beneficial market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

Evaluation of credit risk and nonperformance risk. The Standard (ASC 820) requires to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by the Bank and measured according to fair value. Nonperformance risk includes the credit risk of the Bank but is not limited to that risk only.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. **Offsetting assets and liabilities.** The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the Bank and the counterparty owe to one another determinable amounts.

When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank’s right of set-off with respect to said liabilities.

The Bank does not offset the exposures in respect of derivative instruments in the balance sheet.

1. Significant Accounting Policies (continued)

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. **Transfers and services relating to financial assets and settlement of liabilities.** The Bank applies the measurement and disclosure rules determined in accordance with Topic 860 of the Codification, for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of certain financial assets shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, and are beyond the reach of the transferor and his creditors, also in the case of bankruptcy or other type of receivership; (2) each acceptor has the right pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor does not maintain effective control of the transferred financial assets.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights, in addition to the conditions noted above.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. The differences between the amount of consideration received and the amount of the disposed assets are recognized in the statement of profit and loss. Accordingly, where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a secured burrowing with pledge of collateral. The Bank continues to record the transferred financial assets in the balance sheet, with no change in their measurement.

Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under agreements to resell terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the section "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the section "Securities lent or sold under agreements to repurchase". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the section "Securities borrowed or purchased under agreements to resell".

10. **Fixed assets (buildings and equipment)**

Recognition and measurement. Fixed asset items are measured at cost less depreciation and accumulated losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset, necessary costs involved in bringing the asset to the condition and location required for the asset to operate in accordance with its designated use.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see sub section 12 below.

Depreciation. An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by Management.

Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items, since this system reflects in the best manner, the forecasted consumption format of the future economic benefits embedded in the asset. Assets leased by way of a financial lease are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not amortized.

1. Significant Accounting Policies (continued)

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined when events or changes in circumstances indicate that the present assessments are no longer appropriate, and are adjusted where required

For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. **Leases - general.** Agreements, which confer the Bank control over the use of an asset for a period of time within the framework of a lease in return for a consideration, are treated as leases. Upon initial recognition, a liability is recognized in an amount equal to the present value of the future lease payments during the lease period (such payments do not include variable lease payments), and concurrently, a right of use asset is recognized in the amount of the liability in respect of the lease, adjusted for lease payments made in advance or accumulated, and net of lease incentives, and with the addition of direct expenses incurred regarding the lease.

    The lease period is determined as the period in which the lease is not revocable, together with periods covered by an option to extend or cancel the lease, if it is reasonably certain that the lessee would or would not exercise the option, respectively, and together with periods covered by an option to extend or not to cancel the lease, where the right to exercise such an option is controlled by the lessor.

    With respect to operating leases, a liability and a right of use asset would be recorded where the lease period exceeds twelve months. Where the lease is in respect of land and buildings, the land and building components are taken separately for the purpose of classification and measurement, a significant consideration in classifying the land component is the fact that in general, land has an indeterminate life span.

    Consecutive measurement. Following the initial recognition, a liability in respect of lease (operating and financial) is measured at amortized cost according to the effective interest method. Moreover, the Bank examines a right of use asset (in respect of an operating and a financial lease) for the purpose of impairment in value, in accordance with sub-topic 360-10-35 of the Codification regarding impairment of fixed assts.

    Lease payments – operating lease. Lease payments, excluding variable lease payments, are recognized in profit and loss by the "straight line" method, over the period of the lease. Received lease incentives are recognized as an integral part of total lease expenses by the "straight line" method, over the period of the lease. Variable lease payments based on changes in index or in the rate of interest, are recognized in profit and loss in the period of change. Variable lease payments, which are not based on changes in index or in the rate of interest, are recognized in profit and loss in the period in which the specific aim leading to the change in the lease payments, is reached, and these would be cancelled in the period in which it is no longer expected that the specific aim would be reached.

    In any consecutive reporting period, a right of use asset is recognized in the amount of the amortized cost of the liability in respect of the lease, adjusted for lease payments paid in advance or accumulated, and net of the balance of lease incentives, together with direct costs not yet amortized and net of impairment losses accumulated in respect of the right of use asset.

    Lease payments – financial lease. Following the initial date of the lease, a right of use asset is measured at cost less accumulated amortization, net of accumulated impairment losses, and adjusted for the remeasurement of the liability in respect of the lease. Amortization is computed by the "straight line" method over the useful life or the contractual period of the lease.

12. Intangible assets

    Goodwill. Goodwill is measured at cost less accumulated impairment losses.

    Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

    Capitalization of software costs for internal use. The Bank capitalizes costs related to the development of software for internal use only when: (1) the first stage of the project has been completed; and (2) Management has approved and has committed to, directly or indirectly, finance the software development project, and that it is expected that the project would be completed. The Bank capitalizes the following costs: direct cost of materials and services consumed, payroll cost of workers directly engaged in the development work or in obtaining the software. Other costs in respect of the development operations and costs incurred in the first stage of the project are recognized in profit and loss as incurred.

    Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

    Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

1. Significant Accounting Policies (continued)

Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs. The guidelines include reference to the materiality threshold for capitalization of software costs for each development project, the amortization period, capitalization coefficients for hours worked, and the grade of employees whose costs are to be capitalized.

13. Impairment of non-financial assets

Recognition of loss on impairment. Non-financial assets held for use are subject to review for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount is not recoverable if it exceeds the amount of the undiscounted cash flows expected to be derived from use of the asset and its sale. Loss on impairment is measured as the amount by which the carrying amount of the asset (group of assets) exceeds its fair value.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, the Bank examines impairment in accordance with the rules of ASC 360.

14. **Non-current assets and disposal groups held for sale.** The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount is settled primarily through a sale and not by way of continued use, in a period in which all the following terms are fulfilled: (1) Management is committed to the planning of a sale of the asset (or the disposal group); (2) the asset (or the disposal group) is available for immediate sale in its present condition; (3) an active plan has been initiated to locate a buyer and other actions have been taken to complete the planning to sell the asset; (4) the sale of the asset (or the disposal group) is probable and the transfer of the asset (or the disposal group) is expected to be classified as a sale completed within one year; (5) the asset (or the disposal group) is being actively marketed for sale at a price reasonable in relation to its present fair value; (6) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Bank measures the held for sale assets (or the disposal group) at the lower of the carrying amount or the fair value less costs to sell. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

An impairment loss recognized at the time of the initial classification of an asset (or a disposal group) as held for sale, as well as subsequent remeasurement profits or losses are carried to profit or loss. Profits from an increase in value are recognized up to the cumulative amounts of the impairment losses that were recognized from the time of the asset (or the disposal group) being classified as held for sale.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, remuneration increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. As a general rule, the actuarial estimates are made once a year, unless material changes occur in the actuarial assumptions in the interim period, which materially impact the actuarial liabilities. The Bank has decided to perform a quarterly actuarial assessment of the severance pay liability;
- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined in accordance with the rules detailed in section 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks with respect to internal control over the financial reporting process in the matter of employee rights, including with respect to examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

1. Significant Accounting Policies (continued)

15.2 Post retirement benefits – defined deposits plans

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, defines how deposits to the account of the employee should be determined instead of determining the amount of the benefits that the employee would receive. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

15.3 Other long-term benefits to active employees: long-service (jubilee) awards

- The liability accrues over the period entitling to the benefit;
- For the purpose of computing the liability, the rates of discount and actuarial assumptions are taken into consideration;
- The whole cost component of the benefit for the period, including actuarial profits and losses, are recognized immediately in the statement of profit and loss.

15.4 Absence from work entitling compensation – vacation and sick leave

- The liability in respect of vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.5 In accordance with instructions of the Supervisor of Banks, the discount rates are determined in accordance with the rates of return to maturity, according to the maturity periods of Israeli government bonds at date of reporting, with the addition of an average margin of corporate bonds rated "AA" (international) and above at date of reporting. For practical reasons, the spread has been determined in accordance with the difference between the rates of return to maturity, according to maturity periods, on U.S. corporate bonds rated "AA" and higher, and the rates of return to maturity, for the same maturity periods, on U.S. government Bonds, and everything at date of reporting.

15.6 The accounting treatment of actuarial profits/losses recognized in other comprehensive income due to changes in the discount rates:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined in accordance with the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the rules, as stated above (hereinafter: "the loss"), was included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, are recognized in accumulated other comprehensive income, and reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, are amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan;
- Other actuarial profits and losses (which are not the result of changes in the rate of discount) as at January 1, 2013, and for periods thereafter, are included in accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases.

15.7 The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management (see hereunder).

The limitations determined by the Management, which were implemented in the financial statements up to and including the financial statements as of December 31, 2019, are as follows:

- The minimum age for retirement under preferred terms is 50;
- The creation of a special fund for exceptional retirement cases;
- In the years 2017-2021, the retirements vector will stand at 0.25%, in the years 2022-2027, it will stand at 2% and from 2028 and thereafter in accordance with research conducted by the actuary.

The following changes in assumptions had been made in the financial statements as of December 31, 2020:

- The special reserve had been fully used within the framework of the retirement plan;
- The retirement vector for the years 2021-2023 would be 1%, and as from 2024 would be based upon a new research made by the Actuary;

1. Significant Accounting Policies (continued)

Regarding a group of employees included in the 2020 retirement plan, the offer for retirement in their respect remains in effect also at the beginning of 2021, it had been assumed that that the rate of retirees would be identical to the retirement target out of the whole population included in the plan.

16. Contingent liabilities. The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard ASC 450 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made may differ from assessment conducted prior to filing of the claim.

17. Guarantees. Guarantees are contingent contracts that require the guarantor to make payments to the guaranteed party on the occurrence of the conditions that require the realization of the guarantee. A liability with respect to a guarantee is recognized in the books in the amount of its fair value, as assessed based on commission fees received, even if it is not expected that the payments will be made in the future. In instances where, at the time of the initial recognition, the Bank was required to recognize a provision for a loss contingency with respect to the guarantee, in accordance with the provisions of Topic 450 of the Codification, the liability with respect to the guarantee is measured at the time of the initial recognition at the higher of the fair value and the amount of the provision in accordance with the provisions of Topic 450 of the Codification.

The liability is subtracted from the books at the time when the Bank is released from the risk, in accordance with the nature of the guarantee, usually at the time of settling the liability. When the guarantee is measured at the time of its initial recognition in accordance with the provisions of Topic 450 of the Codification, its subsequent measurement is also performed in accordance with these provisions.

18. Income tax expense. The Bank's financial statements include current taxes and deferred taxes. The provision for taxes on income of the Bank and of its consolidated subsidiaries comprising financial institutions for VAT purposes, include profit tax levied on income under the Value Added Tax Act. VAT levied on payroll of financial institutions is included in the statement of profit and loss in the section "Salaries and related expenses".

1. Significant Accounting Policies (continued)

The Bank allocates the tax expense or the tax benefits on income to continuing operations to other comprehensive income and to items directly recognized in equity.

The Bank recognizes differed tax liabilities in respect of all temporary differences chargeable to tax, except for the following temporary differences: undistributed profits of a domestic subsidiary which in substance are for an indefinite period of time; an excess of the amount for purposes of financial reporting above the tax base of an investment in a foreign subsidiary, which in substance are for an indefinite period of time; differences related to goodwill (or part thereof) for which goodwill amortization is not deductible for tax purposes; differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all temporary differences available for deduction as well as in respect of carry forward losses, and concurrently recognizes a valuation allowance in respect of that amount included in the asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assessed by the amount of tax benefits that are not expected to be realized based on available evidence – both the positive evidence supporting the recognition of a deferred tax assets and the negative evidence supporting the creation of a valuation allowance in respect of the deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

- Deferred tax liabilities or deferred tax assets are measured by the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.
- The Bank classifies interest income or expenses in respect of taxes on income to the section "Taxes on income". Penalties payable to the tax authorities are also classified by the Bank to the section "Taxes on income".

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Netting of deferred tax assets and liabilities. The Bank nets all deferred tax liabilities and tax assets, as well as all related valuation allowances in respect of a certain taxable component and within the boundaries of a certain tax jurisdiction area.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

19. Earnings per share. The Bank presents basic earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

    The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment in respect of the effect of all potentially diluting shares, including share option warrants.

20. Operating segments reporting

    Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

    A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements in accordance with Management's approach, when these are materially different from the regulatory operating segments.

    Operating Segments according to Management's approach. In addition to the uniform reporting according to regulatory operating segments, the Reporting to the Public Directives require disclosure of operating segments in accordance with Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

1. Significant Accounting Policies (continued)

An operating segment defined in accordance with Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for the purpose of making decisions regarding the allocation of resources and evaluation of its performance; and that separate financial information exists in respect thereof.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the section "Non-allocated amounts and adjustments".

21. **Amortization of deferred expenses.** Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

22. **Debtors and creditors regarding credit card activity.** At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

    Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.

23. **Issuance agreements with customer clubs.** The issuance agreements of ICC with different customer clubs regularize, inter alia, the manner of distribution of income between the parties, as well as aspects relating to expenses, including marketing and advertising budgets provided by the parties and the distribution of costs.

    With respect to engagements of ICC with customer clubs, the income of ICC in respect of the cross-commission on transactions made by use of the club charge cards and interest income on transactions made with these cards, are included in the income in the consolidated financial statements (in the section "income from credit card commission" and in the section "net interest income" respectively). Amounts to which the customer clubs are entitled as well as the share of ICC in expenses are included in the section "other expenses". Furthermore, certain of the agreements of ICC with customer clubs include an award component depending on reaching certain milestones, in respect of which, ICC assesses in each period the entitlement to such award, and accordingly recognizes an expense in the financial statements (which is spread over the relevant period).

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

(a) **Allowances for current expected credit losses (CECL).** On March 28, 2018, the Supervisor of Banks issued a letter in which it is, inter alia, required, to apply the accounting principles accepted by U.S. banks in the matter of allowances for credit losses (ASU 2016-13).

On November 29, 2020, the Supervisor of Banks issued a circular regarding "Implementation of US GAAP in the matter of expected credit losses", which includes integration of the new rules in the public reporting directives.

Banking corporations have to implement the new Standard as from January 1, 2022. A banking corporation is required to start a parallel run at the earliest date possible, but no later than June 30, 2021.

The initial implementation is to be made by the modified retrospective method, by modifying the cumulative effect to be recognized in the retained earnings balance at January 1, 2022. Notwithstanding the above, the implementation would be by the prospective (from now onwards) method in respect of the following: (1) financial assets acquired with deteriorating credit; (2) bonds in respect of which other than temporary impairment (OTTI) had been recognized prior to the adoption of the Standard. The circular of the Supervisor of Banks dated December 1, 2020, in the matter of "Regulatory capital – effect of implementation of accounting principles regarding expected credit losses" 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%.

Furthermore, in the months of January and February 2021, the Supervisor of Banks issued circulars that contain updates of the new rules regarding housing loans.

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

1. Significant Accounting Policies (continued)

(b) **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 January 1, 2021. The Bank estimates that the implementation of the said provisions is not expected to have a material impact, except for changes in disclosure.

2. Interest Income and Expenses

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
A. Interest Income[2]						
Credit to the public	6,294	6,752	6,324	3,554	3,729	3,578
Credit to the Governments	76	92	63	76	92	63
Deposits with the Bank of Israel and cash	37	42	24	26	25	13
Deposits with Banks	17	49	28	33	64	39
Bonds[1]	543	615	594	290	347	303
Other assets	20	17	20	-	-	-
Total interest income	**6,987**	**7,567**	**7,053**	**3,979**	**4,257**	**3,996**
B. Interest Expenses[2]						
Deposits from the public	(731)	(1,186)	(941)	(506)	(769)	(666)
Deposits from the Government	(3)	(3)	(3)	-	-	-
Deposits from the Bank of Israel	(2)	-	-	(1)	-	-
Deposits from banks	(50)	(71)	(52)	(3)	(9)	(5)
Securities lent or sold under agreements to repurchase	(5)	(21)	(96)	-	-	-
Bonds and subordinated debt notes	(296)	(389)	(433)	(168)	(205)	(234)
Other liabilities	(2)	(4)	(2)	(2)	(2)	(2)
Total interest expenses	**(1,089)**	**(1,674)**	**(1,527)**	**(680)**	**(985)**	**(907)**
Net interest income	**5,898**	**5,893**	**5,526**	**3,299**	**3,272**	**3,089**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:						
Interest Income	(5)	(2)	(6)	(25)	(3)	(6)
Interest expenses	14	1	-	-	-	-
D. Accrual basis, interest income from bonds:						
Held-to-maturity	92	128	173	72	82	107
Available-for-sale	441	463	386	209	243	163
Trading	10	24	35	9	22	33
Total included in interest income	543	615	594	290	347	303

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	41	44	47	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	140	157	170	-	-	-

(2) Including the impact of hedge relations.

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

3. Non-Interest Financing Income

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	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]	(1,239)	(1,222)	981	(1,169)	(1,135)	928
Total from operations in derivative instruments	(1,239)	(1,222)	981	(1,169)	(1,135)	928
From investments in bonds:						
Gains on sale of available-for-sale bonds[3]	408	165	59	278	98	48
Losses on sale of available-for-sale bonds[3]	-	-	(13)	-	-	(2)
Provision for impairment of available-for-sale bonds[3]	(5)	-	(8)	(5)	-	(7)
Total from investments in bonds	403	165	38	273	98	39
Net exchange rate differences	1,414	1,300	(900)	1,350	1,238	(907)
Net profit (losses) from investments in shares:						
Gains on sale from non trading shares[8]	241	85	109	23	-	18
Losses on sale from non trading shares[8]	(2)	-	(1)	(2)	-	-
Provision for impairment of non trading shares[8]	(24)	(31)	(6)	-	-	(1)
Dividends from non trading shares [8]	9	12	11	1	1	1
Unrealized profits [7]	8	39	-	7	38	-
Profit on sale of shares and activities of associates	-	13	1	-	13	1
Total from investment in shares	232	118	114	29	52	19
Net profit in respect of loans sold[10]	3	7	6	3	7	6
Total non-interest financing income from operations not for trading purposes	**813**	**368**	**239**	**486**	**260**	**85**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:						
Net income in respect of non trading derivative instruments	238	[9]376	284	179	[9]316	254
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	92	(7)	70	90	(11)	70
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	(1)	5	(7)	(2)	1	(6)
Total from trading operations[6]	**329**	**374**	**347**	**267**	**306**	**318**
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:						
Interest rate exposure	236	[9]415	60	171	[9]362	44
Foreign currency exposure	95	[9](46)	294	100	[9](57)	281
Share exposure	(2)	5	(7)	(4)	1	(7)
Total according to risk exposure	329	374	347	267	306	318
Total non-interest financing income	**1,142**	**742**	**586**	**753**	**566**	**403**

Footnotes:

(1) Of which, a part of the profit (loss) relating to trading bonds that are still on hand at balance sheet date	6	8	(7)	5	7	(2)
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	-	1	(6)	-	1	(5)
(3) Reclassified from accumulated other comprehensive income, see Note 10:						
Of which, profit, from net investments in bonds	403	161	38	273	95	39

(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) In 2018 - available-for-sale shares.

(9) Reclassified – classification of exchange differences in respect of derivatives.

(10) For details , see Note 31.

4. Fees and commissions

A. Composition

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
Account Management fees	438	470	480	259	285	295
Credit cards	1,310	1,406	1,267	137	157	157
Operations in securities and in certain derivative instruments	353	326	336	235	206	226
Fees and commissions from the distribution of financial products	142	153	149	126	136	136
Handling credit	178	182	177	136	138	135
Conversion differences	122	133	136	95	102	105
Foreign trade services	50	56	58	40	45	48
Net income from credit portfolio services	4	5	6	4	5	6
Fees and commissions on financing activities	156	163	157	107	118	105
Other fees and commissions	73	78	85	27	32	33
Total fees and commissions	**2,826**	**2,972**	**2,851**	**1,166**	**1,224**	**1,246**

4. Fees and commissions

B. Income from contracts with customers

Following is the distribution of income from fees and commissions according to regulatory segments of operation

	Consolidated											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
	2020											
Account Management fees	194	2	167	20	24	-	-	407	10	21	31	438
Credit cards	1,020	-	145	30	114	-	-	1,309	1	-	1	1,310
Operations in securities and in certain derivative instruments	123	43	63	11	39	9	35	323	30	-	30	353
Fees and commissions from the distribution of financial products	101	23	16	1	1	-	-	142	-	-	-	142
Handling credit	8	3	21	19	79	-	23	153	2	23	25	178
Conversion differences	33	8	70	8	3	-	-	122	-	-	-	122
Foreign trade services	-	-	21	12	9	-	8	50	-	-	-	50
Net income from credit portfolio services	4	-	-	-	-	-	-	4	-	-	-	4
Fees and commissions on financing activities	5	-	31	22	77	-	8	143	-	13	13	156
Other fees and commissions	12	-	5	2	12	-	3	34	-	39	39	73
Total fees	**1,500**	**79**	**539**	**125**	**358**	**9**	**77**	**2,687**	**43**	**96**	**139**	**2,826**
	2019											
Account Management fees	207	2	188	18	22	-	-	437	11	22	33	470
Credit cards	1,108	-	150	34	114	-	-	1,406	-	-	-	1,406
Operations in securities and in certain derivative instruments	103	38	55	8	46	6	36	292	34	-	34	326
Fees and commissions from the distribution of financial products	111	21	20	1	-	-	-	153	-	-	-	153
Handling credit	9	1	32	16	84	-	15	157	2	23	25	182
Conversion differences	38	6	76	10	3	-	-	133	-	-	-	133
Foreign trade services	1	-	24	12	9	-	10	56	-	-	-	56
Net income from credit portfolio services	5	-	1	(1)	-	-	-	5	-	-	-	5
Fees and commissions on financing activities	5	-	35	27	80	-	2	149	-	14	14	163
Other fees and commissions	15	-	9	2	12	-	-	38	-	40	40	78
Total fees	**1,602**	**68**	**590**	**127**	**370**	**6**	**63**	**2,826**	**47**	**99**	**146**	**2,972**

4. Fees and commissions (continued)

B. Income from contracts with customers (continued)

Following is the distribution of income from fees and commissions according to regulatory segments of operation (continued)

	Consolidated											
	2018											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
Account Management fees	209	4	195	18	21	1	-	448	11	21	32	480
Credit cards	1,027	-	130	28	82	-	-	1,267	-	-	-	1,267
Operations in securities and in certain derivative instruments	106	36	55	9	58	11	29	304	32	-	32	336
Fees and commissions from the distribution of financial products	102	18	21	1	7	-	-	149	-	-	-	149
Handling credit	10	5	29	16	84	-	11	155	1	21	22	177
Conversion differences	39	7	76	10	4	-	-	136	-	-	-	136
Foreign trade services	-	-	23	11	11	-	13	58	-	-	-	58
Net income from credit portfolio services	5	-	-	1	-	-	-	6	-	-	-	6
Fees and commissions on financing activities	6	-	31	25	76	-	5	143	-	14	14	157
Other fees and commissions	25	-	7	-	12	-	-	44	-	41	41	85
Total fees	**1,529**	**70**	**567**	**119**	**355**	**12**	**58**	**2,710**	**44**	**97**	**141**	**2,851**

5. Other Income

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	4	4	4
Capital gain on sale of buildings and equipment	29	42	46	25	34	46
Other income	10	15	11	75	70	65
Total other income	**39**	**57**	**57**	**104**	**108**	**115**
*Of which: in respect of a sale and leaseback transactions involving buildings and equipment	4	-	-	4	-	-

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
Salaries	2,222	2,361	2,382	1,253	1,370	1,377
Other related expenses including further education fund, vacation and sick leave	157	122	128	63	48	54
Long-term benefits	16	16	16	16	16	16
National Insurance and payroll taxes	483	514	525	347	378	377
Pension expenses (including severance pay and provident fund contributions)(1):						
Defined Benefits Cost of service	90	78	92	47	42	52
Defined deposits	201	201	189	142	134	130
Other post retirement benefits and non-pension post retirement benefits Cost of service (1)	6	4	6	4	3	5
Special benefits in respect of dismissal	32	6	6	-	-	-
Expenses regarding other employee benefits	35	41	41	4	4	4
Total salaries and related expenses	**3,242**	**3,343**	**3,385**	**1,876**	**1,995**	**2,015**
Of which: overseas salaries and related expenses	385	405	386	-	-	-

Footnote:
(1) See Note 23.

7. Other Expenses

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	In NIS millions					
Expenses in respect of pension (including contributions for severance pay and provident funds), defined benefit (excluding cost of service)	82	88	81	60	65	61
Other post employment benefits and post retirement benefits that do not comprise pension (excluding cost of service)	13	17	28	11	15	25
Long-term benefits (excluding cost of service)	(2)	46	(14)	(2)	46	(14)
Reductions, settlements - defined benefit	413	58	88	375	46	88
Reductions, settlements - other post employment benefits and post retirement benefits that do not comprise pension	-	-	(1)	-	-	-
Marketing and advertising	211	256	260	50	70	55
Communications	127	116	119	56	48	53
Computer services	198	184	180	104	91	89
Office expenses	27	28	28	14	15	14
Insurance	27	21	28	10	7	6
Professional services	214	186	186	116	91	89
Directors' fees	14	15	14	5	7	5
Instruction and training	7	11	14	4	7	9
Fees	480	417	349	32	30	30
Other	443	415	364	161	187	152
Total other expenses	**2,254**	**1,858**	**1,724**	**996**	**725**	**662**

8. Provisions for Taxes on Profit

A. Composition

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
Taxes for current year	849	1,073	844	462	602	467
Taxes for previous years	(34)	(65)	(42)	(37)	(56)	(47)
Total current taxes	**815**	**1,008**	**802**	**425**	**546**	**420**
Addition (deduction):						
Deferred taxes for current year	(311)	(139)	(75)	(233)	(118)	(67)
Deferred taxes for previous years	45	63	62	62	64	62
Total deferred taxes[1]	**(266)**	**(76)**	**(13)**	**(171)**	**(54)**	**(5)**
Total provision for taxes on profit	**549**	**932**	**789**	**254**	**492**	**415**
Of which: tax provision abroad	78	153	138	-	-	-

Footnote:

(1) **Composition of deferred tax expense (income):**

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
Deferred tax income, before the effect of the following items:	(266)	(76)	(13)	(171)	(54)	(5)
Total deferred taxes	**(266)**	**(76)**	**(13)**	**(171)**	**(54)**	**(5)**
The above table does not include the tax effect of certain items that are recognized directly in capital in each period:						
The total tax expense (income) in respect of items recognized in other comprehensive income	(134)	196	(58)	(175)	116	(54)

B. Reconciliation between the theoretical tax which would apply had the profit been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on profit as charged in the statement of profit and loss:

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
Profit before taxes	1,506	2,675	2,332	675	1,398	1,178
Statutory tax rate on banks in Israel	34.19%	34.19%	34.19%	34.19%	34.19%	34.19%
Income tax at the statutory tax rate	515	914	797	231	478	403
Income tax (tax savings) on:						
Income of foreign subsidiaries	22	11	(22)	-	-	-
Income exempt from tax or taxed at preferred rates	(7)	(5)	(6)	(1)	(1)	(2)
Adjustment differences on depreciation and capital gains	(7)	(2)	(9)	(6)	(1)	(8)
Other non-deductible expenses	7	13	11	4	10	8
Additional amounts payable with respect to problematic debts	14	15	27	11	10	23
Taxes for prior years	(2)	(10)	3	14	4	-
Income of Israeli subsidiaries	7	3	(3)	-	(2)	(1)
Change in the balance of the provision for deferred tax asset	1	-	1	1	-	-
Net interest expense (income) for income tax	(1)	(7)	(10)	-	(6)	(8)
Total provision for taxes on profit	**549**	**932**	**789**	**254**	**492**	**415**

8. Provisions for Taxes on Profit (continued)

C. (1) Agreed final income tax assessments have been received by the Bank for the tax years up to and including 2015.

(2) During the first quarter of 2018, the Bank was issued with agreed withholding tax assessments for years up to and including 2015. Accordingly, excess provisions in the amount of NIS 31 million, before the tax effect, had been reversed, which reduced the payroll expenses for 2018.

(3) The major consolidated subsidiaries in Israel have received final tax assessments, or assessments deemed final for the years 2015-2017. Final income tax assessments have been received by IDB Bank for the years up to and including 2016.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A pretrial hearing has been scheduled for May 24, 2021.

ICC estimates the amount of exposure, in respect of which no provision has been recorded in its financial statements, at approx. NIS 156 million.

E. On February 9, 2000, the Bank's shares in IDB Bank were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

F. **Deferred tax liabilities not recognized.** As of December 31, 2020, deferred tax liabilities in the amount of approx. NIS 408 million, in respect of temporary differences in the amount of approx. NIS 1,995 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes

1. Consolidated

	Opening balance	Changes recognized in the statement of income	Changes recognized in other comprehensive income	An addition stemming from the merger of Municipal Bank	Closing balance	The average tax
			in NIS millions			in %
			For the year of 2020			
Deferred tax asset						
On provision for credit losses	932	372	(6)	-	1,298	33.6
On provision for vacation pay, jubilee awards and provision of retirees	526	(6)	(1)	-	519	33.8
From excess liabilities in respect of employee benefits over the assets of the plan	540	(63)	141	-	618	34.0
On securities	1	1	-	-	2	34.2
On income tax carry- forward deductions	6	2	-	-	8	23.0
Other	65	16	(1)	-	80	29.8
Gross balance of deferred tax assets	**2,070**	**322**	**133**	**-**	**2,525**	**33.5**
Provision for deferred tax asset	(5)	(1)	-	-	(6)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**2,065**	**321**	**133**	**-**	**2,519**	**33.6**
Deferred tax liability						
On securities	28	2	46	-	76	30.1
Fixed assets and leasing	103	17	(1)	-	119	27.9
In respect of investment in investee companies	128	40	(2)	-	166	14.6
Other	28	-	(1)	-	27	29.3
Gross balance of deferred tax liabilities	**287**	**59**	**42**	**-**	**388**	**20.4**
Net balance of deferred tax assets	**1,778**	**262**	**91**	**-**	**2,131**	**30.9**
Of which: in respect of foreign operations	80				53	28.6
			For the year of 2019			
Deferred tax asset						
On provision for credit losses	872	57	(5)	8	932	33.5
On provision for vacation pay, jubilee awards and provision of retirees	478	9	38	1	526	33.8
From excess liabilities in respect of employee benefits over the assets of the plan	443	42	49	6	540	34.0
On securities	47	-	(46)	-	1	34.2
On income tax carry- forward deductions	6	-	-	-	6	23.0
Other	41	4	(3)	23	65	30.7
Gross balance of deferred tax assets	**1,887**	**112**	**33**	**38**	**2,070**	**33.6**
Provision for deferred tax asset	(5)	-	-	-	(5)	23
Balance of deferred tax assets deduction deferred tax liabilities	**1,882**	**112**	**33**	**38**	**2,065**	**33.6**
Deferred tax liability						
On securities	-	17	11	-	28	31.4
Fixed assets and leasing	95	2	-	6	103	27.7
In respect of investment in investee companies	119	9	-	-	128	14.6
Other	5	6	-	17	28	30.0
Gross balance of deferred tax liabilities	**219**	**34**	**11**	**23**	**287**	**20.0**
Net balance of deferred tax assets	**1,663**	**78**	**22**	**15**	**1,778**	**31.0**
Of which: in respect of foreign operations	139				80	28.2

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes (continued)

2. The Bank

	Opening balance	Changes recognized in the statement of income	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions				in %
	For the year of 2020				
Deferred tax asset					
On provision for credit losses	564	250	-	814	34.2
On provision for vacation pay, jubilee awards and provision of retirees	473	(10)	(2)	461	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	362	(65)	137	434	34.2
On income tax carry- forward deductions	3	1	-	4	23.0
Other	15	4	-	19	34.2
Gross balance of deferred tax assets	**1,417**	**180**	**135**	**1,732**	**34.2**
Provision for deferred tax asset	(3)	(1)	-	(4)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,414**	**179**	**135**	**1,728**	**34.2**
Deferred tax liability					
On securities	17	1	-	18	34.2
Fixed assets and leasing	67	7	-	74	27.6
In respect of investment in investee companies	127	40	(3)	164	14.5
Gross balance of deferred tax liabilities	**211**	**48**	**(3)**	**256**	**17.8**
Net balance of deferred tax assets	**1,203**	**131**	**138**	**1,472**	**30.5**
	For the year of 2019				
Deferred tax asset					
On provision for credit losses	541	23	-	564	34.2
On provision for vacation pay, jubilee awards and provision of retirees	438	3	32	473	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	313	35	14	362	34.2
On income tax carry- forward deductions	3	-	-	3	23.0
Other	9	6	-	15	34.2
Gross balance of deferred tax assets	**1,304**	**67**	**46**	**1,417**	**34.2**
Provision for deferred tax asset	(3)	-	-	(3)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,301**	**67**	**46**	**1,414**	**34.2**
Deferred tax liability					
On securities	-	17	-	17	34.2
Fixed assets and leasing	71	(4)	-	67	27.0
In respect of investment in investee companies	118	9	-	127	14.5
Gross balance of deferred tax liabilities	**189**	**22**	**-**	**211**	**18.0**
Net balance of deferred tax assets	**1,112**	**45**	**46**	**1,203**	**30.6**

8. Provisions for Taxes on Profit (continued)

H. Brought forward losses and credits for tax purposes

	Deferred tax assets	Provision for deferred tax asset	Net deferred tax assets	Balance of loss[1]
	in NIS millions			
	For the year ended December 31 2020			
Losses for tax purposes:				
The bank	3	3	-	13
Subsidiaries in Israel	2	2	-	10
	For the year ended December 31 2019			
Losses for tax purposes:				
The bank	3	3	-	13
Subsidiaries in Israel	2	2	-	10

Footnote:
(1) The first year of expiry cannot be estimated

I. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiaries are added to the Bank’s chargeable income, so that the Bank complements the tax recorded abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of tax that would have been paid in Israel on such profit based on the tax rate applicable to the Bank in Israel.

J. 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.

9. Earnings Per Share

	For the year ended December 31		
	2020	2019	2018
	in NIS millions		
Basic and diluted earnings Per share			
Total net income, attributed to bank's shareholders	975	1,702	1,505
	In Thousand		
Basic earnings Per share:			
Weighted average of shares of NIS 0.1 par value:			
Balance to January 1	1,164,017	1,164,017	1,164,017
Weighted average of shares of NIS 0.1 par value, used for the Basic earnings	**1,164,017**	**1,164,017**	**1,164,017**
Basic earnings Per share of NIS 0.1 (in NIS)	**0.84**	**1.46**	**1.29**

10. Accumulated Other Comprehensive Income (Loss)

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

	Other comprehensive income (loss), before attribution to non-controlling interests					Other comprehensive (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[3]	Adjustments from translation of financial statements[1]	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
	in NIS millions						
Balance at December 31, 2017	**111**	**(313)**	**-**	**(522)**	**(724)**	**(7)**	**(717)**
Net change during the year	[2](268)	252	(1)	[2]173	156	-	156
Balance at December 31, 2018	**(157)**	**(61)**	**(1)**	**(349)**	**(568)**	**(7)**	**(561)**
Net change during the year	531	(283)	3	(175)	76	(4)	80
Balance at December 31, 2019	**374**	**(344)**	**2**	**(524)**	**(492)**	**(11)**	**(481)**
Net change during the year	112	(254)	(1)	[4](275)	(418)	(2)	(416)
Balance at December 31, 2020	**486**	**(598)**	**1**	**(799)**	**(910)**	**(13)**	**(897)**

Footnotes:

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

(2) Including the effect of adoption of new standards – see the Statement of Changes in Shareholders' Equity.

(3) In 2018 - available-for-sale shares .

(4) Including an amount of NIS 365 million in respect of the 2020 retirement plan, see Note 23.

10. Accumulated Other Comprehensive Income (Loss) (continued)

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

	2020			2019			2018		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for- sale bonds at fair value(5)									
Net unrealized income (loss) from adjustments to fair value	560	(169)	391	951	(312)	639	(340)	(6)96	(244)
Income on available-for-sale bonds reclassified to the statement of income(2)	(403)	124	(279)	(161)	53	(108)	(37)	13	(24)
Net change during the year	**157**	**(45)**	**112**	**790**	**(259)**	**531**	**(377)**	**109**	**(268)**
Translation adjustments									
Adjustments from translation of financial statement (1)	(254)	-	(254)	(283)	-	(283)	252	-	252
Net change during the year	**(254)**	**-**	**(254)**	**(283)**	**-**	**(283)**	**252**	**-**	**252**
Cash flow hedging									
Net profit (loss) in respect of cash flow hedging	2	(1)	1	4	(1)	3	(2)	-	(2)
Net loss (income) in respect of cash flow hedging reclassified to the statement of income	(3)	1	(2)	-	-	-	1	-	1
Net change during the year	**(1)**	**-**	**(1)**	**4**	**(1)**	**3**	**(1)**	**-**	**(1)**
Employee benefits									
Net actuarial (loss)	(892)	304	(4)(588)	(362)	117	(245)	117	(6)(38)	79
loss reclassified to the statement of income(3)	475	(162)	313	103	(33)	70	142	(48)	94
Net change during the year	**(417)**	**142**	**(275)**	**(259)**	**84**	**(175)**	**259**	**(86)**	**173**
Total net change during the year	**(515)**	**97**	**(418)**	**252**	**(176)**	**76**	**133**	**23**	**156**
Changes in components of accumulated other comprehensive loss attributed to non-controlling interests:									
Total net change during the year	**(2)**	**-**	**(2)**	**(6)**	**2**	**(4)**	**-**	**-**	**-**
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the year	**(513)**	**97**	**(416)**	**258**	**(178)**	**80**	**133**	**23**	**156**

Footnotes:

(1)) Including adjustments from translation of financial statement 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 365 million in respect of the 2020 retirement plan, see Note 23.

(5) In 2018 - available-for-sale shares .

(6) Including the effect of adoption of new standards – see the Statement of Changes in Shareholders' Equity.

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	in NIS millions			
Cash and deposits with central banks	39,380	23,336	28,758	17,463
Deposits with commercial banks	3,556	2,708	3,612	2,533
Total cash and deposits with banks(1)	**42,936**	**26,044**	**32,370**	**19,996**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	42,265	25,777	31,487	19,585

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. Composition of this item - consolidated[1]

	December 31 ,2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	7,594	7,594	301	-	7,895
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	165	165	6	1	170
Of others abroad [6]	164	164	6	2	168
Total held-to-maturity bonds	**7,923**	**7,923**	**313**	**3**	**8,233**

	December 31 ,2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds					
Of the Israeli Government	21,209	20,745	488	24	21,209
Of foreign governments	836	830	25	19	836
Of Israeli financial institutions	138	136	2	-	138
Of foreign financial institutions	475	464	12	1	475
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	7,799	7,657	148	6	7,799
Of others in Israel	379	360	19	-	379
Of others abroad [6]	1,797	1,725	74	2	1,797
Total Available- for- sale bonds	**[7] 32,633**	**31,917**	**[3]768**	**[3]52**	**32,633**

	December 31 ,2020				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	1,092	1,051	[5]42	[5]1	1,092
Of which: shares, the fair value of which is not readily available	1,000	1,000	-	-	1,000
Total not for trading securities	**41,648**	**40,891**			**41,958**

For footnotes see next page.

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31 ,2020				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,057	1,049	8	-	1,057
Of foreign governments	26	26	-	-	26
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	40	39	1	-	40
Of others in Israel	13	16	1	4	13
Total bonds	1,136	1,130	10	4	1,136
Shares	1	1	1	1	1
Total trading securities	**1,137**	**1,131**	**(5)11**	**(5)5**	**1,137**
Total securities	**42,785**	**42,022**			**43,095**

Footnotes:

(1) See Note 27 for pledges.

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

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

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

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

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

(7) Including securities sold by overseas consolidated subsidiary under repurchase terms from the available for sale portfolio with a market value of NIS 184 million (approx. US$ 57 million).

	December 31, 2019				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	4,253	4,253	242	-	4,495
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	322	322	3	4	321
Of others abroad[7]	178	178	6	2	182
Total held-to-maturity bonds	**4,753**	**4,753**	**251**	**6**	**4,998**

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31, 2019				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	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[7]	2,207	2,157	52	2	2,207
Total Available- for- sale bonds	[3]29,562	29,091	[4]510	[4]39	29,562

	December 31, 2019				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][5]
	In NIS millions				
(3) Investment in not for trading shares	967	935	[6]33	[6]1	967
Shares	839	839	-	-	839
Total shares	**35,282**	**34,779**			**35,527**

For footnotes see next page.

	December 31, 2019				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,299	2,292	8	1	2,299
Of foreign governments	16	16	-	-	16
Of Israeli financial institutions	17	16	1	-	17
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	60	59	1	-	60
Of others in Israel	58	59	2	3	58
Total bonds	2,450	2,442	12	4	2,450
Shares	13	12	2	1	13
Total trading securities	**2,463**	**2,454**	**[6]14**	**[6]5**	**2,463**
Total securities	**37,745**	**37,233**			**37,990**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Including securities sold by overseas consolidated subsidiary under repurchase terms from the available for sale portfolio with a market value of NIS 380 million (approx. US$ 110 million).
(4) Included in "Accumulated other comprehensive income".
(5) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.
(6) Recorded in the statement of profit and loss.
(7) Municipal bonds and bonds of states in the U.S.A.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

B. Composition of this item - the Bank[1]

	December 31,2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	6,899	6,899	245	-	7,144
Total held-to-maturity bonds	**6,899**	**6,899**	**245**	**-**	**7,144**

	December 31,2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds					
Bonds and loans:					
Of the Israeli Government	15,006	14,609	405	8	15,006
Of foreign governments	784	780	23	19	784
Of Israeli financial institutions	100	98	2	-	100
Of foreign financial institutions	475	464	12	1	475
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	535	535	2	2	535
Of others in Israel	273	260	13	-	273
Of others abroad	1,348	1,314	37	3	1,348
Total Available- for- sale bonds	**18,521**	**18,060**	**[3]494**	**[3]33**	**18,521**

	December 31,2020				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	58	23	[5]36	[5]1	58
Of which: shares, the fair value of which is not readily available	8	8	-	-	8
Total not for trading securities	**25,478**	**24,982**	**-**	**-**	**25,723**

	December 31,2020				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	1,056	1,048	8	-	1,056
Of others in Israel	10	13	1	4	10
Total bonds	1,066	1,061	9	4	1,066
Shares	1	1	-	-	1
Total trading securities	**1,067**	**1,062**	**[5]9**	**[5]4**	**1,067**
Total securities	**26,545**	**26,044**			**26,790**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".
(4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.
(5) Recorded in the statement of profit and loss.

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2019				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	3,731	3,731	190	-	3,921
Total held-to-maturity bonds	**3,731**	**3,731**	**190**	**-**	**3,921**

	December 31,2019				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	12,842	12,546	297	1	12,842
Of foreign governments	1,513	1,503	17	7	1,513
Of Israeli financial institutions	106	105	1	-	106
Of foreign financial institutions	858	841	17	-	858
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	587	588	1	2	587
Of others in Israel	313	299	14	-	313
Of others abroad	1,321	1,306	18	3	1,321
Total bonds	**17,540**	**17,188**	**(3)365**	**(3)13**	**17,540**

	December 31,2019				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	91	63	(5)29	(5)1	91
Of which: shares, the fair value of which is not readily available	2	2	-	-	2
Total not for trading securities	**21,362**	**20,982**	**-**	**-**	**21,552**

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2019				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	2,223	2,216	8	1	2,223
Of Israeli financial institutions	17	16	1	-	17
Of others in Israel	28	29	2	3	28
Total bonds and bills	2,268	2,261	11	4	2,268
Shares	10	9	1	-	10
Total trading securities	**2,278**	**2,270**	**(5)12**	**(5)4**	**2,278**
Total securities	**23,640**	**23,252**	**-**	**-**	**23,830**

Footnotes:

(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".
(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.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

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

	December 31, 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)	34	1	-	1	6	(1)-	-	-
Of others in Israel	1	(1)-	-	-	-	-	-	-
Of others abroad	-	-	-	-	32	2	-	2
Total held-to-maturity bonds	**35**	**1**	**-**	**1**	**38**	**2**	**-**	**2**

	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.

12. Securities (continued)

D. 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

	December 31, 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	3,959	23	-	23	1,110	1	-	1
Of foreign governments	459	19	-	19	-	-	-	-
Of Israeli financial institutions	15	(1)-	-	-	-	-	-	-
Of foreign financial institutions	50	(1)-	-	-	37	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	936	4	-	4	424	2	-	2
Of others in Israel	30	(1)-	-	-	-	-	-	-
Of others abroad	98	2	-	2	87	(1)-	-	-
Total available-for-sale bonds	**5,547**	**48**	**-**	**48**	**1,658**	**4**	**-**	**4**

	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.

12. Securities (continued)

E. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2020, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB Bank.

Mortgage-backed Securities - MBS. A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

The Board of Directors of IDB Bank has determined restrictions on the volume of investment in mortgage backed bonds (MBS) except for Ginni Mae.

The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

A real estate mortgage investment conduit (REMIC) is a complex pool of mortgage securities created to acquire investment income for its creators and investors. REMICs consist of a fixed pool of mortgages broken apart into tranches, repackaged, and marketed to investors as individual securities.

A stripped MBS, or stripped mortgage-backed security (MBS), is a type of mortgage-backed security that is split into principal-only tranches and interest-only tranches. Stripped MBS derive their cash flows either from principal payments or interest payments on the underlying mortgages, unlike conventional MBS where cash flows are based on both principal and interest payments.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae Government Sponsored Enterprises (hereinafter: "GNMA"), a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investors have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. Securities (continued)

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

	December 31, 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:	613	20	-	633
of which:				
Bonds guaranteed by GNMA	415	12	-	427
Bonds issued by FHLMC and FNMA	198	8	-	206
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,931	124	4	6,051
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,931	124	4	6,051
Total available-for-sale MBS bonds	**6,544**	**144**	**4**	**6,684**
Held-to-maturity bonds				
Mortgage pass-through bonds:	16	1	-	17
of which:				
Bonds guaranteed by GNMA	12	1	-	13
Bonds issued by FHLMC and FNMA	4	-	-	4
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	149	5	1	153
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	149	5	1	153
Total held-to-maturity MBS bonds	**165**	**6**	**1**	**170**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	39	1	-	40
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	39	1	-	40
Total mortgage-backed trading bonds (MBS)	**39**	**1**	**-**	**40**
Total mortgage-backed bonds (MBS)	**6,748**	**151**	**5**	**6,894**
2.Total Asset-backed available-for-sale bonds (ABS)	1,113	4	2	1,115
Of which collaterized bonds CLO	1,109	4	2	1,111
Of which Asset-backed bond (ABS)	4	-	-	4
Total mortgage and asset-backed bonds	**7,861**	**155**	**7**	**8,009**

Footnote:

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

12. Securities (continued)

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

	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.

12. Securities (continued)

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

Additional details regarding mortgage and asset backed bonds in unrealized loss position

	December 31 ,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				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	913	4	12	(1)-
Total other mortgage-backed bonds	**913**	**4**	**12**	**-**
Total available-for-sale MBS	**913**	**4**	**12**	**-**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	33	1	6	(1)-
Total other mortgage-backed bonds	**33**	**1**	**6**	**-**
Total held-to-maturity MBS bonds	**33**	**1**	**6**	**-**
Total mortgage-backed bonds (MBS)	**946**	**5**	**18**	**-**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	22	(1)-	412	2
Of which Asset-backed bond (ABS)	1	(1)-	-	-
Total asset-backed available-for-sale bonds (ABS)	**23**	**-**	**412**	**2**
Total mortgage and asset-backed bonds	**969**	**5**	**430**	**2**

Footnote:

(1) Amount lower than NIS 1 million

12. Securities (continued)

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

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

	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

G. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 2,789 million (December 31, 2019: NIS 3,601 million). The balance of the said bonds included as of December 31, 2020, unrealized profits in the amount of NIS 104 million (December 31, 2019: approx. NIS 81 million).

H. Most of the unrealized losses as at December 31, 2019 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them pursuant to the investment contracts.

Whereas the Bank and the relevant subsidiaries do not intend to sell securities having an unrealized loss, the Bank and the relevant subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at December 31, 2020.

In 2020, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 31 million (2019: NIS 31 million; 2018: NIS 28 million).

I. **Fair value presentation.** The balances of securities as of December 31, 2020, and December 31, 2019, include securities amounting to NIS 33,862 million and NIS 32,153 million, respectively, that are presented at fair value.

12. Securities (continued)

J. Data regarding impaired bonds - consolidated

	December 31, 2020	December 31, 2019
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	13	47

K. 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).

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 section "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 123 million ("naïve value"). The equity value of these shares, which are stated at the cost method, is NIS 27 million. 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.

L. Zim shares

The Bank and MDB hold shares in Zim Integrated Shipping Services Ltd. (hereinafter: “Zim”), which were received in the past within the framework of a debt arrangement and which were recorded at zero cost. As reported by Zim, on February 1, 2021, an offering of Zim shares was concluded on the New York Stock Exchange (NYSE). The market value of the shares held by the Bank and MDB as of February 28, 2021 amounts to approx. NIS 56 million. The aforesaid shares are subject to lockup arrangements for a period of six months from the date of the offering.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses

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

It is noted, that Note 31 presents the details included in this Note, as well as an extended discussion thereof.

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

	December 31, 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]	91,236	2	663	91,901	6,101	98,002
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]212	42,505	-	42,717	-	42,717
Group - other	26,697	144	31,020	57,861	928	58,789
Total debts*	**118,145**	**42,651**	**31,683**	**192,479**	**7,029**	**199,508**
* Of which:						
Restructured troubled debts	1,154	-	245	1,399	-	1,399
Other Impaired debts	792	2	14	808	-	808
Total balance of impaired debts	**1,946**	**2**	**259**	**2,207**	**-**	**2,207**
Debts in arrears of 90 days or more	65	318	30	413	-	413
Other problematic debts	4,462	10	413	4,885	-	4,885
Total Problematic debts	**6,473**	**330**	**702**	**7,505**	**-**	**7,505**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	2,119	-	148	2,267	-	2,267
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]257	-	258	-	258
Group - other	484	1	751	1,236	15	1,251
Total allowance for Credit Losses	**2,604**	**258**	**899**	**3,761**	**15**	**3,776**
Of which: in respect of impaired debts	373	-	132	505	-	505

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 95,795 million and the allowance in its respect in an amount of NIS 1,762 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 212 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 187 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

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

Footnotes:

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

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

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

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2020					
Recorded amount of debts:						
Examined on a specific basis[(1)]	68,606	-	232	68,838	7,060	75,898
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	147	35,658	-	35,805	-	35,805
Group - other	7,385	-	13,217	20,602	-	20,602
Total debts*	**76,138**	**35,658**	**13,449**	**125,245**	**7,060**	**132,305**
* Of which:						
Restructured troubled debts	797	-	71	868	-	868
Other Impaired debts	641	-	1	642	-	642
Total balance of impaired debts	**1,438**	**-**	**72**	**1,510**	**-**	**1,510**
Debts in arrears of 90 days or more	16	240	16	272	-	272
Other problematic debts	1,970	-	170	2,140	-	2,140
Total Problematic debts	**3,424**	**240**	**258**	**3,922**	**-**	**3,922**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	1,526	-	49	1,575	-	1,575
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[(2)]1	[(2)]219	-	220	-	220
Group - other	204	-	344	548	15	563
Total allowance for Credit Losses	**1,731**	**219**	**393**	**2,343**	**15**	**2,358**
Of which: in respect of impaired debts	307	-	40	347	-	347

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 74,388 million and the allowance in its respect in an amount of NIS 1,228 million computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 1 million, computed on a group basis, in amount of NIS 158 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2019					
Recorded amount of debts:						
Examined on a specific basis[1]	64,004	-	441	64,445	6,049	70,494
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	214	31,451	-	31,665	-	31,665
Group - other	7,312	-	14,594	21,906	-	21,906
Total debts*	**71,530**	**31,451**	**15,035**	**118,016**	**6,049**	**124,065**
* Of which:						
Restructured troubled debts	639	-	88	727	-	727
Other Impaired debts	488	-	2	490	-	490
Total balance of impaired debts	**1,127**	**-**	**90**	**1,217**	**-**	**1,217**
Debts in arrears of 90 days or more	31	281	34	346	-	346
Other problematic debts	819	-	41	860	-	860
Total Problematic debts	**1,977**	**281**	**165**	**2,423**	**-**	**2,423**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	892	-	62	954	-	954
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]1	[2]180	-	181	-	181
Group - other	102	-	240	342	1	343
Total allowance for Credit Losses	**995**	**180**	**302**	**1,477**	**1**	**1,478**
Of which: in respect of impaired debts	158	-	50	208	-	208

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 69,277 million and the allowance in its respect in an amount of NIS 746 million computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million, computed on a group basis, in amount of NIS 110 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2017	1,560	178	566	2,304	1	2,305
Credit loss expenses	178	23	339	540	-	540
Accounting write-offs	(476)	(14)	(446)	(936)	-	(936)
Collection of debts written-off in previous years	324	-	197	521	-	521
Net accounting write-offs	(152)	(14)	(249)	(415)	-	(415)
Adjustments from translation of financial statements	20	-	1	21	-	21
Balance of allowance for credit losses, as at December 31, 2018	**1,606**	**187**	**657**	**2,450**	**1**	**2,451**
An addition stemming from the merger of Municipal Bank	25	-	-	25	-	25
Credit loss expenses	351	27	312	690	-	690
Accounting write-offs	(386)	(7)	(484)	(877)	-	(877)
Collection of debts written-off in previous years	248	-	233	481	-	481
Net accounting write-offs	(138)	(7)	(251)	(396)	-	(396)
Adjustments from translation of financial statements	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at December 31, 2019	**1,823**	**207**	**717**	**2,747**	**1**	**2,748**
Credit loss expenses	1,182	70	452	1,704	14	1,718
Accounting write-offs	(437)	(19)	(437)	(893)	-	(893)
Collection of debts written-off in previous years	276	-	252	528	-	528
Net accounting write-offs	(161)	(19)	(185)	(365)	-	(365)
Adjustments from translation of financial statements	(27)	-	-	(27)	-	(27)
Balance of allowance for credit losses, as at December 31, 2020	**2,817**	**258**	**984**	**4,059**	**15**	**4,074**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2018	125	-	51	176	-	176
as at December 31, 2019	170	-	53	223	-	223
as at December 31, 2020	213	-	85	298	-	298

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. Movement in the balance of allowance for credit losses - the Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2017	1,010	157	282	1,449	1	1,450
Credit loss expenses	115	20	165	300	-	300
Accounting write-offs	(348)	(13)	(243)	(604)	-	(604)
Collection of debts written-off in previous years	253	-	105	358	-	358
Net accounting write-offs	(95)	(13)	(138)	(246)	-	(246)
Balance of allowance for credit losses, as at December 31, 2018	**1,030**	**164**	**309**	**1,503**	**1**	**1,504**
Credit loss expenses	176	23	124	323	-	323
Accounting write-offs	(240)	(7)	(242)	(489)	-	(489)
Collection of debts written-off in previous years	182	-	129	311	-	311
Net accounting write-offs	(58)	(7)	(113)	(178)	-	(178)
Balance of allowance for credit losses, as at December 31, 2019	**1,148**	**180**	**320**	**1,648**	**1**	**1,649**
Credit loss expenses	814	58	159	1,031	14	1,045
Accounting write-offs	(243)	(19)	(188)	(450)	-	(450)
Collection of debts written-off in previous years	202	-	138	340	-	340
Net accounting write-offs	(41)	(19)	(50)	(110)	-	(110)
Balance of allowance for credit losses, as at September 30, 2020	**1,921**	**219**	**429**	**2,569**	**15**	**2,584**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2018	108	-	18	126	-	126
as at December 31, 2019	153	-	18	171	-	171
as at December 31, 2020	190	-	36	226	-	226

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	in NIS millions			
Credit to Israel government	1,755	2,063	1,729	2,063
Credit to foreign governments	1,718	1,452	1,718	1,452
Total credit granted to Governments	**3,473**	**3,515**	**3,447**	**3,515**

15. Investment in Investee Companies and Details Regarding These Companies

A. Consolidated

	December 31, 2020			December 31, 2019		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis[1]	**347**	**-**	**347**	**170**	**-**	**170**
Other investments:						
Shareholders' loans	1	-	1	1	-	1
Total other investments	**1**	**-**	**1**	**1**	**-**	**1**
Total investments	**348**	**-**	**348**	**171**	**-**	**171**
Includes:						
Earnings accumulated since January 1, 1992	78	-	78	42	-	42
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for Employee benefits	(1)	-	(1)	-	-	-
Details Regarding Goodwill:						
Original amount	-	305	305	-	305	305
Book value[2]	-	164	164	-	164	164

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

15. Investment in Investee Companies and Details Regarding These Companies

B. The Bank

	December 31, 2019			December 31, 2018		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[1]	35	9,532	9,567	33	9,180	9,213
Other investments:						
Subordinated debt notes and Capital notes	-	1,090	1,090	-	1,103	1,103
Shareholders' loans	1	-	1	1	-	1
Total investments	**36**	**10,622**	**10,658**	**34**	**10,283**	**10,317**
Includes:						
Earnings accumulated since January 1, 1992	33	7,357	7,390	31	6,823	6,854
Items accumulated in shareholders' equity since January 1, 1992:						
Net adjustments in respect of presentation of bonds available for sale at fair value	-	177	177	-	[2]91	91
Adjustments from translation of financial statements	-	(598)	(598)	-	(345)	(345)
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	1	1	-	2	2
Adjustment for Employee benefits	-	(148)	(148)	1	(131)	(130)
Transactions with minority	-	(3)	(3)	-	3	3
Details Regarding Goodwill:						
Original amount	-	282	282	-	282	282
Book value	-	142	142	-	142	142

Footnote:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

15. Investment in Investee Companies and Details Regarding These Companies

The Bank's share of profit or loss of investee companies

	Consolidated			The Bank		
	2020	2019	2018	2020	2019	2018
	In NIS millions					
Bank's share in profit of investee companies (consolidated - associates)	54	14	7	636	884	802
Provision for taxes:						
Current taxes	-	-	5	42	79	42
Deferred taxes	4	(2)	(4)	40	9	18
Total provision for taxes	4	(2)	1	82	88	60
Bank's share in profit net of tax effect of investee companies (consolidated - associates)	**50**	**16**	**6**	**554**	**796**	**742**

15. Investment in Investee Companies and Details Regarding These Companies (continued)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares: Investment in shares Equity basis[(1)]	
		2020	2019	2020	2019	2020	2019
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[(2)]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	29	32
Israel Discount Bank of New York [(3)]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,679	3,692
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	3,237	3,057
Israel Credit Cards Ltd.[(4)]	Credit card service	[(10)]71.83	[(10)]71.83	79.00	79.00	1,170	[(12)]1,100
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	971	811
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	64	63
Companies held by Israel Discount Bank of New York:							
IDB Bank Realty (Delaware) Inc.[(5)]	Holding company, USA	100.00	100.00	100.00	100.00	1,332	1,362
IDB Realty LLC [(6)]	Investment company, USA	100.00	100.00	100.00	100.00	4,316	4,613
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[(7)]	Credit card service	100.00	100.00	100.00	100.00	285	[(12)]273
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	73	76

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 10 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDB Bank Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDB Bank Realty (Delaware), Inc.

(7) For details regarding the holding of a controlling interest in Diners, see Note 36 G below.

(8) For details, see Note 10 A.

(9) Goodwill.

(10) In respect of the period until the date loss of material influence in FIBI.

(11) An addition stemming from the merger of Municipal Bank.

(12) Internal classification between a subsidiary company and a subsidiary of a subsidiary.

	Of which: excess of cost balance[9]		Other investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	In NIS millions											
	-	-	-	-	(1)	-	-	-	(2)	-	-	-
	-	-	-	-	145	288	55	16	(448)	(304)	-	-
	[11]4	[11]4	345	346	211	305	-	-	(75)	(49)	-	-
	142	142	5	[12]8	61	73	-	[12]63	(33)	(24)	10	10
	18	18	721	721	144	63	-	-	(7)	2	6	96
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	22	33	-	-	(88)	6	-	-
	-	-	-	-	37	53	-	-	(848)	(539)	-	-
	-	-	-	-	12	24	-	[12]29	-	-	-	-
	-	-	10	[12] 20	(3)	25	-	53	-	-	-	-

F. **Agreement of shareholders of Discount Capital Underwriting Ltd.** At date of consummation of the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting, an agreement between the shareholders of Discount Capital Underwriting, which regulates the relations between the shareholders of the Company, entered into effect. Within the framework of which were determined, among other things, limitation on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, which were available to exercise starting with November 15, 2019. An agreement was signed on February 13, 2020, with one of the minority shareholders ("the shareholder") in Discount Capital Underwriting Ltd. ("the Company"), according to which, inter alia:

- The shareholder shall exercise his PUT option for 10% of the shares of the Company (subsequent to approval of the financial statements of Discount Capital Underwriting as of March 31, 2020). In June 2020, Discount Capital acquired the shares, as stated;
- The blackout period for the balance of the shares held by him (approx. 21%) shall be extended to December 31, 2021, at the consideration determined by the parties, subject to the right of the shareholder to shorten the blackout period, until December 31, 2020.

16. Buildings and Equipment

A. Composition

	Consolidated				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2018	(2)2,247	(2)843	944	(2)4,383	8,417
Additions	109	39	60	393	601
An addition stemming from the merger of Municipal Bank	29	2	-	5	36
Translation adjustments	(6)	(1)	(3)	(12)	(22)
Disposals	(42)	(27)	(78)	(149)	(296)
Balance as at December 31, 2019	**(2)2,337**	**(2)856**	**923**	**(2)4,620**	**8,736**
Additions	278	52	118	522	970
Translation adjustments	(6)	(1)	(2)	(6)	(15)
Disposals	(79)	(22)	(53)	(101)	(255)
Balance as at December 31, 2020	**2,530**	**885**	**986**	**5,035**	**9,436**
Depreciation and impairment loss:					
Balance as at December 31, 2018	(2)1,145	(2)577	(2)735	(2)3,523	5,980
Depreciation for the year	63	41	77	285	466
Reversal of impairment loss	(3)	-	-	-	(3)
Translation adjustments	(4)	(1)	(2)	(9)	(16)
Disposals	(15)	(27)	(78)	(2)(148)	(268)
Balance as at December 31, 2019	**(2)1,186**	**(2)590**	**(2)732**	**(2)3,651**	**6,159**
Depreciation for the year	70	45	90	286	491
Translation adjustments	(4)	(1)	(1)	(3)	(9)
Disposals	(39)	(20)	(40)	(101)	(200)
Balance as at December 31, 2020	**1,213**	**614**	**781**	**3,833**	**6,441**
Carrying amount:					
Balance as at December 31, 2018	**(2)1,102**	**(2)266**	**(2)209**	**(2)860**	**2,437**
Balance as at December 31, 2019	**(2)1,151**	**(2)266**	**(2)191**	**(2)969**	**2,577**
Balance as at December 31, 2020	**1,317**	**271**	**205**	**1,202**	**2,995**
Average weighted depreciation rate for year 2019	4.3%	9.4%	(2)21.2%	(2)21.1%	12.5%
Average weighted depreciation rate for year 2020	4.8%	9.1%	20.8%	21.4%	12.8%

Footnotes:

(1)Includes installations and leasehold improvements.

(2) Improvement of the data.

16. Buildings and Equipment (continued)

A. Composition (continued)

	The Bank				
	Buildings and land [(1)] [(2)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2018	[(2)]1,625	[(2)]413	677	[(2)]3,205	5,920
Additions	59	24	36	228	347
Disposals	(32)	(27)	(48)	[(2)](48)	(155)
Balance as at December 31, 2019	**[(2)]1,652**	**[(2)]410**	**[(2)]665**	**[(2)]3,385**	**6,112**
Additions	148	23	90	314	575
Disposals	(37)	(20)	(51)	(99)	(207)
Balance as at December 31, 2020	**1,763**	**413**	**704**	**3,600**	**6,480**
Depreciation and impairment loss:					
Balance as at December 31, 2018	[(2)]825	[(2)]251	[(2)]520	[(2)]2,653	4,249
Depreciation for the year	37	25	52	189	303
Reversal of impairment loss	(2)	-	-	-	(2)
Disposals	(13)	(27)	(48)	[(2)](48)	(136)
Balance as at December 31, 2019	**[(2)]847**	**[(2)]249**	**[(2)]524**	**[(2)]2,794**	**4,414**
Depreciation for the year	35	23	62	178	298
Disposals	(20)	(18)	(38)	(99)	(175)
Balance as at December 31, 2020	**862**	**254**	**548**	**2,873**	**4,537**
Carrying amount:					
Balance as at December 31, 2018	**[(2)]800**	**[(2)]162**	**[(2)]157**	**[(2)]552**	**1,671**
Balance as at December 31, 2019	**[(2)]805**	**[(2)]161**	**[(2)]141**	**[(2)]591**	**1,698**
Balance as at December 31, 2020	**901**	**159**	**156**	**727**	**1,943**
Average weighted depreciation rate for year 2019	3.2%	9.4%	[(2)]19.9%	[(2)]20.2%	11.0%
Average weighted depreciation rate for year 2020	3.3%	9.2%	19.6%	20.6%	10.9%

Footnotes:
(1)Includes installations and leasehold improvements.
(2) Improvement of the data.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2020-2066.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31			
	2020	2019	2020	2019
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	163	158	48	47
Balance of provision for impairment loss	6	6	6	6
D. Financial leasing rights:				
Balance of non-capitalized leasehold	4	4	3	3
Balance of capitalized leasehold	117	(1)134	45	62
E. Depreciated balance of not yet registered buildings	409	276	303	166
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	5	3	2	3
G. Depreciated balance of buildings and equipment designated for sale (2)	3	8	3	4
Reversal of impairment loss during the year	-	3	-	2
H. The cost of in-house development of computer software:				
The cost of software put into operation	3,925	3,629	3,288	3,070
Accumulated depreciation	(3,165)	(2,956)	(2,680)	(2,545)
Depreciable amount	760	673	608	525
Accumulated costs in respect of software under development	210	162	31	39
Total cost of in-house development of computer software	970	835	639	564
I. Gross value of fully depreciated fixed assets still in use	3,866	(1)3,683	2,829	(1)2,744
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	412	(1)217	274	(1)154
Cost of equipment	4	(1) 7	4	7

Footnotes:

(1) Improvement of the data.

(2) No loss on the sale of buildings and equipment held for sale in expected, in excess of the provisions created therefore.

16. Buildings and Equipment (continued)

K. Information regarding leases

1. Leases expenses

	Year 2020
	In NIS millions
Expenses with respect to operating leases	114
Variable lease expenses	(1)29
Total expenses with respect to leases	**(2) 143**

Footnotes:

(1) Includes VAT, linkage differences and interest.

(2) Expenses in respect of leases are included in the items salaries and related expenses, and in maintenance and depreciation of building and equipment expenses in the statement of profit and loss.

2. Additional information regarding leases

	Year 2020
	In NIS millions
Capital gain from net sale and leaseback transactions	4
Cash paid with respect to balances included in measuring the lease liabilities:	
Cash flows with respect to operating activities with respect to operating leases	146
Right-of-use assets recognized with respect to new operating leases	895
Average weighted period balance (in years):	
With respect to operating leases	6.2
Average weighted discount interest:	
With respect to operating leases	0.4%

3. Non-discounted cash flows and liabilities according to maturity periods

	December 31 2020	
	Undiscounted cash flows	Lease liabilities
	In NIS millions	
Up to 1 year	110	109
Over 1 year up to 2 years	106	103
Over 2 years up to 3 years	90	90
Over 3 years up to 4 years	64	64
Over 4 years up to 5 years	56	54
Over 5 years	364	360
Total	**790**	**780**

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[1]
	in NIS millions
Cost	
Balance as at December 31, 2018	**301**
An addition stemming from the merger of Municipal Bank	4
Balance as at December 31,2019 and 2020	**305**
Amortization and losses on impairment	
Balance as at December 31,2020 , 2019 and 2018	**141**
Book value	
Balance as at December 31, 2018	**160**
Balance as at December 31,2020 and 2019	**164**

Footnotes:

(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an associate, included in the item "investment in associates").

18. Other Assets

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	In NIS millions			
Net deferred tax assets (see Note 8 G)	2,146	1,794	1,487	1,219
Excess advance tax payments over current provisions	340	272	178	179
Issue costs and discount expenses of subordinated capital notes	29	33	33	38
Income receivable	287	(1)129	260	79
Right-of-use assets for operating leases	785	-	577	-
Surrender value of life assurance policies owned by a consolidated subsidiary	625	669	-	-
Assets in respect of the "Maof" market operations	7	14	7	14
Gold deposit	104	464	104	464
Prepaid expenses	293	(1)107	95	(1)72
Other debtors and debit balances	460	(1)582	340	(1)177
Total other assets	**5,076**	**4,064**	**3,081**	**2,242**

Footnote:
(1) Reclassified – improvement of data.

19. Deposits from the Public

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

	Consolidated		The Bank	
	December 31			
	2020	2019	2020	2019
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	51,252	38,364	38,671	29,334
Interest bearing	56,454	43,493	51,847	39,155
Total demand deposits	**107,706**	**81,857**	**90,518**	**68,489**
Time deposits	90,798	92,816	73,015	77,670
Total deposits in Israel*	**198,504**	**174,673**	**163,533**	**146,159**
* Of which:				
Private individuals deposits	106,847	91,680	91,079	78,041
Institutional bodies deposits	14,615	(1)18,624	9,492	(1)12,826
Corporations and others deposits	77,042	(1) 64,369	62,962	(1) 55,292
Outside Israel				
Demand deposits:				
Non-interest bearing	5,629	4,391	-	-
Interest bearing	18,246	13,569	-	-
Total demand deposits	**23,875**	**17,960**	**-**	**-**
Time deposits	3,739	8,817	-	-
Total deposits outside Israel	**27,614**	**26,777**	**-**	**-**
Total deposits from the public	**226,118**	**201,450**	**163,533**	**146,159**

Footnote:
(1) Reclassified – improvement in the attribution of the balance of several customers' deposits.

19. Deposits from the Public (continued)

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

	December 31	
	2020	2019
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	86,723	74,205
Over 1 up to 10	63,483	53,834
Over 10 up to 100	35,663	31,404
Over 100 up to 500	19,226	19,208
Over 500	21,023	22,799
Total	**226,118**	**201,450**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	2,943	3,575	21	347
Time deposits	1	2	32	350
Central banks:				
Schedule deposits	5,505	-	3,655	-
Outside Israel				
Commercial banks:				
Deposits on demand	1,699	651	1,608	625
Schedule deposits	2,686	1,542	308	360
Acceptances	257	128	214	80
Central banks:				
Time deposits	16	521	-	-
Total deposits from banks	**13,107**	**6,419**	**5,838**	**1,762**

21. Bonds and Subordinated Capital Notes

	Consolidated				The Bank	
	Average maturity[1]	Internal rate of return[1]	December 31		December 31	
	years	%	2020	2019	2020	2019
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	6.18	2.29	4,681	5,596	975	1,057
In Israeli currency, linked to CPI	3.93	2.66	3,680	5,569	709	[5]870
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI[2]	1.05	5.81	1,809	1,820	1,809	[5]1,820
Credit-linked notes (CLN):						
In non-linked Israeli currency	-	-	-	103	-	103
In foreign currency, Euro	0.93	3.50	31	41	31	41
Total bonds and capital notes[3][4]			**10,201**	**13,129**	**3,524**	**3,891**

Footnotes:
(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2020.
(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.
(3) Of which: NIS 9,019 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2019: NIS 11,550 million)
(4) Of which: NIS 5,736 million in the consolidated, are subordinated capital notes (2019: NIS 8,590 million)

Issue of Bonds (Extension of Series M and Series N). On December 10, 2019, the Bank,through Manpikim, has completed the issue of two series of bonds carrying a fixed non-linked shekel interest in a total amount of NIS 2,668 million.

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

Issuance of deferred debt notes (Series G). On June 22, 2020, the Bank, through Manpikim, completed the process of issuing deferred debt notes (Series F), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of NIS 440.4 million.

An early redemption in full of the subordinate capital notes (Series 1). For details, see Note 25 1 N below.

Bonds and debt notes issued by Municipal Issuance. Following the merger with Municipal Bank (see Note 26 C 16), bonds and debt notes issued by Municipal Issuance were added (bonds Series "B", "G", "J" and "K", and debt notes Series "N").

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	15	16	15	16
Excess of current tax provisions over advance payments	16	57	-	-
Excess liabilities in respect of employee benefits over assets of the plan (see Note 23 B)	2,891	2,737	2,167	2,059
Deferred income	222	212	145	133
Payables for credit card activity	9,229	8,509	3,813	4,029
Liabilities for operating leases	780	-	574	-
Provision for doubtful debts in respect of guarantees	298	223	226	171
Expenses payable	1,329	905	718	418
Liabilities in respect of "Maof" market operations	7	14	7	14
Liabilities stemming from "Market making" activity	814	456	814	456
Other payables and receivables	1,345	1,137	489	419
Total other liabilities	**16,946**	**14,266**	**8,968**	**7,715**

23. Employee Benefits

A. Following is a description of the main benefits granted to employees of the group

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month's salary for each year of employment, is mainly covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the amounts accumulated in insurance policies and pension funds are not included in the balance sheet since they are not controlled by the Bank or its subsidiaries.

(2) Members of the Bank's Management are entitled to the customary severance payments, "adjustment"/non-competition award of between 4 to 8 months' salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see section D below, in the matter of the approved remuneration policy). The pension liability of a foreign subsidiary, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months' salaries, and in respect of which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

(5) A number of the Bank's employees are entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 1.8% per year in real terms.

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation", according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of tenured employees as from January 1, 2012, shall not be entitled to a "jubilee award".

(6) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Act - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(7) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period.

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees who were engaged as or converted to the status of tenured employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

The wage agreement dated February 21, 2019, reduces the benefits granted to pensioners and to all tenured employees – cancellation of reimbursement of medical expenses and of a daily newspaper.

(8) Several of the companies have adopted employee remuneration plans, according to which the General Managers and/or other employees of these companies are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

(9) "Annuity" type retirement plan. A number of retirees in the period from 2007 to 2011 (31 employees as of December 31, 2020) have chosen the full or combined annuity option, within the framework of which, the capital payment is converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(10) 2011 retirement plan. A part of the retirees within the framework of the 2011 retirement plan (121 employees as of December 31, 2020), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;

23. Employee Benefits (continued)

- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(11) **2014, 2016 and 2018 retirement plans.** A part of the retirees under the 2014 retirement plan (1 employee as of December 31, 2020), 2016 retirement plan (13 employees as of December 31, 2020) and the 2018 retirement plan (4 employees as of December 31, 2020), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment.

With respect to pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) an insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank.

The terms of the monthly pension are as follows:

- A monthly pension for the life of the retiree since date of retirement, linked to the CPI until the employee reaches sixty years of age, and linked to the terms of the policy after the age of sixty;
- The employee may elect a pension option with or without next of kin;
- The employee may elect a pension option with or without ensuring a minimum pension payment for 240 months, with the addition of the number of months up to the age of sixty (for employees who have not yet reached the age of sixty at retirement date).

The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

In accordance with the said plans, upon the retiree reaching the age of 60, the Bank purchases coverage in insurance for the liability.

B. Details regarding the benefits

	Consolidated		The Bank	
	December 31			
	2020	2019	2019	2018
	in NIS millions			
Severance pay, retirement and pension :				
The liability amount	3,133	3,213	2,293	2,330
Fair value of the plan's assets	1,318	1,625	1,028	1,273
Excess liabilities over the plan's assets	**1,815**	**1,588**	**1,265**	**1,057**
Excess liabilities of the program included in the item "other liabilities"	**1,815**	**1,588**	**1,265**	**1,057**
Excess assets of the program included in the item "other assets"	**-**	**-**	**-**	**-**
Amounts included in the other liabilities item:				
Long-service ("jubilee") awards	305	338	303	336
Post retirement benefits to retirees	613	673	512	579
Vacation	150	130	87	87
Illness	8	8	-	-
Total Excess liabilities of the program included in the item "other liabilities"	**2,891**	**2,737**	**2,167**	**2,059**
Of which – in respect of benefits to employees abroad	33	28	-	-
Total Excess assets of the program included in the item "other assets"	**-**	**-**	**-**	**-**
Of which – in respect of benefits to employees abroad	-	-	-	-

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated

1. Commitment and financing status

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	For the year ended December 31			
	2020	2019	2020	2019
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Commitment in respect of anticipated benefits at the beginning of the year	3,213	3,093	673	577
Cost of service	90	78	6	4
Cost of interest	75	92	16	22
Actuarial loss (profit)	(3)886	384	(3)	109
Changes in foreign currency exchange rates	(1)	(14)	(1)	(2)
Benefits paid	(1,130)	(244)	(78)	(36)
Settlements	-	(2)(200)	-	(2)
An addition stemming from the merger of Municipal Bank	-	24	-	1
Commitment at the end of the year in respect of anticipated benefits	**3,133**	**3,213**	**613**	**673**
Commitment at the end of the year in respect of accumulated benefits(1)	**2,709**	**2,806**	**613**	**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.
(3) Including an amount of NIS 555 million in respect of the 2020 retirement plan.

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

	For the year ended December 31	
	2020	2019
	Severance pay, retirement and pension payments	
	in NIS millions	
Fair value of the plan's assets at the beginning of the year	1,625	1,815
Actual return on the plan's assets	48	178
Changes in foreign currency exchange rates	-	(16)
Deposits by the Bank to the plan	23	35
Benefits paid	(378)	(194)
Settlements	-	(200)
An addition stemming from the merger of Municipal Bank	-	7
Fair value of the plan's assets at the end of the year	**1,318**	**1,625**
Financing status – net liability recognized at the end of the year	**(1,815)**	**(1,588)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	December 31			
	2020	2019	2020	2019
	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"	(1,815)	(1,588)	(613)	(673)
Net liability at the end of the year	**(1,815)**	**(1,588)**	**(613)**	**(673)**

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

1. Commitment and financing status (continued)

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

	December 31			
	2020	2019	2020	2019
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Net actuarial profit (loss)	(1,152)	(734)	(53)	(54)
Net cost in respect of prior service	-	-	2	3
Closing balances of accumulated other comprehensive income	**(1,152)**	**(734)**	**(51)**	**(51)**

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

	December 31	
	2020	2019
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of cumulative benefits	2,561	2,671
Fair value of the plan's assets	1,146	1,457

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

	December 31	
	2020	2019
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of anticipated benefits	3,133	3,213
Fair value of the plan's assets	1,318	1,625

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

2. Expense for the year

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

	For the year ended December,		
	2020	2019	2018
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	90	78	92
Cost of interest	75	92	101
Anticipated return on assets of the plan	(58)	(53)	(71)
Amortization of unrecognized amounts:			
Net actuarial loss	65	49	51
Total amortization of unrecognized amounts	**65**	**49**	**51**
Other, including loss from reduction or settlement	413	58	88
Total net cost of benefits	**585**	**224**	**261**
Total expense regarding defined deposits pension plans	**201**	**201**	**189**
Total expenses included in respect Severance pay, retirement and pension payments	**786**	**425**	**450**
Of which: expenses included in salaries and related expenses	291	279	281
Of which: expenses included in other expenses	495	146	169
Post retirement retiree benefits			
Cost of service	6	4	6
Cost of interest	16	22	25
Amortization of unrecognized amounts:			
Net actuarial loss (income)	(2)	(4)	4
Cost of prior service	(1)	(1)	(1)
Total amortization of unrecognized amounts	**(3)**	**(5)**	**3**
Total net cost of benefits	**19**	**21**	**33**
Of which: expenses included in salaries and related expenses	6	4	6
Of which: expenses included in other expenses	13	17	27

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

2. Expense for the year (continued)

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

	For the year ended December 31					
	2020	2019	2018	2020	2019	2018
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (income) for the period	896	259	53	(3)	109	(144)
Amortization of actuarial (loss) income	(65)	(49)	(51)	2	4	(4)
Amortization of credit in respect of prior service	-	-	-	1	1	1
Amortization of net liability in respect of the transition	-	-	(41)	-	-	-
Changes in foreign currency exchange rates	-	2	(1)	-	-	-
Other, including profit from reduction or settlement	(413)	(58)	(88)	-	-	1
Total recognized in other comprehensive loss (income)	**418**	**154**	**(128)**	**-**	**114**	**(146)**
Total net cost of benefits[1]	**585**	**224**	**261**	**19**	**21**	**33**
Total amount recognized in net cost of benefits and in other comprehensive income	**1,003**	**378**	**133**	**19**	**135**	**(113)**

Footnote:
(1) See section 2.1 above.

3. Assumptions

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

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

	December 31			
	2020	2019	2020	2019
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	0.05%-0.85%	0.11%-0.93%	-0.08%-1.05%	-0.13%-1.15%
Retirement rate	0.2%-26.02%	0.19%-20.56%		
Remuneration growth rate	1.80%	1.80%		

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

	December 31			
	2020	2019	2020	2019
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	0.69%-1.34%	1.01%-1.93%	0.65%-1.54%	0.55%-2.00%
Anticipated long-term return on the plan's assets	3.77%	2.99%		
Remuneration growth rate	1.82%	1.7%		

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

3. Assumptions

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

	Increase of one percentage point				Decrease of one percentage point			
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits	
	December 31							
	2020	2019	2020	2019	2020	2019	2020	2019
	in NIS millions							
Discount rate	(284)	(297)	(45)	(44)	300	315	46	45
Retirement rate	139	68	-	-	(145)	(73)	-	-
Remuneration growth rate	274	269	-	-	(245)	(238)	-	-

4. The plan's assets

4.1 COMPOSITION OF THE FAIR VALUE OF THE PLAN'S ASSETS

	December 31, 2020			December 31, 2019		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	53	-	53	53	-	53
Shares	540	28	568	643	34	677
Bonds:						
Government	192	25	217	390	23	413
Corporate	352	64	416	359	78	437
Total bonds	544	89	633	749	101	850
Other	8	56	64	7	38	45
Total	**1,145**	**173**	**1,318**	**1,452**	**173**	**1,625**

4.2 FAIR VALUE OF THE PLAN'S ASSETS BY TYPE OF ASSET AND ALLOCATION TARGET FOR THE YEAR 2021

	Allocation target %	of the plan's assets	
	Year 2021	December 31, 2020	December 31, 2019
	in percentage		
Type of asset			
Cash and deposits with banks	0.6 - 16.3	4.0	3.3
Shares	37.9 - 47.3	43.1	41.7
Bonds:			
Government	15.3 - 23.1	16.5	25.4
Corporate	29.2 - 38.6	31.5	26.9
Total bonds	59.0 - 61.7	48.0	52.3
Other	2.2 - 11.6	4.9	2.7
Total		**100.0**	**100.0**

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

5. Cash flow

5.1 DEPOSITS

	Forecast[1]	For the year ended December 31,	
	2021	2020	2019
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	24	23	35

Footnote:
(1) Assessment of expected deposits with defined benefit pension plans during 2021.

5.2 BENEFITS EXPECTED TO BE PAID BY THE BANK IN THE FUTURE

	Severance pay and pension payments
Year	In NIS millions
2021	259
2022	178
2023	109
2024	182
2025	163
2026-2030	609
2031 and thereafter	1,315
Total	**2,815**

D. **Remuneration policy for officers of the Bank (2017-2019).** The Annual General Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank for 2017-2019, in accordance with Section 267A of the Companies Act. The remuneration policy was effective for a period of three years since date of approval by the General Meeting. The formation of a remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in the Directive of the Supervisor and to the provisions of the Remuneration Act.

The Bank's remuneration policy is, inter alia, subject to the provisions of the Companies Act, to Proper Conduct of Banking Business Directive No. 301A in the matter of the remuneration policy of a banking corporation (hereinafter: "Directive of the Supervisor" or "Directive 301A"), as amended from time to time, and to the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (hereinafter: "the Remuneration Act"), published on April 12, 2016.

Among other things, the policy includes the following components: the maximum monthly salary and the considerations in determining it; thirteen's month salary; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in a total amount of up to four monthly salaries; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; reimbursement of expenses in respect of relocation between countries incurred by an officer following appointment; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers was based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank. Special instructions have been determined, within the framework of the policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to each one of the officers has been determined and also included is the possibility for the distribution of an award for special contribution and a discretionary award payable out of a budget at the disposal of the President & CEO. In the framework of the policy arrangements for the spreading of the annual award and instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO were determined.

23. Employee Benefits (continued)

The Remuneration Committee and to the Board of Directors are authorized to approve an award to an officer who is subject to the President & CEO, not on the basis of measurable criteria up to a maximum of three monthly salaries to an officer as above, and subject to the award budget, by use of discretion as stated in the remuneration policy.

The President & CEO is authorized to approve immaterial changes in the terms of office of officers subject to her, without requiring approval of the Remuneration Committee, in accordance with the Companies Regulations (Relief regarding transactions with interested parties), 2000, when, in respect to the President & CEO, immaterial changes in his terms of office may be approved by the Remuneration Committee.

Within the framework of the policy, Directives were introduced whereby a variable remuneration that would be awarded and paid, would be refundable the existence of criteria determined in the remuneration policy, in accordance with the terms of Directive 301A.

The policy includes limitations regarding the scope of remuneration for officers, minding the rules and limitations stated in the Remuneration Act.

The policy includes instructions allowing the granting of capital remuneration to officers, subject to the restrictions on the scope of remuneration stated in the remuneration policy.

The principles detailed in the remuneration plan applied to the terms of office and employment of officers of the Bank, approved as from the date of approval of the remuneration policy. In no way did the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, which existed at date of approval of the policy.

The approved remuneration policy did not directly apply to the terms of office and employment of officers of the Bank`s subsidiaries. The Bank has determined rules for a Group remuneration policy, which is applicable to officers of the subsidiaries of the Bank in Israel, with the necessary modifications, considering the nature of each such subsidiary, including everything relating to the maximum of the different remuneration components, and in view of the regulation applicable to it, to the extant it is applicable and relevant.

Amendment of remuneration policy for the Bank's officers. At the general meeting held on June 7, 2018, it was resolved to approve an amendment to the remuneration policy for the Bank's officers, in accordance with Section 267A of the Companies Law, whereby the Remuneration Committee and the Board of Directors will be granted the power to approve, in special circumstances justifying such action, special payments, such as an award for an exceptional contribution, in excess of the amount of NIS 2.25 million (the maximum amount specified for a vice president's total annual remuneration, not including payments and deposits for pension and redundancy payments pursuant to the law), provided that the special payment does not exceed the maximum amount under Section 2(a) of the Remuneration for Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016.

Prolonging of the effective period of the remuneration policy for Officers at the Bank. The Bank's annual general meeting of shareholders, held on September 16, 2019, decided to approve the prolonging of the effective period of the remuneration policy for officer at the Bank, in accordance with Section 267A of the Companies Act, for a period of up to six months from date of termination of the effect of the present remuneration policy (namely until May 8, 2020, at the latest). This, in order to enable the new President & CEO to state his position prior to the adoption of a remuneration policy and an award mechanism for officers of the Bank, to apply in respect of the years 2020 to 2022, and in order for the plan to include also the terms of employment of the new President & CEO.

E. **Remuneration policy for officers of the Bank (2020-2022).** At a special general meeting held on March 18, 2020, it was resolved to approve the remuneration policy for the Bank's officers for the years 2020 through 2022, in accordance with Section 267A of the Companies Act. The remuneration policy will remain in force for a period of three years from the date of the general meeting's approval.

The Bank's remuneration policy is subject, inter alia, to the provisions of the Companies Act, the Supervisor's directives and the Remuneration Act.

23. Employee Benefits (continued)

The remuneration policy includes, inter alia, the following components: the maximum monthly salary amount and the considerations in setting this; the scope of severance pay, which will usually be at a rate of 100% of the monthly salary, while prescribing provisions in connection with the inclusion of Section 14 of the Severance Pay Act; the advance notice period, which is not to exceed four months; the possibility of making a payment equal to up to six monthly salaries and related terms and conditions (excluding social benefit payments) in respect of an officer's undertaking to adhere to a non-competition period of up to six months (when, in exceptional instances, the Bank will be entitled to decide to make the payment in the aforesaid scope without an undertaking for a non-competition period); a variable retirement terms payment, which will be subject to payment deferral arrangements; payment of a recruitment grant in special instances; payment of country-to-country relocation expenses incurred by an officer as a result of his appointment; related terms and conditions; a plan for the payment of annual awards to officers, subject to meeting the prescribed threshold goals. The scope of the annual award for officers is based on meeting Group indicators and individual indicators that reflect the officer's contribution to attaining the Bank's goals and on a discretionary award component. As part of the policy, special provisions have been prescribed regarding remuneration of officers who deal with risk management, control and audit. The policy also includes a provision setting a ceiling for the amount of annual awards paid to any of the officers, as well as provisions allowing the distribution of a special contribution award and a discretionary award from a budget to be placed at the President & CEO's disposal. The policy prescribes arrangements for spreading the annual award, as well as provisions regarding the terms of service and employment of the Chairman of the Board of Directors and of the President & CEO.

The Remuneration Committee and the Board of Directors have been authorized to approve an award to officers answerable to the President & CEO, other than on measurable indicators criteria basis, of up to a maximum amount of three monthly salaries to each such officer.

The President & CEO has been authorized to approve immaterial changes in the terms of service of the officers answerable to him, without needing the approval of the Remuneration Committee, in accordance with the Companies Regulations (Relaxations in Transactions with Interested Parties), 2000, while, in relation to the President & CEO, immaterial changes in his terms of service can be approved by the Remuneration Committee.

Within the framework of the policy, provisions have been prescribed whereby variable remuneration granted and paid will be repayable upon fulfillment of criteria prescribed in the remuneration policy, in accordance with that specified in Directive 301A.

The policy includes limits on the scope of the remuneration to officers taking into consideration the rules and limits prescribed in the Remuneration Act.

The policy also includes provisions regarding the possibility of granting equity remuneration to officers, subject to limits on the scope of the remuneration that are prescribed in the remuneration policy.

The principal changes between the remuneration policy for the Bank's officers (2020-2022) and the previous remuneration policy for officers are as follows: (1) a higher maximum amount for an officer's monthly salary (with part of the increase in the maximum amount being due to converting the 13th salary component into the regular monthly salary); (2) the monthly salary can be linked to the CPI; (3) a requirement has been included that a payment in respect of employment termination (adaptation grant) will be conditioned on a non-competition period; (4) changes have been made to the terms of the awards to the officers answerable to the President & CEO that are prescribed in the remuneration policy, including: threshold terms for payment of awards; increasing the maximum amount of the awards for some of the officers; updating the scope of the qualitative component in the annual award, whose grant is discretionary; (5) updating the budget for special contribution awards; (6) prescribing that the remuneration of officers answerable to the President & CEO may exceed – in accordance with the provisions of the remuneration policy and the approvals specified therein – the amount specified in Section 2(a) of the Remuneration Act, without it being necessary to reverts to the general meeting, and up to the maximum updated amount prescribed in the remuneration policy.

Principles set forth in the remuneration plan apply to the terms of service and employment of the Bank's officers, which were approved from the date of the remuneration policy's approval. Nothing in the remuneration policy shall be taken as derogating from the agreements and/or other rights of the officers in connection with their service and employment with the Bank, which were in existence at the time of the policy's approval.

The remuneration policy that was approved has not been applied directly to the terms of service and employment of officers of the Bank's subsidiaries. The Bank has prescribed principles for a Group remuneration policy, which have been applied to the officers of the Bank's subsidiaries in Israel, after making the necessary adjustments, taking into consideration the character of each such subsidiary, including all matters relating to the maximum amounts of the various remuneration components, and in light of the regulations applicable to the subsidiary, where these are applicable and relevant.

23. Employee Benefits (continued)

F. Award plan for members of the Bank’s Management and for the Internal Auditor (2017–2019)

1. General. On December 26, 2016, the Bank's Board of Directors adopted the recommendation of the Remuneration Committee and approved the award plan for members of the Bank's Management and for the Internal Auditor for the years 2017–2019 ("the plan"), in accordance with the remuneration policy for an officer at the Bank (“the Remuneration Policy”).
2. The annual award to Executive Vice Presidents
   - (a) General. The annual award to Executive Vice Presidents (including the Internal Auditor) is composed of an award that shall be based on attaining collective indices (“collective award”), and an award that shall be based on indices derived from attaining goals of the division/operation over which the Executive Vice President is in charge (“a personal award”).
   - (b) The total award to the Executive Vice President in respect of the collective indices and the personal indices shall not exceed six (6) monthly salaries (or five (5) monthly salaries for a supervision and control Executive Vice President).
   - (c) The threshold terms for the payment of the annual award shall be the attainment of the threshold goals of the following cumulative indices:
     1. The rate of return on equity in the award year shall not be less than 6% (six percent), after eliminating extraordinary profits or losses (as defined in the Remuneration Policy);
     2. The total capital adequacy ratio and the common equity tier 1 ratio, in accordance with the Bank’s annual consolidated financial statements for the same award year, shall not be less than the minimum ratios specified in the directives of the Supervisor of Banks;
     3. The actual efficiency ratio, as calculated on the basis of the Bank’s consolidated financial statements for the award year, and after eliminating extraordinary profits or losses (as defined in the Remuneration Policy), shall not be more than two percentage points (2%) above the efficiency ratio goal, as set by the Board of Directors in the Bank’s work plan for the award year;
     4. Attaining the threshold score in the qualitative index, which shall include the Executive Vice President's contribution in implementing corporate governance processes, attaining general goals of the Bank in the risk management fields, complying with laws (including internal enforcement in the securities field and/or in other fields), regulatory directives and the Bank's procedures.

        If, in the award year, any of the Executive Vice Presidents should fail to meet the threshold terms referred to in this subparagraph, that Executive Vice President shall not be entitled to an annual award for that year. However, such an occurrence will not prejudice the entitlement of the other Executive Vice Presidents to an annual award.
   - (d) The collective award – the collective award for each Executive Vice President will be restricted to an amount that shall not exceed three monthly salaries of the Executive Vice President, and two monthly salaries of a supervision and control Executive Vice President. The collective indices shall include the return on equity (with a weighting of 50%) and the efficiency ratio (with a weighting of 50%). For every collective index, a target goal shall be specified; according to which a minimum and maximum goal for that index will be computed, attainment of which confers entitlement at the percentages determined in the plan out of the upper limit of the award relating to that index.
   - (e) The personal award – the personal award shall be restricted to an amount not exceeding three monthly salaries for each Executive Vice President and shall be computed on the basis of indices that focus on the goals set for the division over which the Executive Vice President is in charge in the said year, which will be recommended by the President & CEO and, proximate to the start of the award year, will be brought before the Remuneration Committee and the Board of Directors for approval. For every index, a target goal shall be specified; according to which a minimum and a maximum goal for that index will be computed, attainment of which confers entitlement at the percentages determined in the plan out of the upper limit of the award relating to that index.
   - (f) Remuneration for officers engaged in risk management, control and audit

     In relation to the Bank’s risk management, control and audit functions (the Internal Auditor, the Chief Accountant and the Chief Risk Officer, hereinafter: “the supervision and control functions”), particular provisions were included as part of the plan that take into consideration the importance and sensitivity of the duties entrusted with these functions;

     In accordance with the directives of the Supervisor of Banks, the ratio between the fixed remuneration and the variable remuneration of the supervision and control functions shall lean more in favor of the fixed remuneration, including in relation to officers not included among the supervision and control functions.

     Accordingly, the Bank established that the part of the annual award attributable to the collective indices shall be lower for the supervision and control functions than that for the other officers.

23. Employee Benefits (continued)

The duties of the President & CEO in relation to recommendations regarding the personal indicators that comprise the personal award and their weighting and to exercising judgment in connection with the components of the annual award (as stated in section 3 below) shall be performed by the Audit Committee in relation to the Bank's Internal Auditor and by the Risk Management Committee, in consultation with the Bank's President & CEO, in relation to the Bank's Chief Risk Officer.

3. Award in respect of a special contribution and discretionary award
   (a) Award in respect of a special contribution – The Remuneration Committee and the Board of Directors are authorized to grant to all Executive Vice Presidents or any one of them (also during the award year and also if the threshold terms were not fulfilled in the award year) a special award in respect of exceptional performance or special contribution towards the attainment of the Bank's goals, including in respect of fulfillment of measurable criteria determined in advance by the Board of Directors, on condition that the total amount of the awards in respect of special contribution shall not exceed an amount of NIS 500 thousand per annum and subject to the upper limit of all awards as stated in section 4 below.
   (b) Discretionary award – a discretionary awards budget shall be placed at the disposition of the Bank's President & CEO. The said budget shall not exceed an amount arrived at by multiplying the number of Executive Vice Presidents entitled to such awards by two average monthly salaries of said Executive Vice Presidents, and this shall be divided between them at the discretion of the Bank's President & CEO, even if the threshold terms in that year have not been fulfilled, if in the opinion of the President & CEO, reasons existed that justified it, or if an annual award was distributed in the award year. The total amount of the discretionary award shall not exceed an amount equal to three monthly salaries in respect of a single Executive Vice President, and subject to the upper limit of all awards as stated in section 4 below. The distribution of the discretionary awards budget will be carried out subject to approval from the Remuneration Committee and the Board of Directors.
4. Upper limits of the awards
   The total amount of the awards to all officers (including the President & CEO) for the award year shall not exceed 2.5% of the net profit attributed to the Bank's shareholders, in accordance with the annual financial statements for the award year.
   The total amount of awards to which any one Executive Vice President shall be entitled to in respect of an award year, including discretionary awards and an award in respect of a special contribution, shall not exceed eight monthly salaries of that Executive Vice President.
   The total amount of the awards for the supervision and control functions in respect of an award year, including discretionary awards and an award in respect of a special contribution, shall not exceed seven monthly salaries of that Executive Vice President.
5. Spreading the award
   (a) 50% of the total amount of the awards in respect of the award year shall be paid shortly after the publication of the Bank's financial statements for the award year.
   (b) 50% of the total amount of the awards shall be linked to the increase in the CPI, shall be deferred and shall be spread over three equal installments over the three years following the date of becoming entitled to the amount of the awards (hereinafter: "the deferred award" and "the deferred award installment").
   (c) Payment of the deferred award installment shall be contingent on the Bank not recording a loss in its consolidated financial statements for the award year that preceded the date of paying the deferred award installment.
   (d) Notwithstanding the aforesaid, if in any award year the variable remuneration to which an officer is entitled in respect of that year did not exceed 40% of the officer's fixed remuneration, he shall be paid 100% of the total amount of the awards in respect of the award year, without the spreading and deferral mechanism being activated.
6. The plan adopts also the instructions of the remuneration policy for officers in respect of the authority of the Board of Directors to reduce the total amount of awards, the annual remuneration upper limit for an Executive Vice President, instructions regarding the clawback of amounts of awards paid to an Executive Vice President and the circumstances in which the total award amount would be denied.

23. Employee Benefits (continued)

7. **Awards in respect of 2018.** In View of the Bank conforming to the threshold conditions for the annual award, the Remuneration Committee and the Board of Directors approved the allocation of a collective award in accordance with the attaining of the collective indices stated in the remuneration plan (see section 2 (d) above) and the allocation of a personal award in accordance with attainment of the goals set for the Division under responsibility of the respective Executive Vice President (see section 2 (e) above). The Remuneration Committee and the Board of Directors approved that three members of Management, who were appointed or retired during the year 2018, and who acted as members of Management for a period of less than six months, would be entitled to a proportional part of the annual award in respect to their period of office during this year. The discretionary award portion was allocated by the President & CEO on a differential basis (see section 3 (b) above). It is noted that the actual allocation of the award portion was affected by the limitations determined in the remuneration plan, and in particular, the maximum remuneration for each Executive Vice President. The total amount of the awards granted in respect of the year 2018 totaled NIS 7,421 thousand. In the framework for computing the awards no extraordinary profits or losses were approved.

   In accordance with the remuneration plan, the mechanism for the spreading of the award applied in 2018 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

   The remuneration committee confirmed the fulfillment of the conditions for the payment of the first installment of the deferred award for 2017 in respect of 3 members of Management, in accordance with the policy for the remuneration of Officers. The remuneration committee confirmed the fulfillment of the conditions for the payment of the second installment of the deferred award for 2017 in respect of 3 members of Management, in accordance with the policy for the remuneration of Officers.

   In addition, in April 2018, the Remuneration Committee and the Board of Directors approved the payment of an award for special contribution to one member of Management in the amount of NIS 150 thousand.

8. **Awards in respect of 2019.** In View of the Bank conforming to the threshold conditions for the annual award, the Remuneration Committee and the Board of Directors approved the allocation of a collective award in accordance with the attaining of the collective indices stated in the remuneration plan (see section 2 (d) above) and the allocation of a personal award in accordance with attainment of the goals set for the Division under responsibility of the respective Executive Vice President (see section 2 (e) above). The Remuneration Committee and the Board of Directors have approved special contribution bonuses to two executive vice presidents, in a total amount of NIS 186 thousand. In addition, the discretionary award portion was allocated by the President & CEO on a differential basis (see section 3 (b) above). It is noted that the actual allocation of the award portion was affected by the limitations determined in the remuneration plan. The total amount of the awards granted in respect of the year 2019 totaled NIS 7,836 thousand. In the framework for computing the awards no extraordinary profits or losses were approved.

   In accordance with the remuneration plan, the mechanism for the spreading of the award applied in 2019 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

   The remuneration committee confirmed the fulfillment of the conditions for the payment of the first installment of the deferred award for 2018 in respect of 2 members of Management, in accordance with the policy for the remuneration of Officers.

G. Award plan for members of the Bank's Management and for the Internal Auditor (2020-2022)

1. **General.** On February 10, 2020, the Bank's Board of Directors accepted the recommendation of the Remuneration Committee and approved an awards plan for members of the Bank's Management for the years 2020 through 2022 ("the Plan"), in accordance with the remuneration policy for the Bank's officers ("the Remuneration Policy").
2. Annual award for Executive Vice Presidents
   (a) **General.** The annual award for Executive Vice Presidents (including the Internal Auditor) is composed of an award based on meeting Group indicators ("a Group Award") and an award based on indicators deriving from meeting the goals of the division/activity over which the Executive Vice President is responsible ("an Individual Award").
   (b) The total award for an Executive Vice President in respect of the Group indicators and the individual indicators is not to exceed six (6) monthly salaries (or five and a half (5.5) monthly salaries for the Executive Vice President for Oversight and Control).

23. Employee Benefits (continued)

(c) The threshold terms for payment of the annual award will be meeting the following minimum cumulative indicators:

1. The rate of return on equity in the award year is not to be less than 7% (seven percent), excluding exceptional profits or losses (as these are defined in the Remuneration Policy);
2. The total capital adequacy ratio and the Common Equity Tier 1 adequacy ratio, as per the Bank's annual consolidated financial statements for that award year, are not to be less than the minimum ratios prescribed in the Supervisor of Banks' directives;
3. Attainment of the minimum qualitative indicator score, which will include the Executive Vice President's contribution in implementing processes in the corporate governance fields, meeting the Bank's general goals in the fields of risk management, compliance with laws (including internal enforcement in the securities field and/or other fields), regulatory directives and the Bank's procedures;

   If, with respect to any of the Executive Vice Presidents, the threshold terms referred to in this subsection are not met in the award year, that Executive Vice President will not be entitled to an annual award for said year. This, however, should not be taken as prejudicing the entitlement of the other Executive Vice Presidents to an annual award.

(d) The Group Award – the Group Award for each Executive Vice President will be limited to an amount that shall not exceed three monthly salaries of the Executive Vice President, or two and a half monthly salaries for the Executive Vice President for Oversight and Control. As of 2020, the Group indicators comprised the return on equity (with a 50% weighting) and the efficiency ratio (with a 50% weighting). A target goal will be set for each Group indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.

(e) The Individual Award – the Individual Award will be limited to an amount that shall not exceed three monthly salaries for each Executive Vice President and will be calculated on the basis of the indicators that focus on the goals set for the division for which the Executive Vice President is responsible in the aforesaid year, which will be recommended by the President & CEO and, proximate to the start of the award year, will be brought before the Remuneration Committee and the Board of Directors for approval. A target goal will be set for each indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.

(f) Remuneration of officers engaged in risk management, control and audit

In relation to the Bank's risk management, control and audit functions (the Internal Auditor, the Chief Accountant, the Chief Legal Counsel, and the Chief Risk Officer; collectively: "the Oversight and Control Functions"), special provisions have been prescribed as part of the Plan, taking into consideration the importance and sensitivity of the duties imposed on these functions.

In accordance with the Supervisor's directives, the ratio between the fixed remuneration and the variable remuneration of the Oversight and Control Functions is weighted more in favor of the fixed remuneration, including in relation to officers that are not included as part of the Oversight and Control Functions.

Accordingly, the Bank has prescribed that part of the annual award that is attributable to the Group indicators will be lower for the Control and Oversight Functions than for the other officers.

The President & CEO's duties in relation to recommending the personal indicators that comprise the personal award and their weighting and the exercise of discretion in connection with the annual award components (as stated in section 3 below) will be done by the Audit Committee for the Bank's Internal Auditor, by the Bank's Risk Management Committee in consultation with the Bank's President & CEO, for the Bank's Chief Risk Officer and by the Audit Committee in consultation with the Bank's President & CEO for the Bank's Chief Accountant.

3. Special contribution award and individual qualitative award (discretionary award)

(a) Special contribution award – the Remuneration Committee and the Board of Directors may grant a special award to all the Executive Vice Presidents or to any of them (both during the award year and also if the threshold terms in the award year have not been met), for exceptional performance or for a special contribution in attaining the Bank's goals, including for meeting the measurable criteria set in advance by the Board of Directors, provided that the amount of the special contribution awards does not exceed an amount of NIS 1 million per year and subject to the maximum awards amount as referred to in section 4 below.

23. Employee Benefits (continued)

(b) Discretionary award – The Bank's President & CEO has been given a budget for discretionary awards that is not to exceed two and a quarter times the monthly salaries of the Executive Vice Presidents entitled to such awards, which will be distributed at the discretion of the President & CEO, with this being the case even if the threshold terms in the award year have not been met, if, in the President & CEO's opinion, there are reasons that justify doing so, or if an annual award has been granted in the award year. The discretionary award amount is not to exceed three monthly salaries for a single Executive Vice President and is subject to the maximum awards amount as referred to in section 4 below. The distribution of the discretionary awards budget will be carried out subject to approval from the Remuneration Committee and the Board of Directors.

4. Maximum amount of all the awards

The total awards amount for all the officers (including the President & CEO) for the award year is not to exceed 2.5% of the net profit attributable to the Bank's shareholders, as per the annual financial statements for the award year.

The total awards amount for an award year for a Business Executive Vice President (one who is defined as such by the Board of Directors) is not to exceed nine monthly salaries of that Executive Vice President.

The total awards amount for a head office Executive Vice President (one who is not a Business Executive Vice President or an Oversight and Control Executive Vice President) and for an Oversight and Control Executive Vice President is not to exceed eight monthly salaries of that Executive Vice President.

5. Spreading the award

(a) 50% of the awards amount for the award year will be paid immediately after publication of the Bank's financial statements for the award year.

(b) 50% of the awards amount will be linked to the rise in the CPI, will be deferred and will be spread in three equal portions over the three years following the date of entitlement to the awards amount (hereinafter: "the Deferred Award" and "the Deferred Award Portion").

(c) Payment of a Deferred Award Portion will be contingent on the Bank not recording a loss in its consolidated financial statements for the award year preceding the payment date for the Deferred Award Portion.

(d) Notwithstanding the aforesaid, if, in any award year, the variable remuneration to which an officer is entitled for that year does not exceed 40% of the officer's fixed remuneration, 100% of the awards amount for the award year will be paid, without the spreading and deferral mechanism coming into play.

6. The Plan also adopts the provisions of the officers' Remuneration Policy with regard to the authority of the Board of Directors to reduce the total awards amount, to the maximum amounts of an Executive Vice President's annual remuneration, to provisions regarding the repayment of award amounts paid to an Executive Vice President, and to circumstances for invalidating the awards amount.

7. Awards for 2020. No entitlement to an annual award was conferred on the Executive Vice Presidents for 2020. It was also decided that no qualitative personal awards would be granted.

H. The 2018 retirement plan

(1) The Bank's Board of Directors approved on August 14, 2018, an efficiency plan, according to which approx. 230 employees of the Bank shall be entitled to early retirement at beneficial terms, most of whom, by the end of 2018.

The plan increased the liability in the Bank's books by an amount of NIS 145 million (before the tax effect; in excess of the cost of severance pay under the law and also in excess of the ex gratia fund existing in the Bank's books prior to approval of the plan).

The cost of updating the actuarial liability to employees in respect of the efficiency plan has been treated as an actuarial loss and recognized in other comprehensive income.

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

In reporting periods in which a "settlement" occurs (as defined in U.S. GAAP), an additional amount of the balances of "actuarial profits and losses" would be amortized over and above the said amortization, at the rates of settlement costs borne by the Bank (actual payments, whether in respect of natural retirement or in respect of early retirement) out of the balance of the liability for severance pay.

(2) The board of directors of MDB approved on November 13, 2018, an efficiency plan which, inter alia, includes voluntary retirement at preferential terms of approx. 20 employees, at a total cost of NIS 25 million. The increase in the liability for payment of severance pay in respect of implementing this plan amounted to approx. NIS 12 million. The plan was largely implemented in the last quarter of 2018.

23. Employee Benefits (continued)

I. 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.

Costs of the plan are 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.

434 employees of Discount Bank had completed the retirement process until the end of December 31, 2020. In accordance therewith, settlement costs in the amount of NIS 375 million were recorded in the year ended December 31, 2020.

(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. The plan has been implemented by MDB in the fourth quarter of 2020, and its total cost amounted to NIS 117 million. Following the above stated, MDB added an amount of approx. NIS 60 million to its severance pay liabilities as of December 31, 2020. The said increase has been classified as an actuarial loss recorded in the section "Other comprehensive income" being part of shareholders' equity (net of tax savings of NIS 20 million).

72 employees of MDB had completed the retirement process until the end of December 31, 2020. In accordance therewith, settlement costs in the amount of NIS 38 million were recorded in the year ended December 31, 2020.

(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, were 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 31 million, before tax effect. This cost was recognized in 2020's results as a non-recurring expense. 71 ICC employees had completed the retirement process until December 31, 2020, and 5 additional employees are expected to complete the process during the first quarter of 2021.

(4) The amount of the settlement that was charged to profit and loss in 2020 (including in respect of the previous retirement plans) amounted to NIS 413 million (before tax effect). The Bank's Management estimates that 73 retirees of the Bank would complete the retirement process until the end of the first quarter of 2021, within the framework of the retirement plans. Accordingly, the amount of the settlement to be charged to profit and loss in the first quarter of 2021, is expected to amount to approx. NIS 109 million (before tax effect). The remainder of the retirees will complete the process during 2021. 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.

24. Shareholders' Equity, Preferred Shares and Dividends

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels):

	December 31,2020 and 2019	
	Authorized	Issued and Fully Paid-Up
Ordinary “A” Shares of NIS 0.1 par value each	260,515,000	116,401,699
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to £10 each)	202	202
Total shareholders equity	**260,515,202**	**116,401,901**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to £10, is entitled to an annual dividend in an amount of NIS 2.83, and at the time of liquidation to a distribution in an amount of NIS 47.25. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the section "other liabilities".

C. (1) **Increase of the authorized share capital in the years 2006-2008 - creation of a pool of shares for the purpose of "forced conversion events" of subordinate capital notes Series "A" and "B".** The special meetings of shareholders convened on December 26, 2006 and September 22, 2008, resolved to increase the Bank's authorized share capital by a total amount of 820 million ordinary A shares of NIS 0.1 par value each. The shares derived from the said increases are intended to be issued to investors in subordinate capital notes (series "A") in a total amount of NIS 2 billion, in the event of a compulsory conversion of the principal amount and/or interest, in certain circumstances that have been determined by the Supervisor of Banks (hereinafter: "compulsory conversion events"; for further details, see Note 25 below).

In December 2006, May 2007 and September 2008, the Bank issued subordinate capital notes (Series "A") in an approximate par value of NIS 1,147 million (see Note 25 M (2) hereunder). In respect of the said capital notes the Bank maintained in its share capital a pool of approx. NIS 470 million ordinary "A" shares (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

In March 2009, the Bank issued approx. 350 million par value of subordinate capital notes (Series "B") (see Note 25 M (3) hereunder). In respect of the said capital notes, the Bank maintained in its authorized share capital a pool of approx. 267 million shares to be used, if required, in a forced conversion event (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

(2) **Increase of the authorized share capital in 2009 - increase for the purpose of raising tier 1 capital.** The special meeting of shareholders convened on December 15, 2009 resolved to increase the Bank's authorized share capital by 111 million ordinary A shares of NIS 0.1 par value each. The shares created by the said increase were intended to promote a move for the raising of tier 1 capital. The Bank is committed towards the State of Israel, which at that date owned a 20% of the Bank’s shares, that the shares constituting part of the Bank's authorized share capital, which were created as a result of the said increase in capital, will be utilized for the above purpose and will not be used for any other purposes. In December 2010 the bank completed a share offer to the public as well as a rights issue.

D. Dividend

(1) **General.** The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) **Restrictions established in instructions of the Supervisor of Banks.** Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) **Dividend payment in respect of preferred shares.** On December 31, 2020, a dividend for the year 2020, at the rate of 6% was paid to the holders of 40,000 6% cumulative preferred shares of NIS 0.00504 par value each, in a total amount of ₤24,000.

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

24. Shareholders' Equity, Preferred Shares and Dividends (continued)

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

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

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

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, and the clarification of the circumstances.

The Temporary Directive was due to lapse on March 31, 2021. On March 7, 2021, the Banking Supervision Department announced its intention to extend the validity of the Temporary Directive, until September 30, 2021 (see Note 25 section 1 (E) below).

(5) Details regarding the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
May 17, 2018	June 6, 2018	32.0	10	2.75
August 15, 2018	September 2, 2018	42.0	10	3.61
November 15, 2018	December 4, 2018	43.9	10	3.77
March 11, 2019	March 28, 2019	48.6	15	4.18
May 16, 2019	June 3, 2019	60.8	15	5.22
August 14, 2019	September 1, 2019	81.8	15	7.02
November 27, 2019	December 16, 2019	64.0	15	5.50
March 15, 2020	April 5, 2020	48.8	15	4.19

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks

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

Computed according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

A. **Adoption of Basel III instructions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below (as of December 31, 2019 and December 31, 2020) reflects deductions, in accordance with the transitional instructions. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain, is 12.5% (for details regarding the required addition in respect of housing loans, see below).

The Bank prepared a detailed plan for attaining the capital targets, and is acting toward its implementation.

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. Housing loans approved as from the effective date of the provisional instruction, and in respect of which, the additional capital requirement does not apply, as stated, amounted at December 31, 2020 to NIS 8,065 million.

C. Relief regarding the retirement plan

(1) **Relief regarding the retirement plan 2016.** The Supervisor of Banks granted the Bank relief regarding its 2016 efficiency plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis including an increase in the special reserve for exceptional retirement cases – see Note 1 D 15.7; an amount of NIS 245 million net of tax; net of the reduction in the plan at MDB and net of the effect of changes in actuarial assumptions – see Note 1 D 15.7) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 208 million have been amortized to December 31, 2020.

(2) **Relief regarding the retirement plan 2018.** The Supervisor of Banks granted the Bank a relief regarding its 2018 efficiency plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 48 million have been amortized to December 31, 2020. For additional details regarding the Bank's efficiency plan, see Note 23 H.

(3) **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 17 million have been amortized to December 31, 2020. Additional details regarding the retirement plan are given in Note 23 I.

(4) **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 are gradually amortized, as from the fourth 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 December 31, 2020. Additional details regarding the retirement plan are given in Note 23 I.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

(5) **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 60 million (before taxes; an amount of NIS 40 million net of tax) have been eliminated in computing capital adequacy in the 2020 annual report, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 2 million have been amortized to December 31, 2020. Additional details regarding the retirement plan are given in Note 23 I.

D. **Capital components subject to fluctuations.** The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, in respect of a change in the volume of risk assets and deductions from capital, in respect of changes in market return, which affect the profits of the available-for-sale portfolio and are recognized in the capital reserve, and in respect of actuarial changes recognized in capital, as a result of changes in the interest rate used for the computation of the Bank's liabilities or other actuarial assumptions, such as mortality rates, retirement, etc.

E. **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 months, 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. On March 7, 2021, the Supervisor of Banks announced the extension of the equity reliefs to September 30, 2021, as set forth in the draft circular of that date.

F. **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.

G. Capital for calculating ratio of capital

	December 31,	
	2020	2019
	in NIS millions	
Common equity tier 1 after deductions	(1)19,707	(1)19,009
Additional tier 1 capital after deductions	356	534
Tier 1 capital	20,063	19,543
Tier 2 capital after deductions	5,170	6,021
Total capital	**25,233**	**25,564**

Footnote:

(1) See section C above.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

H. Weighted risk assets balance

	December 31,	
	2020	2019
	in NIS millions	
Credit risk[1]	173,317	165,883
Market Risk	3,337	2,858
CVA risk	1,763	1,489
Operational risk	14,815	14,216
Total weighted risk assets balance	**193,232**	**184,446**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 439 million (December 31,2019: NIS 10 million) due to adjustments in respect to the efficiency plan.

I. Ratio of capital to risk assets

	December 31,	
	2020	2019
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.20	10.31
Ratio of total capital to risk assets	13.06	13.86
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[3][5]	8.18	9.20
Minimum total capital adequacy ratio required by the Supervisor of Banks[3][5]	11.68	12.70
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	11.4	11.0
Ratio of total capital to risk assets	13.8	13.7
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[4][5]	8.2	9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks[4][5]	11.7	12.7
2. Discount Bancorp Inc. [1]		
Ratio of common equity tier 1 to risk assets	14.1	14.1
Ratio of total capital to risk assets	15.3	15.2
Ratio of minimum common equity tier 1 required in accordance with local regulation[2]	4.5	4.5
Minimum total capital adequacy ratio required in accordance with local regulation[2]	8.0	8.0
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	13.8	12.9
Ratio of total capital to risk assets	14.8	14.0
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	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 Bank 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% (December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see section 1 (b) above.
(4) With an addition of 0.19% (December 31, 2019: 0.20%), in accordance with the additional capital requirements with respect to housing loans - see section 1 (b) above.
(5) .For details regarding provision instruction mitigating the capital requirements in order to face the Corona crisis, see sections B and E above

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

J. Capital components for calculating ratio of capital

	December 31, 2020	2019
	in NIS millions	
A. Common Equity Tier 1		
Common equity	19,727	19,193
Difference between common equity and common equity tier 1	(246)	(178)
Total common equity tier 1 before supervisory adjustments and deductions	19,481	19,015
Supervisory adjustments and deductions		
Goodwill and other intangible assets	207	164
Supervisory adjustments and other deductions	(16)	(6)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	191	158
Total adjustments in respect to the efficiency plan	417	152
Total common equity tier 1 after supervisory adjustments and deductions	**19,707**	**19,009**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	356	534
Total additional tier 1 capital after deductions	**356**	**534**
C. Tier 2 capital		
Instruments before deductions	2,896	3,844
Allowance for credit losses before deductions	2,188	2,092
Minority interests in a subsidiary	86	85
Total tier 2 capital before deductions	5,170	6,021
Deductions	-	-
Total tier 2 capital	**5,170**	**6,021**

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

	December 31, 2020	2019
	In %	
Ratio of common equity tier 1 to risk assets before the effect of the adjustments in respect to the efficiency plan	9.96	10.22
Effect of the adjustments in respect to the efficiency plan	0.24	0.09
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.20	10.31

L. Clarification regarding the recognition of hybrid capital instruments

(1) Clarification regarding the recognition of hybrid capital instruments issued prior to the Basel II guidelines taking effect

At the Bank's request, the Supervisor of Banks clarified in a letter dated March 3, 2010, that until otherwise determined, the specific terms established for the recognition of hybrid capital instruments, as detailed in the approvals granted for each issue of the said instrument, continue to apply with respect to the particular issue even after the Basel II guidelines taking effect.

The Supervisor further clarified, to avoid doubt, that whenever the Bank is required to maintain capital adequacy ratios (overall, primary, original or other), including as a precondition for the recognition of hybrid capital instruments as a part of the Bank's capital base, such ratios shall not be changed, despite the change made from time to time in the criteria for the issue, and that they will be computed in accordance with the calculation method in practice at that date.

The above stated relates to issues made by the Bank as detailed in Sections M and N hereunder.

(2) On December 25, 2013, the Supervisor of Banks approved the removal of the condition for the non-recognition of hybrid capital instruments (hybrid tier 1 and upper tier 2) in cases where the original tier 1 capital ratio falls below 6.5%.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

M. The issue of hybrid tier 1 capital

(1) General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in sections (2) and (3) below have been recognized as hybrid tier 1 capital under the Basel II rules. The said capital notes are not qualified in terms of the Basel III instructions, though according to the transitional instructions they are recognized in the transitional period as additional tier I capital, and will be gradually eliminated in the years 2014-2021.

(2) Issue of hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement.

The Governor of the Bank of Israel approved that the abovementioned subordinate capital notes will be deemed hybrid capital instruments and will be recognized as part of the Bank’s tier 1 capital (see section (1) "General" above). On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

On September 22, 2008, the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank’s Tier 1 capital (see section (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 25 J (2) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "A". The subordinate capital notes were issued for a period of 99 years and the principal will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly.

The Bank is entitled, at its own discretion, to redeem the subordinate capital notes prematurely, after a minimum of 15 years from the issuance date, subject to the conditions stated in the notes and to approval from the Supervisor of Banks.

The subordinated capital notes will bear linked interest at the rate of 5.10%. In the event that the capital notes are not prematurely redeemed after fifteen years, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate of 1% over the original spread determined for the first fifteen years (namely 2.495%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 398.5 million of the Bank's ordinary "A" shares.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank’s assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

Recognition of the capital notes as hybrid tier 1 capital. The Governor of the Bank of Israel approved the Bank’s inclusion of the capital notes as hybrid tier 1 capital (see section (1) "General" above), subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K (2) to the financial statements as of December 31, 2015).

Following are part of the basic conditions for recognition of the capital notes as upper tier 1 capital:

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

(1) Non-accrual interest - In "special circumstances", as defined below, on the due date for payment of interest, such interest will not be payable and the entitlement of holders of the capital notes to interest will expire. Interest not paid as a result of existence of the special circumstances will not accumulate and will be erased after the payment date. Following are the special circumstances:

(a) The Bank's Board of Directors has determined that the Bank is unable to honor its obligations, which rank higher than the subordinate capital notes (series "A") or are equivalent thereto, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank’s annual or interim financial statements, respectively, to notes to the financial statements regarding the Bank’s inability to fulfill its obligations, as stated above;

(b) The Bank's Board of Directors has determined that probability exists that payment of the interest would create a situation in which the Bank will be unable to settle its existing and/or expected liabilities, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank’s annual or interim financial statements, respectively, to notes to the financial statements regarding the probability of such situation;

(c) During six consecutive quarters, the financial statements for the last of which were published prior to the date for payment of the interest, the Bank did not report on accrued Net profit (i.e. if the simple addition of the quarterly amounts of the net earning or losses reported in the Bank’s financial statements, for six consecutive quarters, constituted a negative amount);

(d) The Bank's last financial statements published prior to the date of the interest payment indicate that the Bank has no distributable profits.

(2) Allotment of shares in respect of interest - In the case of erasure of interest the Bank is empowered to issue shares to holders of the capital notes against the erased interest. Such shares may be issued only in respect of interest not paid in the same year, and shares may not be issued in respect of interest erased in prior years.

(3) Sustaining of losses - The Bank is required to convert all outstanding balances of principal and interest in respect of the subordinate capital notes into the Bank's ordinary "A" shares, of the circumstances described below occur:

(a) If the ratio of the overall tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a particular quarter below 6%, and does not recover within 90 days from the date of issue of the said financial statements, to a rate of at least 6%, conversion will be implemented immediately;

(b) If the ratio of the tier 1 capital to the Bank's risk assets, excluding the hybrid tier 1 capital (hereinafter - "the original tier 1 capital"), as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5.5%, and does not recover until the date of publication of the financial statements for the following quarter to a rate of at least 5.5% (even if the ratio of the overall tier 1 capital exceeds 6% at that time), conversion will be implemented immediately;

(c) If the ratio of the original tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 6% but not lower than 5.5%, and does not recover to a rate of at least 6% until the end of the two quarters following that quarter, as stated in the Bank's interim financial statements, conversion will be implemented immediately (even if the ratio of the overall tier 1 capital exceeds 6% at that time), unless the Supervisor of Banks directs otherwise;

(d) If the ratio of the original tier 1 capital, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5%, immediate partial conversion will be implemented in an amount that would recover the Bank's original primary capital ratio published for that quarter to at least 5%;

(e) According to the Bank's financial statements, the Bank’s retained earnings become negative;

(f) The Bank's independent auditors drew attention in their audit report or review report attached to the annual financial statements or to the Bank's interim financial statements, respectively, to notes to the financial statements which express significant uncertainties regarding the continued existence of the Bank as a "going concern".

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

(4) Change in terms, premature redemption, and/or increase in interest rate - the subordinate capital notes will be issued for a period of 99 years and may be redeemed at the discretion of the issuer, subject to advance written approval from the Supervisor of Banks, after a minimum period of 15 years. Additionally, other terms of the subordinate capital notes may not be changed without advance written approval from the Supervisor of Banks.

Without detracting from this condition, one step-up of interest by up to 100 basis points over the original margin determined for the first period of 15 years is enabled, after at least 15 years from the issuance date.

Regarding recognition of the capital notes as upper tier 1 capital, the Board of Directors adopted a capital adequacy policy according to which the Bank will maintain an original primary capital adequacy ratio (excluding the compound primary capital) of at least 6.5%, at all times.

(3) Issue of hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

On March 26, 2009 the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank's Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 23 J (3) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "B". The principal on the subordinate capital notes will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes will be paid four times a year. The Bank shall be entitled to announce, at its own discretion, the early redemption of the principal sum of the subordinated capital notes and of the linkage increments and interest accrued as of date of the actual early redemption, subject to the terms specified in the note, and subject to the prior approval of the Supervisor of Banks.

The subordinated capital notes will, in the period from date of issue and until December 31, 2021 (hereunder: "the first interest period"), carry linked interest at the rate of 8.7%. In the event that an early redemption will not occur on December 31, 2021, then the subordinated capital notes will carry interest at a variable rate to be fixed in advance for each period of five years, with the addition of a "step up" interest of 1% over the original margin fixed for the first interest period (namely, 7.13%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 267 million ordinary "A" shares of the Bank, will be allocated in respect of the issued capital notes, as stated.

The terms for recognition of the subordinated capital notes (series "B") as hybrid tier 1 capital. The basic terms determined by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 1 capital (see section L "General" above) are identical to the terms determined for Series "A" (as detailed in Section L (2) above) with the following changes:

- The definition of "special circumstances" no longer includes the case of six consecutive quarters showing a loss (subsection (6) C).
- The following case was added to the definition of "special circumstances": where the Supervisor has instructed the cancellation of interest payments after realizing that a real danger exists that the interest payment might lead to a situation where the Bank would be unable to meet its obligations.
- Within the framework of the definition of cases where, if realized, an immediate conversion of the outstanding balance of principal and interest of the subordinated capital notes into the Bank's ordinary "A" shares would be effected, the definition of the term relating to the reduction in the proportion of the original tier 1 capital to below 5% (Section (8) (d)), was changed as follows: in the event that the proportion of the original tier 1 capital, as stated in the financial statements or in the Bank's interim financial statements, once in every quarter, fell in a particular quarter below 5%, the said conversion shall be effected immediately.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

For details regarding clarifications in the matter of hybrid capital instruments, see section K above.

N. The issue of upper tier 2 capital

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

Early redemption. On April 20, 2020, Manpikim redeemed the capital notes in a full early redemption in accordance with the terms of the capital notes and after obtaining approval from the Supervisor of Banks, in a total amount of approx. NIS 1,448 million, including interest and linkage.

O. Issuance of subordinate debt notes which include a loss absorption mechanism

Series "L". On January 10, 2017, the Bank issued an amount of approx. NIS 784 million par value of subordinate debt notes (series "L"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "L") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "L") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "L") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules.

The principal sum of the subordinate debt notes (Series "L") will be repaid in one amount on January 10, 2027, unless the Bank has previously used its right for the early redemption if the subordinate debt notes after five years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "L"), carries a fixed annual interest of 3.60% payable once a year.

Series "F". On October 29, 2019, the Bank issued (through Manpikim Company) an amount of approx. NIS 1,232 million par value of subordinate debt notes (series "F"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "F") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "F") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "F") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules. On January 7, 2020, the Bank (through Manpikim Company) issued to a classified investor in a private placement, subordinate debt notes (Series "F") in the nominal value of NIS 100 million.

The principal sum of the subordinate debt notes (Series "F") will be repaid in one amount on October 29, 2030, unless the Discount Manpikim has previously used its right for the early redemption if the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "F"), carries a fixed annual interest of 1.46% payable once a year.

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.

Constitutive event for non-viability. Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, the Discount Manpikim shall write-off (fully or partly) the subordinate debt notes of the said series. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

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

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Notice to the Bank by the Supervisor of Banks regarding the decision to carry out the raising of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of 7 years from the date of the write-off (15 years from the issuance date in Series "L"), the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

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

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

Temporary directive for a relaxation in relation to leverage in light of the Corona crisis. On November 15, 2020, the Banking Supervision Department issued an update to Proper Conduct of Banking Business Directive No. 250. The update deals with the relaxation in the leverage ratio for a banking corporation, so that it will amount to 4.5% for a banking corporation whose market share is smaller than 24%. This was done in order to prevent a situation where the leverage ratio would constitute an obstacle to extending bank credit. The temporary directive will be in effect through March 31, 2021. The relaxation in the requirement regarding this will be in effect for 24 months once the validity of the temporary directive comes to an end (viz. through March 31, 2023) and provided that the leverage ratio does not fall below the rate on the Directive's termination date or the minimum leverage ratio required of a banking corporation prior to the temporary directive, whichever is the lower. On March 7, 2021, the Banking Supervision Department published a draft circular pursuant to which, when it takes effect, the aforesaid temporary directive will be extended until September 30, 2021.

	December 31,	
	2020	2019
	in NIS millions	
A. Consolidated		
Tier 1 capital[1]	20,063	19,543
Total exposures	319,222	284,621
	In %	
Leverage ratio	6.3	6.9
Minimal Leverage ratio required by the Supervisor of Banks	4.5	5.0
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	6.0	6.5
Minimal Leverage ratio required by the Supervisor of Banks	4.5	5.0
2. Discount Bakcorp Inc.		
Leverage ratio	10.3	10.9
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	8.7	8.0
Minimal Leverage ratio required by the Supervisor of Banks	4.5	5.0

Footnote:
(1) For the effect of the adjustments in respect to the efficiency plans, see sections 1 K and L.

Factors which may materially affect the leverage ratio. The changes in the scope of exposure and the Tier I capital of the Bank may lead to changes in the Bank's leverage ratio. For possible changes in the regulatory capital, see section 1 D above.

25. 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

Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. As from April 1, 2015, the Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking industry in Israel. The liquidity coverage ratio tests a 30-day horizon in the stress test and is intended to ensure that a banking corporation maintains an inventory of high quality liquid assets covering the liquidity requirements of the banking corporation within that time horizon. The Directive determines the manner of calculation of the liquidity coverage ratio, including the definition of characteristics and operating requirements as to the "inventory of high quality liquid assets" (the numerator) and the haircuts in their respect as well as the net cash outflow expected in the stress test as defined in the Directive for the 30 calendar days (the denominator).

The stress test determined in the Directive includes a shock combining a shock specific to the corporation as well as a market-wide shock, within the framework of which standard withdrawal rates have been determined for the cash outflows and rates of deposits of cash inflows in accordance with the categories of the different balances.

The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

Factors which may materially affect the liquidity coverage ratio. The Bank manages the liquidity risk with the aim of ensuring the ability to honor its liabilities in different variable situations. This, in accordance with requirements and restrictions determined by the Board of Directors in the matter of liquidity risk management and in accordance with guidelines of the Supervisor of Banks.

Factors that may materially impact the liquidity situation and in respect of which the Bank has made preparations, include different situations, local and international, which may affect the cost of raising resources and their availability, the value of liquid assets and the repayment ability of the Bank's customers.

	For the three months ended December 31,	
	2020	2019
	In %	
A. Consolidated		
Liquidity coverage ratio	147.5	121.2
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	165.4	129.6
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries(1)		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	155.8	136.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0

Footnotes:

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

26. Contingent Liabilities and Special Commitments

A. Off-Balance sheet Commitment at year-end regarding activity based[1] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[2]				
Israeli currency - non linked	175	214	175	214
Israeli currency - linked to the CPI	339	348	312	321
Foreign currency	12	33	12	33
Total	**526**	**595**	**499**	**568**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 52 million (2019: NIS 31 million), have not been included in the table.

B. Cash flows in respect of collection fees and commissions and interest spreads of activity based on loan requirements – Consolidated[3]

	December 31							
	2020							2019
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	-	-	-	1	5	-	6	6
Expected future flows based on Management's estimates of early repayments	-	-	-	1	5	-	6	6
Discounted expected future flows based on Management's estimates of early repayments[1]	-	-	-	1	4	-	5	5
In Israeli currency, CPI-linked:								
Future contractual flows	2	2	1	1	1	1	8	11
Expected future flows based on Management's estimates of early repayments	2	2	1	1	-	-	6	8
Discounted expected future flows based on Management's estimates of early repayments[2]	2	2	1	1	-	-	6	8

Footnotes:

(1) The capitalization was performed according to weighted rate of 1.19% (1.21% :2019)

(2) The capitalization was performed according to weighted rate of 0.07% (0.16% :2019)

(3) There were no cash flows in foreign currency during the reported periods

Information as to the granting of loans during the year by the mortgage banks - consolidated

	December 31	
	2020	2019
Loans out of deposits repayable according to the repayment of loans	36	47
Standing loans	20	12

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	in NIS millions			
1. Commitment to acquire buildings and equipment[1]	741	151	507	109
2. Commitment to invest in private investment funds and in venture capital funds	708	488	-	-

Footnote:

(1) Mainly due to the Discount campus establishment, see section 15.

26. Contingent Liabilities and Special Commitments (continued)

3. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Maof Clearing House Ltd., are responsible towards the Maof Clearing House, together with the members of the Maof Clearing House, to any financial indebtedness arising from Maof Clearing House transactions (transactions regarding options and future contracts settled by the Maof Clearing House) made at the Stock Exchange. For this purpose, the Maof Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2020, amounts to approx. NIS 139 million, comprising 22.03% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2020, amounted to approx. NIS 5 million, comprising 0.79% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Maof Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 E). Each of the banks is also committed to pay the Maof Clearing House any monetary charge that may result from its operations and from the operation of their customers in respect of performing Maof transactions cleared at the Clearing House.
4. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at the Bank of Israel (in which cash is deposited). (See Note 27 H).
5. Tafnit is committed towards Tachlit Dollar Worldwide Ltd., previously held by Tafnit at the rate of 20%, and toward Synergetica Ltd., which owns approximately 80% of Tachlit Dollar Worldwide Ltd., to transfer to Tachlit Dollar Worldwide Ltd., a company that issues ETN's, a total amount not exceeding US$1 million, to cover its current operating expenses and to fulfill its obligations towards the holders of its ETN's.

   Regarding Tafnit's commitments as stated, it should also be noted that as part of the transaction for the sale of the ETN's operation, the parties signed a letter of assignment, according to which all obligations and rights deriving from the ETN's operation have been irrevocably assigned to Synergetics Ltd., with specific reference to the commitment made by Tafnit Investment House to invest in two ETN companies (including Tachlit Dollar WorldWide Ltd.) assigned to Synergetics Ltd. As of the present time, as long as the commitment of Tafnit towards the ETN companies remains in effect, Synergetics Ltd. is obligated to indemnify Tafnit in case this commitment materializes.
6. The subsidiary of the Bank was engaged in providing a full array of trust and custodianship services and served, inter alia, as a trustee for certain bonds that were issued to the public pursuant to a prospectus and traded on the Tel-Aviv Stock Exchange. The company is preparing to close down its operations and it is left with only a small amount of activity.
7. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank's request in other companies held, directly or indirectly, by the Bank (see hereunder).

   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

26. Contingent Liabilities and Special Commitments (continued)

d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, granted in September 2006 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 1.5 billion. In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated February 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion.

f) Manpikim granted in February 2009 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 3 billion.

g) On October 31, 2012, Manpikim granted an indemnification to Directors, the CEO and the Financial Comptroller of the company, with respect to a shelf Prospectus respecting a notice of acceptance of liability within the framework of the merger dated May 31, 2012, between Discount Mortgage Issues Ltd. and Manpikim ("the merger Prospectus"), in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

In respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in sections (d) to (g) above, the Bank has granted an indemnity to Manpikim.

h) In April 2013, the Bank's Board of Directors resolved to grant a general commitment for indemnification that will be provided by the Bank to officers of Manpikim, within the framework of which, the Bank had granted indemnification also in respect of prospectuses that Manpikim would publish in the future. The text of the indemnification undertaking will be based upon the text of the indemnification letter to officers of the Bank and subsidiaries, approved by the Bank, which includes a limitation regarding the maximum amount of the indemnity.

i) **Indemnification in respect of Trustees for the holders of debt notes issued by the Bank and by Discount Manpikim.** In accordance with the terms of the Deeds of Trust, the Trustees are entitled to indemnification by the Bank in respect of reasonable expenses incurred in connection with action taken by power of their duty under the Deeds of Trust, as well as to indemnification in respect of certain events in accordance with the indemnification terms contained in the Deeds of Trust.

j) **Liability Insurance of Officers.** 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. Note 26 C, section 8 J of the financial statements as of December 31, 2019, described the Officers' insurance arrangements that had been in effect prior to the said decision.

k) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), subject to exceptions detailed in the decision, deriving from the Bank's articles regarding liability exemption.

26. Contingent Liabilities and Special Commitments (continued)

In addition, the abovementioned special General Meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with raising of tier 1 capital implemented in the Bank in December 2006 and May 2007.

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

l) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, in accordance with the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 2011 and the Antitrust Law (Amendment No. 13), 2012.

m) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution regarding the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank’s articles and the remuneration policy accordingly.

Within the framework of the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not in respect to reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

n) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009. The general meeting of shareholders of that bank, held on October 31, 2012 and on March 24, 2013, approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, in order to add indemnification in respect of administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution which was granted to officers of MDB, in order to agree with the indemnification terms granted to officers of Discount Bank.

o) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In August 2011 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards (in Diners since the year 2015). The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors on July 2009. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

p) **Indemnification of officers of subsidiary companies.** In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been approved by the Bank`s Board of Directors in July 2009, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, Discount Capital, Discount Capital Underwriting Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In December 2016, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group, following the amendments approved in the resolution regarding indemnification of officers of Discount Bank.

q) In the December 2014 agreement for the sale of DBLA’s operations, indemnities were granted to the buyer in respect of various representations.

26. Contingent Liabilities and Special Commitments (continued)

r) In the November 2015 agreement for the sale of the customer operations of IDB (Swiss) Bank DBLA, indemnities were granted to the buyer, limited with regard to period and amount, in respect of various representations.
In accordance with the Swiss regulations, the records of IDB (Swiss) Bank, which was liquidated and struck off, have to be maintained for a period of ten years from date of termination of the banking activities.

8. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc.; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.
This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

9. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.
b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.
c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

10. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot, and the Bank is unable to assess the cost of its participation in the evacuation of tenants as aforesaid.

11. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their counsels, respectively, as the case may be, adequate provisions have been included in the financial statements, where required. The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, has been assessed as reasonably possible, amounted to approx. NIS 619 million as of December 31, 2020.

11.1 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and other credit card companies. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid"). A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion.
An action requesting declaratory relief was filed with the Competition Tribunal on October 16, 2017, in which the Tribunal is requested to state that upon submission of the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. The credit card companies, including ICC, have filed a motion for the dismissal in limine of the claim. On October 16, 2018, the Competition Tribunal admitted the motions for the in limine dismissal of the motion for the granting of declaratory relief. On December 4, 2018, an appeal against the decision of the Competition Tribunal was submitted. On June 18, 2019, the Supreme Court dismissed the appeal.
On December 23, 2018, the Appellants submitted a motion to the Supreme Court, sitting as a High Court of Justice, against the Competition Commissioner. It is requested in the motion that the Court instructs the Competition Commissioner to act in order to clarify, or annul, or change the verdict of the Competition Court 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 April 12, 2021.

26. Contingent Liabilities and Special Commitments (continued)

11.2 On February 21, 2017, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. The motion claims that the Bank charges customers entitled to be defined as a "small business", with fees and commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess fees and commissions. The Claimants stated the amount of the claim at approx. NIS 261 million.

The response of the Bank was filed on July 23, 2017. A motion for permission to appeal was filed with the Supreme Court on December 29, 2019, with respect to the decision rejecting the motion for disclosure of documents filed against the Bank.

The Appellants have filed similar legal actions against additional banks. The respondent banks informed the Court that they agree to the consolidation of the hearing though not to the consolidation of the cases, so that a separate clarification of the facts would be required in respect of each of the respondents.

The hearing by the District Court in the matter of the consolidated cases was fixed for a pre-trial on April 6, 2021.

11.3 Different legal proceedings have been 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 were 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. An examination performed at the banks did not identify additional related accounts, in respect of which additional actions, as stated above, might be lodged.

On January 31, 2021, the Bank signed a compromise arrangement in relation to the aforementioned proceedings for the settlement of all claims and actions of the Plaintiffs against the Discount Group, including in relation to the proceedings, the family members and the related companies, with this being without any admission of liability. Concurrently, MDB also signed a compromise arrangement in connection with the matter described in subsection (d) below. In accordance with the aforesaid arrangements, the amount of the settlement totals AUD 138 million, equivalent to approx. NIS 343 million.

Concurrently, the Bank has agreed to an arrangement whereby, after the settlement amount is paid by the Bank and by MDB ("the Banks") to the Plaintiffs, the insurers will pay the Banks an amount of approx. US$ 55 million, in respect of which an amount of approx. US$ 47.5 million (approx. NIS 151 million) was recorded as income.

Following is a description of the proceedings:

(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 related to different transactions recorded in the accounts of the companies in the years 1997 to 2005. The original amount of the action was approx. AUD 11 million, claimed from MDB and an amount of approx. AUD 9.3 million claimed from the Bank.

An amended action brief was filed on September 2, 2019, according to which, the Liquidator of the companies and the Tax Authorities were attached as additional Plaintiffs in respect of one of the causes of action. In addition, the amount of the claim was reduced to approx. AUD 16 million in respect of both banks.

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

(b) On December 4, 2016, the Bank received notice of a legal action against the Bank and against additional Defendants, which had been filed with the Federal Court in Australia. The action was served by the Liquidators of three Australian companies, which had held accounts with the Bank. The action relates to different transactions recorded in the said accounts in the years 1992 to 2009. At date of service of the action, the amount claimed was AUD 100 million. According to the Plaintiffs, the amount claimed includes interest in accordance with Australian law of an annual rate of 8%. 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.

26. Contingent Liabilities and Special Commitments (continued)

(c) On October 3, 2019, the Liquidators of the three Plaintiff companies in the proceedings discussed in subsection (b) above, and of four additional companies that had held accounts with the Bank ("the additional companies") filed motions for the recognition in Israel of the liquidation proceedings of these companies conducted in Australia, as well as of additional companies (which had no accounts with the Bank). These motions, which were filed with the Tel Aviv District Court, are argued to be based on the Insolvency and Economic Recovery Act, 2018. The Bank was not a party to the motions for recognition. On October 3, 2019, the Court admitted the said motions. On November 14, 2019, the Liquidators motioned the Court for an order instructing the Bank to deliver to them documents and information in the hands of the Bank relating to all the accounts that are conducted or which had been conducted at the Bank in the name of the companies in question or to accounts related to them. The Bank opposed the motion for delivery of documents and information and filed a motion for the cancellation of the said recognition proceedings. The Court stayed the decision regarding the motion for delivery of documents and information until after a decision is handed in the matter of the recognition proceedings. On March 3, 2020, a hearing on the motion took place. On March 10, 2020, the motion for the cancellation of the recognition proceedings was withdrawn by mutual consent. 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.

(d) 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 (a)-(c) 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 documents to an Israeli lawyer, was rejected, and accordingly, the documents have been delivered. The judicial inquiry process has been completed.

11.4 An action together with a motion for approval of the action as a class action suit was filed on May 6, 2018, with the Tel Aviv-Jaffa District Court against ICC and two additional Respondents. The subject of the motion is the claim that the Respondents had not provided proper disclosure regarding the charging of interest by them. The Claimants stated the amount of their claim in respect of all class members, and against all respondents, at NIS 181 million.

ICC submitted on March 5, 2019, its response to the motion for approval. On June 7, 2020, the Court approved the withdrawal motion in the case of one of the additional respondents. A pre-trial was fixed for April 19, 2020.

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

The response of the Bank was filed in February 10, 2019. A motion for the amendment of the motion for approval was filed on December 25, 2019. 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 April 20, 2021.

26. Contingent Liabilities and Special Commitments (continued)

11.6 On July 22, 2018, a claim and a petition for the claim's approval as a class action were filed in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group. The response brief of the Respondents was submitted on March 25, 2019.

A preliminary hearing was held on January 7, 2020. At the end of the hearing, the Court ordered the representative of the Plaintiffs to edit, while reducing, the list of documents requested for disclosure and perusal thereof, as well as the questionnaire. On January 26, 2020, the Appellants filed an amended motion for the disclosure of documents. On March 8, 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. On March 2, 2021, the court rejected the motion for document disclosure and scheduled a judicial prehearing for April 19, 2021.

11.7 A legal action was filed with the Tel Aviv District Court on June 5, 2019, against the Bank and against five additional banks, together with a motion for approval of the action as a class action suit. The subject matter of the motion is foreign currency conversion operations. 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.

12. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

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

12.1 On December 19, 2019, the Bank received a claim brief together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants.

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

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

26. Contingent Liabilities and Special Commitments (continued)

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.

On December 7, 2020, the Court ruled for the rejection of the motion of the Bank for the in limine dismissal of the action. On December 31, 2020, the Bank applied to the Supreme Court for permission to appeal the said decision. On January 26, 2021, the Court granted the Bank an extension for the submission of a defense brief within sixty days from date of the decision of the Supreme Court in the request for permission to appeal. On February 7, the plaintiff filed a reply to the motion for leave to appeal and the Bank filed its response to the reply, regarding which the plaintiff has asked the court for its dismissal.

12.2 On January 30, 2020, four lawsuits were filed with the Tel Aviv District Court against the Bank together with motions for their approval as class action suits. The lawsuits refer to a failure in the installation of a server regarding the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damage.

The amounts of the claims in respect of all members of the class amount in the four motions to NIS 850 million, NIS 500 million, NIS 25 million and NIS 2.5 million, respectively.

On March 4, 2020, the Bank filed motions in all the cases of motions for approval, whereby the Court was asked to use its authority to order the dismissal of three of the four motions for approval. 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 April 12, 2021.

12.3 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.

The Bank submitted a response on February 14, 2021 and the Claimants' will file their comments by April 27, 2021. A pre-trial was fixed for July 15, 2021.

12.4 On September 16, 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.

12.5 On November 16, 2020 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 five additional banks. The action brief was delivered to the banks during December 2020. 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.

26. Contingent Liabilities and Special Commitments (continued)

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.

13. (a) Discount Capital company invests in private equity funds, in venture capital funds and in non-financial corporations. As of December 31, 2020, the outstanding balance of investment commitments made by Discount Capital in funds and corporations amounted in total to US$227 million (as of December 31, 2019: US$155 million).

(b) Discount Capital owns approx. 17.4% of the equity of Menif, after Menif had closed an offering on the Stock Exchange in December 2020. The balance of the guarantees that Discount Capital had provided for Menif's projects amounted to NIS 6 million as of December 31, 2020 (December 31, 2019: NIS 95 million). These guarantees were canceled subsequent to balance sheet date.

14. **An agreement for provision of services to government employees.** On May 10, 2007 the Bank signed an agreement in this regard for the granting of loans, credit facilities and other banking services to State employees for a period of seven years beginning on January 1, 2008. The agreement with the State terminated on December 31, 2014. At the end of each calendar year, the Bank is required to provide an unconditional self-obligation to the sum of 10% of the balance of the loans or NIS 20 million, whichever is lower, until the full settlement of the loans provided within the framework of this engagement. The balance of loans amounted on December 31, 2020, to approx. NIS 62 million.

15. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC.

The investment in the project amounted at December 31, 2020, to NIS 404 million. The balance of the commitment in respect of the project as of December 31, 2020, amounts to NIS 576 million.

16. **Merger of Municipal Bank.** On November 13, 2018, a merger agreement (hereinafter – "the merger agreement") has been signed between MDB and Municipal Israel Bank Ltd. (hereinafter: "Municipal Bank"), within the framework of which and subject to the fulfillment of conditions precedent stated therein, Municipal Bank would merge with and into MDB by way of a contractual merger in accordance with Chapter One of Part Eight of the Companies Act, 1999. The general meeting of shareholders of Municipal Bank approved on January 3, 2019, the proposal for the merger with MDB.

On November 11, 2019, Municipal Bank, MDB and Union Bank signed an agreement for the sale of a part of the credit portfolio of Municipal to Union Bank of Israel Ltd. (hereinafter: "the credit portfolio" and the "sale agreement", respectively). Consummation of the sale agreement was completed proximate before the consummation of the merger on December 1, 2019.

The merger was completed on December 1, 2019, following fulfillment of all conditions precedent to the merger. Following the merger, Municipal Bank ceased to exist. An amount of NIS 693 million was paid in consideration for the shares.

Accounting and measurement rules. The assets and liabilities owned by Municipal Bank and acquired on December 1, 2019, date of consummation of the merger, as stated – were recorded in the books on the basis of their fair value (including the fair value of intangible assets in an immaterial amount, recognized at date of the merger), based upon a valuation performed by a qualified assessor (relying, inter alia, on the fair value valuations of the real estate acquired and the liabilities for payment of employees' rights, performed by a qualified real estate assessor and a qualified actuary, respectively).

Legal proceedings regarding the merger. On July 26, 2019, Jerusalem Bank filed with the Competition Tribunal at the Jerusalem District Court, an appeal against the decision of the Competition Commissioner. The Claimant argues that the approval of the merger transaction impairs competition and prevents the entry into the market of new players in the credit market for municipal authorities.

A verdict in the appeal was given on February 25, 2020, in which the Court ordered the in limine removal of the appeal.

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 July 19, 2021.

27. Pledges, Restrictive Terms and Collateral

A. IDB Bank has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2020 amounted to US$850 million (NIS 2,734 million) [December 31, 2019: US$1,021 million (NIS 3,529 million)].

In addition, IDB Bank pledged loans in favor of the Federal Home Loan Bank, in the amount of US$820 million (NIS 2,636 million) as of December 31, 2020 as a collateral for deposits received from it [as at December 31, 2019: approx. US$506 million (NIS 1,750 million)].

B. IDB Bank has sold securities, under buyback terms, in the amount of US$57 million (NIS 184 million) as of December 31, 2020 [as at December 31, 2019: US$110 million (NIS 380 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million (NIS 48 million) [as at December 31, 2019: US$15 million (NIS 52 million)].

D. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. The balance of the deposit as of December 31, 2020 amounted to approx. US$ 4 million (NIS 14 million) [December 31, 2019: US$ 7 million (NIS 25 million)].

E. Note 26 C 4 above describes the risk fund established by the Maof clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2020, amounted to approx. NIS 139 million (December 31, 2019: NIS 194 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank's customers and in respect of the Bank's activity itself (nostro) as of December 31, 2020, was approx. NIS 457 million (2019: NIS 430 million).

According to the Memorandum and Bye Laws of the Maof clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Maof clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Maof Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Maof Clearing House at the Stock Exchange Clearing House and at an account in the name of the Maof Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Maof transactions to which it is responsible towards the Maof Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts.

It is noted that on October 27, 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the Maof clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these clearing houses with the Bank of Israel, this in order to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the Maof clearing house, this in addition to earlier pledges and without derogating there from.

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the Maof clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Maof Clearing House, the amount of which at December 31, 2020, totaled NIS 807 million (December 31, 2019: NIS 948 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Maof Clearing House. The value of the collateral in favor of the Maof Clearing House, as stated, amounted on December 31, 2020, to approx. NIS 19 million (December 31, 2019: NIS 17 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2020, to NIS 2 million (December 31, 2019: NIS 2 million).

27. Pledges, Restrictive Terms and Collateral (continued)

Balance of collateral provided to the Maof Clearing House

	Balance as of December 31, 2020	Highest balance during the year 2020	Average balance* in 2020	Balance as of December 31, 2019
	In NIS millions			
Cash	52	52	52	52
Securities	776	957	871	915

* The reporting is made on the basis of the month-end balances.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

G. (1) The Bank enters into Credit Support Appendix (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits designed for the delimitation of the exposure to the other party, until the date of the next measurement. As of December 31, 2020, the Bank allocated in favor of various banks deposits in a total amount of NIS 679 million (December 31, 2019: NIS 546 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank with respect to the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

(2) IDB Bank also engages in CSA type agreements. As of December 31, 2020, IDB Bank provided in favor of various banks deposits in a total amount of US$143 million (NIS 459 million) [December 31, 2019: US$45 million (NIS 157 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2020, MDB provided in favor of various banks deposits in a total amount of NIS 65 million (December 31, 2019: NIS 20 million).

H. As detailed in Note 26 C 5 above, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearing House (hereinafter: "the Clearing House" or "Stock Exchange Clearing House"), the Bank pledged as security for its obligations towards the Clearing House all the Bank's rights in the security deposit managed by the Clearing House (in which the Bank deposits securities) and all its rights in funds under the name of the Clearing House, deposited with the Bank of Israel. The value of the collateral amounted on December 31, 2020, to NIS 191 million (as at December 31, 2019: NIS 135 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2020, amounted to NIS 39 million (December 31, 2019: NIS 21 million).

Balance of collateral provided to the Stock Exchange Clearing House

	Balance as of December 31, 2020	Highest balance during the year 2020	Average balance* in 2020	Balance as of December 31, 2019
	In NIS millions			
Cash	101	101	83	36
Securities	129	131	119	120

* The reporting is made on the basis of the month-end balances.

27. Pledges, Restrictive Terms and Collateral (continued)

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2020, at approx. NIS 6.26 billion (December 31, 2019: NIS 1.30 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds valued, as at December 31, 2020, at approx. NIS 1,914 million (December 31, 2019: NIS 302 million).

With effect from April 2020, the Bank is taking loans from the Bank of Israel within the framework of the Bank of Israel's long-term loans plan, which is intended to enlarge the supply of credit to small and minute businesses. As security for this credit, the Bank and MDB have pledged bonds to the Bank of Israel, the value of which as of December 31, 2020 was NIS 5.5 billion.

Details of the pledge agreement

	Balance as of December 31, 2020	Highest balance during the year 2020	Average balance* in 2020	Balance as of December 31, 2019
	In NIS millions			
Pledged securities (market value)	8,172	8,172	6,323	1,602

* The report is based on outstanding monthly balances.

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

The Bank and MDB did not participate in the years 2018-2019 in the said credit tenders. 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 December 31, 2020, amounted to US$250 million.

Details of the deposits

	Balance as of December 31, 2020	Highest balance during the year 2020	Average balance* in 2020	Balance as of December 31, 2019
	In NIS millions			
Deposits with the Bank of Israel	36,220	38,336	31,785	21,349
Deposits from the Bank of Israel	5,505	5,505	2,402	-

* The report is based on outstanding monthly balances.

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2020 was NIS 1,074 million (December 31, 2019: NIS 531 million).

27. Pledges, Restrictive Terms and Collateral (continued)

L. The sources and uses of the securities that had been received and the Bank's and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	In NIS millions			
The sources:				
Securities against cash	1,074	531	1,074	531
Total	**1,074**	**531**	**1,074**	**531**
The uses:				
Securities sold under repurchase arrangements	184	380	-	-
Total	**184**	**380**	**-**	**-**

M. Details of securities pledged to the lenders

	Consolidated		The Bank	
	December 31		December 31	
	2020	2019	2020	2019
	In NIS millions			
Available for sale securities	4,230	2,356	1,852	1,814
Held-to-maturity bonds	6,259	541	6,258	540
Total	**10,489**	**2,897**	**8,110**	**2,354**

These securities have been deposited as collateral with the lenders, who are not permitted to sell or pledge them.

N. IDB Bank pledged loans of the "securities pledged for deposits" type – a pledge of CLO-type securities to local authorities against deposits that are received from them. The balance of the pledged securities amounted on December 31, 2020 to approx. NIS 273 million (approx. US$85 million) [as of December 31, 2019: approx. NIS 178 million (approx. $51 million)].

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, Swap, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, components of embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.
      The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Maof activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.
   c. Liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

2. Some of the derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (derivatives not-for-trade) and the balance of which if defined as derivatives held for trade.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions. The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

   When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value. When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.
6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.
7. Cash flow hedge

   The subsidiary IDB Bank designates certain derivatives as hedge for cash flow. The change in the fair value of derivatives hedging exposure to changes in cash flows from assets, liabilities or from foreseen transactions, are firstly recognized in other comprehensive income and thereafter, when the hedged item affects profit or loss, it is reclassified to the statement of profit and loss.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 2020			December 31, 2019		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
Interest rate contracts						
Forward and Futures contracts	7,177	5,987	13,164	6,888	7,283	14,171
Options written	34	792	826	381	5,514	5,895
Options purchased	73	892	965	405	3,124	3,529
Swaps[(1)]	9,539	103,393	112,932	12,111	131,026	143,137
Total[(2)]	**16,823**	**111,064**	**127,887**	**19,785**	**146,947**	**166,732**
Of which: Hedging derivatives[(5)]	4,123	-	4,123	3,838	-	3,838
Foreign currency contracts						
Forward and Futures contracts[(3)]	2,098	33,026	35,124	1,529	19,731	21,260
Options written	34	15,646	15,680	-	13,067	13,067
Options purchased	34	14,813	14,847	-	12,235	12,235
Swaps	15,595	76,536	92,131	33,634	37,708	71,342
Total	**17,761**	**140,021**	**157,782**	**35,163**	**82,741**	**117,904**
Contracts on shares						
Forward and Futures contracts	-	-	-	-	45	45
Options written	92	8,194	8,286	163	8,773	8,936
Options purchased[(4)]	95	8,194	8,289	168	8,773	8,941
Swaps	-	865	865	-	656	656
Total	**187**	**17,253**	**17,440**	**331**	**18,247**	**18,578**
Commodities and other contracts						
Forward and Futures contracts	-	371	371	-	849	849
Options written	19	3	22	21	3	24
Options purchased	19	3	22	21	3	24
Total	**38**	**377**	**415**	**42**	**855**	**897**
Total stated amount	**34,809**	**268,715**	**303,524**	**55,321**	**248,790**	**304,111**

Footnotes:

	December 31, 2020	December 31, 2019
(1) Of which: swaps on which the Bank pays a fixed interest	35,319	45,991
(2) Of which: shekel/CPI swaps	13,208	11,701
(3) Of which: spot foreign currency swap contracts	1,640	1,778
(4) Of which: traded on the Stock Exchange	11,939	9,116

(5) The Bank conducts accounting hedge by way of IRS transactions.

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
	December 31, 2020					
Interest rate contracts	239	2,534	2,773	385	2,549	2,934
Of which: Hedging	64	-	64	150	-	150
Foreign currency contracts	567	2,651	3,218	963	3,061	4,024
Contracts on shares	5	337	342	5	337	342
Commodities and other contracts	-	77	77	-	75	75
Total assets/liabilities in respect of derivatives gross[(1)]	**811**	**5,599**	**6,410**	**1,353**	**6,022**	**7,375**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	811	5,599	6,410	1,353	6,022	7,375
Of which: not subject to net settlement arrangement or similar arrangements	5	352	357	27	361	388
	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 10 million (December 31, 2019: NIS 13 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 10 million (December 31, 2019: NIS 27 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

B. Accounting hedge

1. Effect of accounting hedge

	For the year ended December 31	
	2020	2019
	Interest income (expenses)	
	In NIS millions	
Profit (loss) on fair value hedge		
Interest rate contracts		
Hedged items	24	65
Hedging derivatives	(34)	(68)

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

B. Accounting hedge (continued)

2. Items hedged by fair value hedge

	December 31, 2020			December 31, 2019		
	Book value	Cumulative fair value adjustments increasing the book value		Book value	Cumulative fair value adjustments increasing the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions					
Securities	2,833	100	-	2,204	73	8
Credit to the public	322	1	-	-	-	-
Deposits from the public	1,297	(28)	-	1,266	(10)	-

Footnote:
(1) Amounts designated for hedge out of the loan portfolio totaling approx. NIS 908 million.

3. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	For the year ended December 31	
	2020	2019
	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)	
	In NIS millions	
Interest rate contracts	34	32
Foreign currency contracts	(1,035)	(879)
Contracts on shares	-	1
Commodities and other contracts	-	-
Total	**(1,001)**	**(846)**

Footnote:
(1) Included in the item Non-interest financing income (expenses)

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
			In NIS millions			
			December 31, 2020			
Balance sheet balance of assets in respect of derivative instruments[2]	64	2,801	9	120	3,416	6,410
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments[5]	-	(2,408)	(3)	-	(1,666)	(4,077)
Credit risk mitigation in respect of cash collateral received	-	(348)	(2)	(118)	(212)	(680)
Net amount of assets in respect of derivative instruments	**64**	**45**	**4**	**2**	**1,538**	**1,653**
Off-balance sheet credit risk in respect of derivative instruments[1]	239	125	12	26	697	1,099
Total credit risk in respect of derivative instruments[4]	**303**	**2,926**	**21**	**146**	**4,113**	**7,509**
Balance sheet balance of liabilities in respect of derivative instruments[3]	272	3,684	50	-	3,369	7,375
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(2,408)	(3)	-	(1,666)	(4,077)
Pledged cash collateral	-	(1,177)	-	-	(715)	(1,892)
Net amount of liabilities in respect of derivative instruments	**272**	**99**	**47**	**-**	**988**	**1,406**
			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 6,400 million included in the item assets in respect of derivative instruments (December 31, 2019: NIS 4,545 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 7,365 million included in the item liabilities in respect of derivative instruments (December 31, 2019: NIS 4,839 million).

(4) The amount does not include the above deductions. The comparative data has been restated accordingly.

(5) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 3,972 million (as of December 31, 2019: NIS 3,164 million).

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

D. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	December 31, 2020				
Interest rate contracts					
Shekel/CPI	2,369	1,935	7,208	1,696	13,208
Other	8,108	14,617	48,802	43,152	114,679
Foreign currency contracts	83,424	55,997	12,783	5,578	157,782
Contracts on shares	16,553	656	231	-	17,440
Commodities and other contracts	398	11	6	-	415
Total	**110,852**	**73,216**	**69,030**	**50,426**	**303,524**
	December 31, 2019				
Interest rate contracts					
Shekel/CPI	1,450	2,964	4,593	2,694	11,701
Other	21,059	28,088	44,355	61,529	155,031
Foreign currency contracts	61,758	39,168	12,021	4,957	117,904
Contracts on shares	17,254	677	647	-	18,578
Commodities and other contracts	59	789	49	-	897
Total	**101,580**	**71,686**	**61,665**	**69,180**	**304,111**

29. Regulatory Operating Segments and Geographical Areas Information

A. General

As stated in Note 1 D 19 above, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

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

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Large businesses segment" - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Act, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

"Financial management segment" - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in associates.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Allocation of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is allocated.

For details regarding managerial segments, see Note 30 below.

B. Classification of customers in certain cases. It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified to the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, in accordance with the rules detailed in the Directive.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, in accordance with the rules detailed in the Directive.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions had been taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

C. **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. Certain improvements to the expenses model were implemented in the subsequent quarters. The comparative data has been reclassified accordingly.

D. **The principal assumptions, estimates and principles used in the preparation of segment information**

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. **Income**

Net interest income. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks. According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

2. **Expenses**

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to the items above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);

29. Regulatory Operating Segments and Geographical Areas Information (continued)

- Allocation of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses in respect of mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 34.19% (2019: 34.19%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the net statutory tax recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated in accordance with the principles of Basel III.

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment: 8.18% in 2020, 9.2% in 2019, 9.19% in 2018.

4. Presentation of inter-segment expenses

The accountability between the profit centers in the Bank is made as described in section 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated

	For the year ended December 31, 2020				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,356	6	1,538	407	1,128
Interest expenses To external sources	156	76	73	26	103
Net interest income from external sources	2,200	(70)	1,465	381	1,025
Net interest income Intersegmental	(225)	137	(30)	(29)	(220)
Total net Interest income	1,975	67	1,435	352	805
Non-interest financing income from external sources	1,846	520	909	245	625
Non-interest financing income Intersegmental	(346)	(441)	(370)	(120)	(267)
Total Non-interest financing income	1,500	79	539	125	358
Total income	**3,475**	**146**	**1,974**	**477**	**1,163**
Credit loss expenses	518	1	593	198	261
Operating and other expenses	3,194	162	1,329	267	589
Profit (loss) before taxes	(237)	(17)	52	12	313
Provision for taxes (tax savings) on profit	(106)	3	18	4	107
Profit (loss) after taxes	(131)	(20)	34	8	206
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	(131)	(20)	34	8	206
Net Profit from ordinary operations Attributed to the non-controlling interests	(13)	-	(6)	(1)	(4)
Net Profit (loss) Attributed to the bank's shareholders	**(144)**	**(20)**	**28**	**7**	**202**
Average Assets	71,008	390	35,759	12,928	41,971
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	70,167	331	35,287	12,883	41,841
Balance of credit to the public at the period end[3]	[4]72,620	[4]364	36,439	12,865	45,687
Balance of impaired debts	261	-	631	276	567
Balance of debts (not impaired) in arrear for over ninety days	348	-	38	-	-
Average Liabilities	88,026	17,037	45,243	9,965	28,019
Of which - Average Deposits from the public	83,966	16,912	39,546	8,823	24,105
Balance of deposits from the public at the period end	88,888	17,959	41,818	9,842	25,382
Average Risk-assets[1]	51,918	499	34,880	13,263	45,027
Balance of Risk-assets at the period end [1]	52,744	519	34,665	12,906	47,854
Average assets under management[2]	30,551	19,878	24,084	8,198	37,014
Net interest income:					
Margin from credit activity to the public	1,696	3	1,316	333	776
Margin from deposits activity from the public	279	64	119	19	29
Other	-	-	-	-	-
Total net interest income	**1,975**	**67**	**1,435**	**352**	**805**

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 to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,919 million.

				International operations				
	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
	24	445	5,904	56	815	212	1,083	6,987
	85	319	838	73	143	35	251	1,089
	(61)	126	5,066	(17)	672	177	832	5,898
	99	268	-	102	(51)	(51)	-	-
	38	394	5,066	85	621	126	832	5,898
	190	(544)	3,791	43	96	77	216	4,007
	(181)	1,725	-	-	-	-	-	-
	9	1,181	3,791	43	96	77	216	4,007
	47	**1,575**	**8,857**	**128**	**717**	**203**	**1,048**	**9,905**
	2	15	1,588	3	127	-	130	1,718
	59	386	5,986	158	449	88	695	6,681
	(14)	1,174	1,283	(33)	141	115	223	1,506
	(5)	449	470	(12)	43	48	79	549
	(9)	725	813	(21)	98	67	144	957
	-	50	50	-	-	-	-	50
	(9)	775	863	(21)	98	67	144	1,007
	-	(8)	(32)	-	-	-	-	(32)
	(9)	**767**	**831**	**(21)**	**98**	**67**	**144**	**975**
	874	82,958	245,888	1,490	22,295	10,593	34,378	280,266
	-	200	200	-	-	-	-	200
	728	-	161,237	1,494	22,356	-	23,850	185,087
	1,007	-	168,982	1,419	22,078	-	23,497	192,479
	276	-	2,011	-	196	-	196	2,207
	2	1,162	1,550	-	25	-	25	1,575
	17,703	24,586	230,579	9,099	18,608	2,922	30,629	261,208
	17,656	-	191,008	9,099	18,608	-	27,707	218,715
	14,615	-	198,504	8,514	19,100	-	27,614	226,118
	1,338	16,071	162,996	1,754	24,382	2,406	28,542	191,538
	1,364	15,557	165,609	1,631	23,804	2,188	27,623	193,232
	70,140	544	190,409	13,008	-	-	13,008	203,417
	21	-	4,145	38	522	-	560	4,705
	17	-	527	47	99	-	146	673
	-	394	394	-	-	126	126	520
	38	**394**	**5,066**	**85**	**621**	**126**	**832**	**5,898**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2019				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,374	4	1,674	371	1,139
Interest expenses To external sources	217	124	141	37	100
Net interest income from external sources	2,157	(120)	1,533	334	1,039
Net interest income Intersegmental	(198)	204	30	(10)	(295)
Total net Interest income	1,959	84	1,563	324	744
Non-interest financing income from external sources	2,321	657	1,083	221	296
Non-interest financing income Intersegmental	(719)	(589)	(493)	(94)	74
Total Non-interest financing income	1,602	68	590	127	370
Total income	**3,561**	**152**	**2,153**	**451**	**1,114**
Credit loss expenses (expenses reversal)	339	2	234	107	(21)
Operating and other expenses	(4) 3,008	(4) 154	(4) 1,302	(4) 232	(4) 539
Profit (loss) before taxes	214	(4)	617	112	596
Provision for taxes (tax savings) on profit	(4) 59	(4)(1)	(4) 211	(4) 35	(4) 198
Profit (loss) after taxes	155	(3)	406	77	398
Bank's share in operating income of associates after taxes	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	155	(3)	406	77	398
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(44)	-	(10)	(2)	(7)
Net Profit (loss) Attributed to the bank's shareholders	**111**	**(3)**	**396**	**75**	**391**
Average Assets	66,660	277	35,852	10,553	36,867
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	65,682	209	35,274	10,443	36,759
Balance of credit to the public at the period end(3)	(5)69,211	(5)326	36,837	12,628	39,529
Balance of impaired debts	189	-	624	231	342
Balance of debts (not impaired) in arrears for over ninety days	416	-	60	1	1
Average Liabilities	79,656	15,477	40,297	7,323	22,789
Of which - Average Deposits from the public	75,463	15,342	35,131	6,243	19,584
Balance of deposits from the public at the period end	75,312	16,368	(6)36,561	7,590	(6)20,218
Average Risk-assets(1)	50,600	443	35,170	12,803	39,820
Balance of Risk-assets at the period end (1)	51,186	489	35,758	13,608	41,511
Average assets under management(2)	33,401	19,927	27,430	9,857	38,146
Net interest income:					
Margin from credit activity to the public	1,632	2	1,401	295	702
Margin from deposits activity from the public	327	82	162	29	42
Other	-	-	-	-	-
Total net interest income	**1,959**	**84**	**1,563**	**324**	**744**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public - the recorded amount of the debt is presented.
(4) Reclassified - see C above.
(5) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,693 million.
(6) Reclassified – improvement in the attribution of the balance of several customers' deposits (see Note 19).
(7) Improvement to the calculation following the correction of a mistake in attributing certain balances.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
26	560	6,148	60	1,131	228	1,419	7,567
129	424	1,172	134	299	69	502	1,674
(103)	136	4,976	(74)	832	159	917	5,893
145	124	-	197	(123)	(74)	-	-
42	260	4,976	123	709	85	917	5,893
211	(1,245)	3,544	47	99	81	227	3,771
(205)	2,026	-	-	-	-	-	-
6	781	3,544	47	99	81	227	3,771
48	**1,041**	**8,520**	**170**	**808**	**166**	**1,144**	**9,664**
(5)	-	656	(1)	35	-	34	690
[4] 55	[4] 356	5,646	273	323	57	653	6,299
(2)	685	2,218	(102)	450	109	457	2,675
[4](1)	[4] 278	779	(36)	148	41	153	932
(1)	407	1,439	(66)	302	68	304	1,743
-	16	16	-	-	-	-	16
(1)	423	1,455	(66)	302	68	304	1,759
-	6	(57)	-	-	-	-	(57)
(1)	**429**	**1,398**	**(66)**	**302**	**68**	**304**	**1,702**
836	61,393	212,438	1,319	22,029	9,902	33,250	245,688
-	172	172	-	-	-	-	172
689	-	149,056	1,329	22,195	-	23,524	172,580
676	-	159,207	1,423	22,361	-	23,784	182,991
295	-	1,681	-	133	-	133	1,814
-	-	478	-	-	-	-	478
15,665	16,576	197,783	8,914	17,456	3,232	29,602	227,385
15,610	-	167,373	8,831	17,293	-	26,124	193,497
[6]18,624	-	174,673	9,047	17,730	-	26,777	201,450
1,420	13,538	153,794	1,590	23,807	2,085	27,482	181,276
1,259	12,813	156,624	1,694	23,775	2,353	27,822	184,446
73,682	[7]1,140	203,583	13,767	-	-	13,767	217,350
21	-	4,053	24	557	-	581	4,634
21	-	663	99	152	-	251	914
-	260	260	-	-	85	85	345
42	**260**	**4,976**	**123**	**709**	**85**	**917**	**5,893**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2018				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,241	4	1,551	348	1,109
Interest expenses To external sources	221	106	113	29	90
Net interest income from external sources	2,020	(102)	1,438	319	1,019
Net interest income Intersegmental	(280)	181	13	(22)	(304)
Total net Interest income	1,740	79	1,451	297	715
Non-interest financing income from external sources	1,044	(410)	163	40	346
Non-interest financing income Intersegmental	485	480	404	79	9
Total Non-interest financing income	1,529	70	567	119	355
Total income	**3,269**	**149**	**2,018**	**416**	**1,070**
Credit loss expenses (expenses reversal)	363	1	111	(40)	120
Operating and other expenses	(4) 2,932	(4) 142	(4) 1,325	(4) 232	(4) 530
Profit (loss) before taxes	(26)	6	582	224	420
Provision for taxes (tax savings) on profit	(4)(20)	(4) 2	(4) 204	(4) 77	(4) 141
Profit (loss) after taxes	(6)	4	378	147	279
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	(6)	4	378	147	279
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(32)	-	(7)	(2)	(5)
Net Profit (loss) Attributed to the bank's shareholders	**(38)**	**4**	**371**	**145**	**274**
Average Assets	59,619	257	32,326	9,885	34,892
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	58,671	181	31,805	9,795	34,889
Balance of credit to the public at the period end(3)	(5)62,042	(5)200	33,595	10,068	37,156
Balance of impaired debts	155	-	507	137	399
Balance of debts (not impaired) in arrears for over ninety days	377	-	54	4	-
Average Liabilities	75,024	14,951	37,835	7,229	19,801
Of which - Average Deposits from the public	71,075	14,837	32,779	6,227	17,143
Balance of deposits from the public at the period end	73,951	16,765	33,994	5,925	18,968
Average Risk-assets(1)	45,559	453	31,285	12,567	38,380
Balance of Risk-assets at the period end (1)	46,880	424	32,400	11,952	38,582
Average assets under management(2)	35,904	19,145	25,223	7,422	40,491
Net interest income:					
Margin from credit activity to the public	1,513	2	1,326	275	676
Margin from deposits activity from the public	227	77	125	22	39
Other	-	-	-	-	-
Total net interest income	**1,740**	**79**	**1,451**	**297**	**715**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C above.
(5) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,437 million.
(6) Improvement to the calculation following the correction of a mistake in attributing certain balances.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
25	475	5,753	54	1,001	245	1,300	7,053
81	476	1,116	93	186	132	411	1,527
(56)	(1)	4,637	(39)	815	113	889	5,526
90	322	-	207	(135)	(72)	-	-
34	321	4,637	168	680	41	889	5,526
(72)	2,206	3,317	44	97	36	177	3,494
84	(1,541)	-	-	-	-	-	-
12	665	3,317	44	97	36	177	3,494
46	**986**	**7,954**	**212**	**777**	**77**	**1,066**	**9,020**
1	-	556	(2)	(14)	-	(16)	540
(4) 53	(4)324	5,538	246	314	50	610	6,148
(8)	662	1,860	(32)	477	27	472	2,332
(4)(3)	(4) 250	651	(11)	143	6	138	789
(5)	412	1,209	(21)	334	21	334	1,543
-	6	6	-	-	-	-	6
(5)	418	1,215	(21)	334	21	334	1,549
-	2	(44)	-	-	-	-	(44)
(5)	**420**	**1,171**	**(21)**	**334**	**21**	**334**	**1,505**
841	59,601	197,421	1,348	20,117	10,360	31,825	229,246
-	126	126	-	-	-	-	126
710	-	136,051	1,348	20,113	-	21,461	157,512
733	-	143,794	1,375	21,909	-	23,284	167,078
295	-	1,493	-	140	-	140	1,633
-	-	435	-	-	-	-	435
14,522	14,486	183,848	8,729	15,971	3,843	28,543	212,391
14,495	-	156,556	8,713	15,942	-	24,655	181,211
13,044	-	162,647	9,216	17,053	-	26,269	188,916
1,483	13,108	142,835	1,425	20,194	1,839	23,458	166,293
1,776	12,568	144,582	1,664	21,761	2,914	26,339	170,921
72,915	(6)6,528	207,628	13,410	-	-	13,410	221,038
19	-	3,811	12	408	-	420	4,231
15	-	505	156	272	-	428	933
-	321	321	-	-	41	41	362
34	**321**	**4,637**	**168**	**680**	**41**	**889**	**5,526**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2020								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	992	558	806	2,356	4	-	2	6	2,362
Interest expenses To external sources	-	-	156	156	-	-	76	76	232
Net interest income from external sources	992	558	650	2,200	4	-	(74)	(70)	2,130
Net interest income Intersegmental	(536)	(22)	333	(225)	(2)	-	139	137	(88)
Total net Interest income	**456**	**536**	**983**	**1,975**	**2**	**-**	**65**	**67**	**2,042**
Non-interest financing income From external sources	12	1,020	814	1,846	-	-	520	520	2,366
Non-interest financing income Intersegmental	-	-	(346)	(346)	-	-	(441)	(441)	(787)
Total Non-interest financing income	**12**	**1,020**	**468**	**1,500**	**-**	**-**	**79**	**79**	**1,579**
Total income	**468**	**1,556**	**1,451**	**3,475**	**2**	**-**	**144**	**146**	**3,621**
Credit loss expenses	70	215	233	518	-	-	1	1	519
Operating and other expenses	202	1,201	1,791	3,194	1	-	161	162	3,356
Profit (loss) before taxes	196	140	(573)	(237)	1	-	(18)	(17)	(254)
Provision for taxes (tax savings) on profit	68	28	(202)	(106)	-	-	3	3	(103)
Profit (loss) after taxes	128	112	(371)	(131)	1	-	(21)	(20)	(151)
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(13)	-	(13)	-	-	-	-	(13)
Net Profit (loss) Attributed to the bank's shareholders	**128**	**99**	**(371)**	**(144)**	**1**	**-**	**(21)**	**(20)**	**(164)**
Average Assets	39,247	16,101	15,660	71,008	228	42	120	390	71,398
Of which - Average credit to the public[3]	39,327	15,853	14,987	70,167	228	43	60	331	70,498
Balance of credit to the public at the period end[3]	[4]42,246	16,036	14,338	72,620	[4]261	44	59	364	72,984
Balance of impaired debts	2	136	123	261	-	-	-	-	261
Balance of debts (not impaired) in arrears for over ninety days	318	-	30	348	-	-	-	-	348
Average Liabilities	100	2,545	85,381	88,026	-	40	16,997	17,037	105,063
Of which - Average Deposits from the public	-	15	83,951	83,966	-	-	16,912	16,912	100,878
Balance of deposits from the public at the period end	-	16	88,872	88,888	-	-	17,959	17,959	106,847
Average Risk-assets[1]	22,336	13,472	16,110	51,918	139	43	317	499	52,417
Balance of Risk-assets at the period end [1]	24,097	13,561	15,086	52,744	176	46	297	519	53,263
Average assets under management[2]	366	-	30,185	30,551	-	-	19,878	19,878	50,429
Net interest income:									
Margin from credit activity to the public	456	536	704	1,696	2	-	1	3	1,699
Margin from deposits activity from the public	-	-	279	279	-	-	64	64	343
Total net interest income	**456**	**536**	**983**	**1,975**	**2**	**-**	**65**	**67**	**2,042**

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 to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,919 million.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2019								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	969	525	880	2,374	2	-	2	4	2,378
Interest expenses To external sources	-	2	215	217	-	-	124	124	341
Net interest income from external sources	969	523	665	2,157	2	-	(122)	(120)	2,037
Net interest income Intersegmental	(592)	(29)	423	(198)	(2)	-	206	204	6
Total net Interest income	**377**	**494**	**1,088**	**1,959**	**-**	**-**	**84**	**84**	**2,043**
Non-interest financing income From external sources	13	1,108	1,200	2,321	-	1	656	657	2,978
Non-interest financing income Intersegmental	-	-	(719)	(719)	-	-	(589)	(589)	(1,308)
Total Non-interest financing income	**13**	**1,108**	**481**	**1,602**	**-**	**1**	**67**	**68**	**1,670**
Total income	**390**	**1,602**	**1,569**	**3,561**	**-**	**1**	**151**	**152**	**3,713**
Credit loss expenses	27	139	173	339	-	-	2	2	341
Operating and other expenses(4)	157	1,150	1,701	3,008	-	-	154	154	3,162
Profit (loss) before taxes	206	313	(305)	214	-	1	(5)	(4)	210
Provision for taxes (tax savings) on profit(4)	69	104	(114)	59	-	-	(1)	(1)	58
Profit (loss) after taxes	137	209	(191)	155	-	1	(4)	(3)	152
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(44)	-	(44)	-	-	-	-	(44)
Net Profit (loss) Attributed to the bank's shareholders	**137**	**165**	**(191)**	**111**	**-**	**1**	**(4)**	**(3)**	**108**
Average Assets	34,423	15,468	16,769	66,660	113	44	120	277	66,937
Of which - Average credit to the public(3)	34,543	15,253	15,886	65,682	112	45	52	209	65,891
Balance of credit to the public at the period end(3)	(5)36,798	16,421	15,992	69,211	(5)176	48	102	326	69,537
Balance of impaired debts	-	55	134	189	-	-	-	-	189
Balance of debts (not impaired) in arrears for over ninety days	353	-	63	416	-	-	-	-	416
Average Liabilities	43	2,738	76,875	79,656	-	41	15,436	15,477	95,133
Of which - Average Deposits from the public	-	20	75,443	75,463	-	-	15,342	15,342	90,805
Balance of deposits from the public at the period end	-	18	75,294	75,312	-	-	16,368	16,368	91,680
Average Risk-assets(1)	20,345	13,311	16,944	50,600	62	47	334	443	51,043
Balance of Risk-assets at the period end (1)	20,781	13,544	16,861	51,186	88	47	354	489	51,675
Average assets under management(2)	382	-	33,019	33,401	-	-	19,927	19,927	53,328
Net interest income:									
Margin from credit activity to the public	377	494	761	1,632	-	-	2	2	1,634
Margin from deposits activity from the public	-	-	327	327	-	-	82	82	409
Total net interest income	**377**	**494**	**1,088**	**1,959**	**-**	**-**	**84**	**84**	**2,043**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C above.
(5) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,693 million.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses - operations in Israel, consolidated

	For the year ended December 31, 2020									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	466	1,072	1,538	87	320	407	374	754	1,128	3,073
Interest expenses From external sources	16	57	73	3	23	26	8	95	103	202
Net interest income from external sources	450	1,015	1,465	84	297	381	366	659	1,025	2,871
Net interest income Intersegmental	(44)	14	(30)	(8)	(21)	(29)	(78)	(142)	(220)	(279)
Total net Interest income	**406**	**1,029**	**1,435**	**76**	**276**	**352**	**288**	**517**	**805**	**2,592**
Non-interest financing income From external sources	96	813	909	38	207	245	118	507	625	1,779
Non-interest financing income Intersegmental	(43)	(327)	(370)	(11)	(109)	(120)	(7)	(260)	(267)	(757)
Total Non-interest financing income	**53**	**486**	**539**	**27**	**98**	**125**	**111**	**247**	**358**	**1,022**
Of which - Credit Card income	-	145	145	-	30	30	-	114	114	289
Total income	**459**	**1,515**	**1,974**	**103**	**374**	**477**	**399**	**764**	**1,163**	**3,614**
Credit loss expenses	122	471	593	32	166	198	100	161	261	1,052
Operating and other expenses	227	1,102	1,329	44	223	267	92	497	589	2,185
Profit (loss) before taxes	110	(58)	52	27	(15)	12	207	106	313	377
Provision for taxes (tax savings) on profit	34	(16)	18	9	(5)	4	71	36	107	129
Profit (loss) after taxes	76	(42)	34	18	(10)	8	136	70	206	248
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(6)	(6)	-	(1)	(1)	-	(4)	(4)	(11)
Net Profit (loss) Attributed to the bank's shareholders	**76**	**(48)**	**28**	**18**	**(11)**	**7**	**136**	**66**	**202**	**237**
Average Assets	12,331	23,428	35,759	2,624	10,304	12,928	12,967	29,004	41,971	90,658
Of which - Average credit to the public[3]	12,267	23,020	35,287	2,634	10,249	12,883	13,023	28,818	41,841	90,011
Balance of credit to the public at the period end[3]	12,750	23,689	36,439	2,954	9,911	12,865	14,182	31,505	45,687	94,991
Balance of impaired debts	221	410	631	46	230	276	128	439	567	1,474
Balance of debts (not impaired) in arrears for over ninety days	7	31	38	-	-	-	-	-	-	38
Average Liabilities	6,821	38,422	45,243	1,695	8,270	9,965	4,842	23,177	28,019	83,227
Of which - Average Deposits from the public	6,648	32,898	39,546	1,664	7,159	8,823	4,769	19,336	24,105	72,474
Balance of deposits from the public at the period end	6,810	35,008	41,818	1,897	7,945	9,842	4,888	20,494	25,382	77,042
Average Risk-assets[1]	12,409	22,471	34,880	2,802	10,461	13,263	15,708	29,319	45,027	93,170
Balance of Risk-assets at the period end [1]	12,099	22,566	34,665	3,162	9,744	12,906	16,561	31,293	47,854	95,425
Average assets under management[2]	403	23,681	24,084	1,376	6,822	8,198	16	36,998	37,014	69,296
Net interest income:										
Margin from credit activity to the public	386	930	1,316	72	261	333	282	494	776	2,425
Margin from deposits activity from the public	20	99	119	4	15	19	6	23	29	167
Total net interest income	**406**	**1,029**	**1,435**	**76**	**276**	**352**	**288**	**517**	**805**	**2,592**

Footnotes:
(1) Risk weighted assets-as computed for capital adequacy purposes
(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses - operations in Israel, consolidated

	For the year ended December 31, 2019									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	484	1,190	1,674	88	283	371	323	816	1,139	3,184
Interest expenses From external sources	29	112	141	5	32	37	8	92	100	278
Net interest income from external sources	455	1,078	1,533	83	251	334	315	724	1,039	2,906
Net interest income Intersegmental	(38)	68	30	(9)	(1)	(10)	(78)	(217)	(295)	(275)
Total net Interest income	**417**	**1,146**	**1,563**	**74**	**250**	**324**	**237**	**507**	**744**	**2,631**
Non-interest financing income From external sources	161	922	1,083	37	184	221	87	209	296	1,600
Non-interest financing income Intersegmental	(98)	(395)	(493)	(5)	(89)	(94)	31	43	74	(513)
Total Non-interest financing income	**63**	**527**	**590**	**32**	**95**	**127**	**118**	**252**	**370**	**1,087**
Of which - Credit Card income	-	149	149	-	34	34	-	114	114	297
Total income	**480**	**1,673**	**2,153**	**106**	**345**	**451**	**355**	**759**	**1,114**	**3,718**
Credit loss expenses	37	197	234	36	71	107	11	(32)	(21)	320
Operating and other expenses(4)	222	1,080	1,302	39	193	232	79	460	539	2,073
Profit before taxes	221	396	617	31	81	112	265	331	596	1,325
Provision for taxes on profit(4)	72	139	211	10	25	35	90	108	198	444
Profit after taxes	149	257	406	21	56	77	175	223	398	881
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(10)	(10)	-	(2)	(2)	-	(7)	(7)	(19)
Net Profit Attributed to the bank's shareholders	**149**	**247**	**396**	**21**	**54**	**75**	**175**	**216**	**391**	**862**
Average Assets	11,879	23,973	35,852	2,382	8,171	10,553	10,509	26,358	36,867	83,272
Of which - Average credit to the public(3)	11,787	23,487	35,274	2,382	8,061	10,443	10,524	26,235	36,759	82,476
Balance of credit to the public at the period end(3)	12,472	24,365	36,837	2,459	10,169	12,628	10,999	28,530	39,529	88,994
Balance of impaired debts	274	350	624	69	162	231	152	190	342	1,197
Balance of debts (not impaired) in arrears for over ninety days	8	52	60	1	-	1	1	-	1	62
Average Liabilities	6,467	33,830	40,297	1,444	5,879	7,323	3,406	19,383	22,789	70,409
Of which - Average Deposits from the public	6,338	28,793	35,131	1,425	4,818	6,243	3,392	16,192	19,584	60,958
Balance of deposits from the public at the period end	6,556	(5)30,005	36,561	1,456	6,134	7,590	3,459	(5)16,759	20,218	64,369
Average Risk-assets(1)	11,868	23,302	35,170	3,044	9,759	12,803	13,574	26,246	39,820	87,793
Balance of Risk-assets at the period end (1)	12,145	23,613	35,758	2,928	10,680	13,608	13,927	27,584	41,511	90,877
Average assets under management(2)	452	26,978	27,430	1,229	8,628	9,857	14	38,132	38,146	75,433
Net interest income:										
Margin from credit activity to the public	391	1,010	1,401	68	227	295	228	474	702	2,398
Margin from deposits activity from the public	26	136	162	6	23	29	9	33	42	233
Total net interest income	**417**	**1,146**	**1,563**	**74**	**250**	**324**	**237**	**507**	**744**	**2,631**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C above.
(5) Reclassified – improvement in the attribution of the balance of several customers' deposits (see Note 19).

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated

	For the year ended December 31, 2020				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	10	436	-	(1)	445
Interest expenses To external sources	-	318	-	1	319
Net interest income from external sources	10	118	-	(2)	126
Net interest income Intersegmental	(5)	273	-	-	268
Total net Interest income	5	391	-	(2)	394
Non-interest financing income From external sources	245	(1,100)	235	76	(544)
Non-interest financing income Intersegmental	62	1,663	-	-	1,725
Total Non-interest financing income	307	563	235	76	1,181
Total income	**312**	**954**	**235**	**74**	**1,575**
Credit loss expenses	-	15	-	-	15
Operating and other expenses	145	198	21	22	386
Profit before taxes	167	741	214	52	1,174
Provision for taxes on profit	55	260	86	48	449
Profit after taxes	112	481	128	4	725
Bank's share in operating income of associates after taxes	-	-	50	-	50
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(8)	-	-	(8)
Net Profit Attributed to the bank's shareholders	**112**	**473**	**178**	**4**	**767**
Average Assets	7,843	72,246	2,522	347	82,958
Of which - Investment in Investee companies	-	-	200	-	200
Balance of debts (not impaired) in arrears for over ninety days	-	1,162	-	-	1,162
Average Liabilities	6,136	17,518	-	932	24,586
Average Risk-assets(1)	5,235	8,574	1,718	544	16,071
Balance of Risk-assets at the period end (1)	4,729	8,625	1,909	294	15,557
Average assets under management(2)	-	-	-	544	544
Components of net interest income and non-interest income:					
Net exchange rate differences	100	(51)	-	-	49
Net CPI linkage differences	(6)	(29)	-	-	(35)
Net interest exposure	190	588	-	-	778
Net share exposure	(1)	-	-	-	(1)
Total net interest income and non-interest income, on an accrual basis	**283**	**508**	**-**	**-**	**791**
Profits or losses on sale or on impairment in value	-	382	-	-	382
Change in the difference between fair value and the accrual basis	-	67	-	-	67
Other non-interest income	29	(3)	-	-	26
Total net interest income and non-interest income	**312**	**954**	**235**	**74**	**1,575**

Footnotes:

Average balance were computed on the basis of balance at beginning of a quarter of a month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Including – securities and derivative instruments.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2019				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	24	536	-	-	560
Interest expenses To external sources	-	421	-	3	424
Net interest income from external sources	24	115	-	(3)	136
Net interest income Intersegmental	(14)	138	-	-	124
Total net Interest income	10	253	-	(3)	260
Non-interest financing income From external sources	(6)355	(6)(1,793)	109	84	(1,245)
Non-interest financing income Intersegmental	(6)(4)	(6)2,030	-	-	2,026
Total Non-interest financing income	351	237	109	84	781
Total income	**361**	**490**	**109**	**81**	**1,041**
Operating and other expenses(4)	134	191	23	8	356
Profit before taxes	227	299	86	73	685
Provision for taxes on profit(4)	74	104	52	48	278
Profit after taxes	153	195	34	25	407
Bank's share in operating income of associates after taxes	-	-	16	-	16
Loss from ordinary operations Attributed to the non-controlling interests	-	6	-	-	6
Net Profit Attributed to the bank's shareholders	**153**	**201**	**50**	**25**	**429**
Average Assets	7,202	52,122	1,896	173	61,393
Of which - Investment in Investee companies	-	-	172	-	172
Average Liabilities	4,606	11,312	-	658	16,576
Average Risk-assets(1)	4,996	6,172	1,636	734	13,538
Balance of Risk-assets at the period end (1)	4,340	6,124	1,594	755	12,813
Average assets under management(2)	-	-	-	(5)1,140	1,140
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	(6)(58)	(6)19	-	-	(39)
Net CPI linkage differences(3)	3	11	-	-	14
Net interest exposure(3)	(6)226	(6)391	-	-	617
Net share exposure(3)	5	-	-	-	5
Total net interest income and non-interest income, on an accrual basis	**176**	**421**	**-**	**-**	**597**
Profits or losses on sale or on impairment in value	-	140	-	-	140
Change in the difference between fair value and the accrual basis	-	(71)	-	-	(71)
Other non-interest income	185	-	-	-	185
Total net interest income and non-interest income	**361**	**490**	**109**	**81**	**1,041**

Footnotes:

Average balance were computed on the basis of balance at beginning of a quarter of a month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified - see C above.

(5) Improvement to the calculation following the correction of a mistake in attributing certain balances.

(6) Reclassified – classification of price differences in respect of derivatives (see Note 3).

29. Regulatory Operating Segments and Geographical Areas Information (continued)

I. Information on geographical areas

	Income[1]			Net Income (loss) attributed to the bank's shareholders			Assets	
	For the year end December 31						As at December 31	
	2020	2019	2018	2020	2019	2018	2020	2019
	in NIS millions							
Israel	8,857	8,520	7,954	831	1,398	1,171	258,884	226,149
North America	1,050	1,145	1,065	146	304	333	35,045	33,636
Europe	(2)	(1)	1	(2)	-	1	40	38
Total Overseas	**1,048**	**1,144**	**1,066**	**144**	**304**	**334**	**35,085**	**33,674**
Total Consolidated	**9,905**	**9,664**	**9,020**	**975**	**1,702**	**1,505**	**293,969**	**259,823**

Footnote:
(1) Income - Net interest income, before credit loss expenses and non-interest income.

30. Managerial Operating Segments

A. General

1. According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - Segments under responsibility of the Banking Division (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking - In this framework are included banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment (with effect as from January 1, 2020, responsibility for Middle Market banking was transferred from the Banking Division to the Corporate Division).
   - Segment under the responsibility of the Corporate Division (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - This framework includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - Segment under the responsibility of the Financial Markets Division (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – In this framework is included the financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - Segments including the activities of the principal subsidiaries in the Group:

     Discount Capital – Operations in the field of investment (in companies, in private equity funds, in venture capital funds and in mezzanine operations), in the field of investment banking, in the initiation and assistance of public and private placements and in providing underwriting and distribution services (by means of a subsidiary company).

     Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB Bank.

     ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.
   - Other segment – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

30. Managerial Operating Segments (continued)

3. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, in accordance with criteria used for dividing the activity between the administrative segments.

B. Information regarding managerial operating segments

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
	For the year ended December 31, 2020									
Net interest income	2,582	665	890	381	14	829	530	2	5	5,898
Non-interest income	1,059	136	360	829	175	218	1,327	52	(149)	4,007
Total income	**3,641**	**801**	**1,250**	**1,210**	**189**	**1,047**	**1,857**	**54**	**(144)**	**9,905**
Credit loss expenses	733	319	313	-	-	130	223	-	-	1,718
Operating and other expenses	3,227	420	571	324	41	695	1,493	54	(144)	6,681
Income (loss) before taxes	(319)	62	366	886	148	222	141	-	-	1,506
Provision for taxes (tax saving) on income	(116)	22	126	338	54	78	40	8	(1)	549
Income (loss) after taxes	(203)	40	240	548	94	144	101	(8)	1	957
Bank's share in income of associates, net of tax effect	1	-	-	2	50	-	1	-	(4)	50
Net income (loss) before attributed to the non-controlling interests	(202)	40	240	550	144	144	102	(8)	(3)	1,007
Net profit (loss) before attributed to the non-controlling interests	-	-	-	-	-	-	(32)	(3)	3	(32)
Net income (loss) attributed to the non-controlling interests	**(202)**	**40**	**240**	**550**	**144**	**144**	**70**	**(11)**	**-**	**975**
Balance of Assets	86,759	25,889	53,970	92,236	1,777	35,394	18,534	6,356	(26,948)	293,967
Balance of credit to the public	83,293	26,278	49,612	-	39	23,497	17,901	-	(8,141)	192,479
Balance of deposits from the public	146,487	22,589	29,949	5,630	-	27,614	16	-	(6,167)	226,118
	For the year ended December 31, 2019									
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	393	95	22	-	(1)	34	147	-	-	690
Operating and other expenses	[2]3,086	[2]382	[2]538	[2]307	42	654	1,440	28	(178)	6,299
Income before taxes	349	262	700	530	75	441	276	42	-	2,675
Provision for taxes (tax saving) on income	[2]103	[2]88	[2]238	[2]222	19	153	97	13	(1)	932
Income after taxes	246	174	462	308	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	247	174	462	318	63	288	179	29	(1)	1,759
Net profit before attributed to the non-controlling interests	-	-	-	-	-	-	(56)	(2)	1	(57)
Net income attributed to the non-controlling interests	**247**	**174**	**462**	**318**	**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 29 C.

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	For the year ended December 31, 2018									
	In NIS millions									
Net interest income	2,468	554	803	343	7	879	463	3	6	5,526
Non-interest income	1,131	136	385	421	125	177	1,235	62	(178)	3,494
Total income	**3,599**	**690**	**1,188**	**764**	**132**	**1,056**	**1,698**	**65**	**(172)**	**9,020**
Credit loss expenses (expenses reversal)	375	(27)	48	-	1	(16)	159	-	-	540
Operating and other expenses	[2]3,104	[2]395	[2]536	[2]288	34	611	1,329	23	(172)	6,148
Income before taxes	120	322	604	476	97	461	210	42	-	2,332
Provision for taxes on income	[2]36	[2]112	[2]207	[2]184	29	138	71	12	-	789
Income after taxes	84	210	397	292	68	323	139	30	-	1,543
Bank’s share in income of associates, net of tax effect	1	-	-	6	2	-	-	-	(3)	6
Net income before attributed to the non-controlling interests	85	210	397	298	70	323	139	30	(3)	1,549
Net profit before attributed to the non-controlling interests	-	-	-	-	-	-	(44)	(3)	3	(44)
Net income attributed to the non-controlling interests	**85**	**210**	**397**	**298**	**70**	**323**	**95**	**27**	**-**	**1,505**
Balance of Assets	75,211	19,180	47,791	64,065	1,559	34,554	16,015	4,314	(23,513)	239,176
Balance of credit to the public	73,281	19,345	43,247	-	85	23,284	15,622	-	(7,786)	167,078
Balance of deposits from the public	122,261	14,707	26,295	3,942	-	26,270	23	-	(4,582)	188,916

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 29 C.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under 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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2020					
Balance of allowance for credit losses, as at December 31, 2019	1,823	207	717	2,747	1	2,748
Expenses for credit loss	1,182	70	452	1,704	14	1,718
Accounting write-offs	(437)	(19)	(437)	(893)	-	(893)
Collection of debts written-off in previous years	276	-	252	528	-	528
Net accounting write-offs	(161)	(19)	(185)	(365)	-	(365)
Adjustments from translation of financial statements	(27)	-	-	(27)	-	(27)
Balance of allowance for credit losses, as at December 31, 2020	**2,817**	**258**	**984**	**4,059**	**15**	**4,074**
Of which: In respect of off-balance sheet credit instruments	213	-	85	298	-	298
	2019					
Balance of allowance for credit losses, as at December 31, 2018	1,606	187	657	2,450	1	2,451
An addition stemming from the merger of Municipal Bank	25	-	-	25	-	25
Expenses for credit loss	351	27	312	690	-	690
Accounting write-offs	(386)	(7)	(484)	(877)	-	(877)
Collection of debts written-off in previous years	248	-	233	481	-	481
Net accounting write-offs	(138)	(7)	(251)	(396)	-	(396)
Adjustments from translation of financial statements	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at December 31, 2019	**1,823**	**207**	**717**	**2,747**	**1**	**2,748**
Of which: In respect of off-balance sheet credit instruments	170	-	53	223	-	223
	2018					
Balance of allowance for credit losses, as at December 31, 2017	1,560	178	566	2,304	1	2,305
Expenses for credit loss	178	23	339	540	-	540
Accounting write-offs	(476)	(14)	(446)	(936)	-	(936)
Collection of debts written-off in previous years	324	-	197	521	-	521
Net accounting write-offs	(152)	(14)	(249)	(415)	-	(415)
Adjustments from translation of financial statements	20	-	1	21	-	21
Balance of allowance for credit losses, as at December 31, 2018	**1,606**	**187**	**657**	**2,450**	**1**	**2,451**
Of which: In respect of off-balance sheet credit instruments	125	-	51	176	-	176

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2020					
Recorded amount of debts:						
Examined on a specific basis(1)	91,236	2	663	91,901	6,101	98,002
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)212	42,505	-	42,717	-	42,717
Group - other	26,697	144	31,020	57,861	928	58,789
Total debts	**118,145**	**42,651**	**31,683**	**192,479**	**7,029**	**199,508**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	2,119	-	148	2,267	-	2,267
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)1	(3)257	-	258	-	258
Group - other	484	1	751	1,236	15	1,251
Total allowance for Credit Losses	**2,604**	**258**	**899**	**3,761**	**15**	**3,776**
	December 31, 2019					
Recorded amount of debts:						
Examined on a specific basis(1)	85,059	-	761	85,820	5,980	91,800
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)233	36,974	-	37,207	-	37,207
Group - other	26,759	185	33,020	59,964	243	60,207
Total debts	**112,051**	**37,159**	**33,781**	**182,991**	**6,223**	**189,214**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	1,285	-	82	1,367	-	1,367
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)1	(3)206	-	207	-	207
Group - other	367	1	582	950	1	951
Total allowance for Credit Losses	**1,653**	**207**	**664**	**2,524**	**1**	**2,525**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 95,795 million (December 31, 2019 - NIS 89,986 million) and the allowance in its respect in an amount of NIS 1,762 million (December 31, 2019 - NIS 1,060 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of December 31, 2019 – an amount of NIS 233 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 (December 31, 2019 - NIS 4 million), and computed on a group basis, in an amount of NIS 187 million (December 31, 2019 - NIS 130 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

3. Change in the balance of the allowance for credit losses – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	2020					
Balance of allowance for credit losses, as at December 31, 2019	1,148	180	320	1,648	1	1,649
Credit loss expenses	814	58	159	1,031	14	1,045
Accounting write-offs	(243)	(19)	(188)	(450)	-	(450)
Collection of debts written-off in previous years	202	-	138	340	-	340
Net accounting write-offs	(41)	(19)	(50)	(110)	-	(110)
Balance of allowance for credit losses, as at December 31, 2020	**1,921**	**219**	**429**	**2,569**	**15**	**2,584**
Of which: In respect of off-balance sheet credit instruments	190	-	36	226	-	226
	2019					
Balance of allowance for credit losses, as at December 31, 2018	1,030	164	309	1,503	1	1,504
Credit loss expenses	176	23	124	323	-	323
Accounting write-offs	(240)	(7)	(242)	(489)	-	(489)
Collection of debts written-off in previous years	182	-	129	311	-	311
Net accounting write-offs	(58)	(7)	(113)	(178)	-	(178)
Balance of allowance for credit losses, as at December 31, 2019	**1,148**	**180**	**320**	**1,648**	**1**	**1,649**
Of which: In respect of off-balance sheet credit instruments	153	-	18	171	-	171
	2018					
Balance of allowance for credit losses, as at December 31, 2017	1,010	157	282	1,449	1	1,450
Credit loss expenses	115	20	165	300	-	300
Accounting write-offs	(348)	(13)	(243)	(604)	-	(604)
Collection of debts written-off in previous years	253	-	105	358	-	358
Net accounting write-offs	(95)	(13)	(138)	(246)	-	(246)
Balance of allowance for credit losses, as at December 31, 2018	**1,030**	**164**	**309**	**1,503**	**1**	**1,504**
Of which: In respect of off-balance sheet credit instruments	108	-	18	126	-	126

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts and off-balance sheet credit instruments (continued)

4. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	December 31,2020					
Recorded amount of debts:						
Examined on a specific basis[1]	68,606	-	232	68,838	7,060	75,898
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	147	35,658	-	35,805	-	35,805
Group - other	7,385	-	13,217	20,602	-	20,602
Total debts	**76,138**	**35,658**	**13,449**	**125,245**	**7,060**	**132,305**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,526	-	49	1,575	-	1,575
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]1	[2]219	-	220	-	220
Group - other	204	-	344	548	15	563
Total allowance for Credit Losses	**1,731**	**219**	**393**	**2,343**	**15**	**2,358**
	December 31,2019					
Recorded amount of debts:						
Examined on a specific basis[1]	64,004	-	441	64,445	6,049	70,494
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	214	31,451	-	31,665	-	31,665
Group - other	7,312	-	14,594	21,906	-	21,906
Total debts	**71,530**	**31,451**	**15,035**	**118,016**	**6,049**	**124,065**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	892	-	62	954	-	954
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]1	[2]180	-	181	-	181
Group - other	102	-	240	342	1	343
Total allowance for Credit Losses	**995**	**180**	**302**	**1,477**	**1**	**1,478**

:Footnotes

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 74,388 million (December 31, 2019 - NIS 69,277 million) and the allowance in its respect in an amount of NIS 1,228 million (December 31, 2019 - NIS 746 million) computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 1 million (December 31, 2019 - NIS 3 million), computed on a group basis, in amount of NIS 158 million (December 31, 2019 - NIS 110 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts

1. Credit quality and arrears - consolidated

	December 31, 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	16,655	231	113	16,999	6	51
Construction and Real Estate - Real Estate Activity	11,171	185	138	11,494	1	8
Financial Services	9,496	58	300	9,854	6	1
Commercial - Other	51,309	1,720	870	53,899	27	90
Total Commercial	**88,631**	**2,194**	**1,421**	**92,246**	**40**	**150**
Private Individuals - Housing Loans	42,136	[5]319	2	42,457	312	66
Private Individuals - Other Loans	29,695	443	259	30,397	30	99
Total Public - Activity in Israel	**160,462**	**2,956**	**1,682**	**165,100**	**382**	**315**
Banks in Israel	849	-	-	849	-	-
Government of Israel	1,755	-	-	1,755	-	-
Total Activity in Israel	**163,066**	**2,956**	**1,682**	**167,704**	**382**	**315**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,858	869	185	9,912	-	-
Commercial - Other	14,183	1,464	340	15,987	25	97
Total Commercial	**23,041**	**2,333**	**525**	**25,899**	**25**	**97**
Private Individuals	1,471	9	-	1,480	6	-
Total Public - Activity Abroad	**24,512**	**2,342**	**525**	**27,379**	**31**	**97**
Foreign banks	2,707	-	-	2,707	-	-
Foreign governments	1,718	-	-	1,718	1,162	34
Total Activity Abroad	**28,937**	**2,342**	**525**	**31,804**	**1,193**	**131**
Total public	**184,974**	**5,298**	**2,207**	**192,479**	**413**	**412**
Total banks	**3,556**	**-**	**-**	**3,556**	**-**	**-**
Total governments	**3,473**	**-**	**-**	**3,473**	**1,162**	**34**
Total	**192,003**	**5,298**	**2,207**	**199,508**	**1,575**	**446**

For footnotes see next page.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	December 31, 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 amount of NIS 182 million are classified as unimpaired problematic debts (December 31, 2019- NIS 196 million).

(5) Including housing loans in amount of NIS 8 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (December 31, 2019- NIS 9 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

	December 31, 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	85	27	28	113	996
Construction and Real Estate - Real Estate Activity	67	7	71	138	867
Financial Services	300	20	-	300	393
Commercial - Other	773	251	97	870	2,805
Total Commercial	**1,225**	**305**	**196**	**1,421**	**5,061**
Private Individuals - Housing Loans	2	[(4)]-	-	2	2
Private Individuals - Other Loans	244	132	15	259	593
Total Public - Activity in Israel	**1,471**	**437**	**211**	**1,682**	**5,656**
Total Activity in Israel	**1,471**	**437**	**211**	**1,682**	**5,656**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	136	50	49	185	558
Commercial - Other	182	18	158	340	399
Total Commercial	**318**	**68**	**207**	**525**	**957**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**318**	**68**	**207**	**525**	**957**
Total Activity Abroad	**318**	**68**	**207**	**525**	**957**
Total public	**1,789**	**505**	**418**	**2,207**	**6,613**
Total	**1,789**	**505**	**418**	**2,207**	**6,613**
Of which:					
Measured according to present value of cash flows	1,449	428	66	1,515	
Debts under troubled debt restructurings	1,133	271	266	1,399	

For footnotes see next page.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	December 31, 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.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME

	2020			2019			2018		
	Average balance of Impaired Debts[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis	Average balance of Impaired Debts[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis	Average balance of Impaired Debts[(1)]	Recorded Interest Income[(2)]	Of which: recorded on cash basis
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate - Construction	133	2	2	138	2	2	109	1	1
Construction and Real Estate - Real Estate Activity	186	4	4	268	7	6	315	6	4
Financial Services	342	9	1	300	8	1	310	7	-
Commercial - Other	1,160	16	9	842	16	10	853	14	10
Total Commercial	**1,821**	**31**	**16**	**1,548**	**33**	**19**	**1,587**	**28**	**15**
Private Individuals - Housing Loans	3	-	-	-	-	-	-	-	-
Private Individuals - Other Loans	258	11	5	226	7	3	177	4	2
Total Public - Activity in Israel	**2,082**	**42**	**21**	**1,774**	**40**	**22**	**1,764**	**32**	**17**
Total Activity in Israel	**2,082**	**42**	**21**	**1,774**	**40**	**22**	**1,764**	**32**	**17**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	215	3	-	241	5	-	143	6	-
Commercial - Other	270	4	1	92	5	-	232	8	-
Total Commercial	**485**	**7**	**1**	**333**	**10**	**-**	**375**	**14**	**-**
Total Public - Activity Abroad	**485**	**7**	**1**	**333**	**10**	**-**	**375**	**14**	**-**
Total Activity Abroad	**485**	**7**	**1**	**333**	**10**	**-**	**375**	**14**	**-**
Total	**2,567**	**[(3)]49**	**22**	**2,107**	**[(3)]50**	**22**	**2,139**	**[(3)]46**	**17**

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amount of NIS 91 million (31.12.2019 - NIS 68 million, 31.12.2018 - NIS 81 millions).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	December 31, 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	-	1	14	38
Construction and Real Estate - Real Estate Activity	18	-	-	20	38
Financial Services	1	-	-	276	277
Commercial - Other	277	-	-	146	423
Total Commercial	**319**	**-**	**1**	**456**	**776**
Private Individuals - Other Loans	59	-	2	184	245
Total Public - Activity in Israel	**378**	**-**	**3**	**640**	**1,021**
Total Activity in Israel	**378**	**-**	**3**	**640**	**1,021**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	41	-	-	-	41
Commercial - Other	197	-	-	140	337
Total Commercial	**238**	**-**	**-**	**140**	**378**
Total Public - Activity Abroad	**238**	**-**	**-**	**140**	**378**
Total Activity Abroad	**238**	**-**	**-**	**140**	**378**
Total	**616**	**-**	**3**	**780**	**1,399**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at December 31, 2020, to NIS 23 million (December 31, 2019– NIS 17 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	December 31, 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.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	2020			2019			2018		
	Debt restructuring performed								
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate - Construction	210	34	34	234	31	30	166	24	23
Construction and Real Estate - Real Estate Activity	22	13	13	17	8	8	19	20	20
Financial Services	8	(1)-	(1)-	5	(1)-	(1)-	4	(1)-	(1)-
Commercial - Other	1,174	440	438	1,016	120	117	864	169	165
Total Commercial	**1,414**	**487**	**485**	**1,272**	**159**	**155**	**1,053**	**213**	**208**
Private Individuals - Other Loans	9,197	203	201	6,450	145	143	5,927	144	140
Total Public - Activity in Israel	**10,611**	**690**	**686**	**7,722**	**304**	**298**	**6,980**	**357**	**348**
Total Activity in Israel	**10,611**	**690**	**686**	**7,722**	**304**	**298**	**6,980**	**357**	**348**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	2	45	41	1	22	22	-	-	-
Commercial - Other	11	374	374	3	50	40	6	42	42
Total Commercial	**13**	**419**	**415**	**4**	**72**	**62**	**6**	**42**	**42**
Private Individuals	3	(1)-	(1)-	5	(1)-	(1)-	5	(1)-	(1)-
Total Public - Activity Abroad	**16**	**419**	**415**	**9**	**72**	**62**	**11**	**42**	**42**
Total Activity Abroad	**16**	**419**	**415**	**9**	**72**	**62**	**11**	**42**	**42**
Total	**10,627**	**1,109**	**1,101**	**7,731**	**376**	**360**	**6,991**	**399**	**390**

Footnote:

(1) An amount lower than NIS 1 million.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	2020		2019		2018	
	Failure of restructured debts[1]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	88	7	93	5	49	7
Construction and Real Estate - Real Estate Activity	6	2	10	13	10	9
Financial Services	-	-	-	-	1	[2]-
Commercial - Other	410	20	406	25	297	20
Total Commercial	**504**	**29**	**509**	**43**	**357**	**36**
Private Individuals - Other	3,093	21	3,693	31	3,143	28
Total Public - Activity in Israel	**3,597**	**50**	**4,202**	**74**	**3,500**	**64**
Total Activity in Israel	**3,597**	**50**	**4,202**	**74**	**3,500**	**64**
Lending Activity Abroad						
Public - Commercial						
Commercial - Other	2	72	-	-	-	-
Total Commercial	**2**	**72**	**-**	**-**	**-**	**-**
Private Individuals	1	[2]-	1	[2]-	2	[2]-
Total Public - Activity Abroad	**3**	**72**	**1**	**[2]-**	**2**	**[2]-**
Total Activity Abroad	**3**	**72**	**1**	**[2]-**	**2**	**[2]-**
Total	**3,600**	**122**	**4,203**	**74**	**3,502**	**64**

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.

(2) An amount lower than NIS 1 million.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to changes in private consumption and in currency rates;
- Exposure to foreign competition, in particular to the effect of E-commerce;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level;
- 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.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors;
- The growth in competition in recent years, whether within the banking industry or against off-banking institutions, may lead to erosion of the spreads, to a decline in the quality of borrowers, and as a result thereof to increased credit risk. The present credit policy examines thoroughly the risk involved in the underwriting of loans to existing and new customers using models and tools developed for sales points, thus reducing such risk.

(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

	December 31, 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	94.5%	99.2%	97.8%	96.1%	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	3.8%	0.8%	1.4%	2.8%	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	1.7%	-	0.8%	1.1%	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	2.2%	0.6%	2.8%	2.0%	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)	36.4%	78.9%	125.4%	45.9%	40.1%	54.8%	117.3%	49.8%

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

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.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

4. Additional information regarding housing loans

BALANCES FOR THE YEAR END, ACCORDING TO LOAN-TO-VALUE (LTV)[(1)] RATIO, MANNER OF REPAYMENT AND TYPE OF INTEREST

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31, 2020			
First degree pledge: financing ratio	Up to 60%	27,409	394	16,309	519
	Over 60%	14,121	125	8,538	294
Second degree pledge or without pledge		1,121	132	456	4,364
Total		**(2)42,651**	**651**	**25,303**	**5,177**
		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 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (December 31, 2019 - NIS 233 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year

1. Sale and purchase of credit (consolidated)

	Credit risk sold					Credit risk purchased[1]		
	Credit sold this year	Off-balance sheet credit risk[2] sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Balance at end of year of credit sold, which is serviced by the banking corporation	Credit purchased this year	Off-balance sheet credit risk[2] purchased this year	Of which: problematic credit
	In NIS millions							
	2020							
Total commercial	74	-	8	3	2,200	5,989	-	-
Total credit to the public risk	**74**	**-**	**8**	**3**	**2,200**	**5,989**	**-**	**-**
Credit to governments	-	-	-	-	-	1,937	-	-
Total debts	**74**	**-**	**8**	**3**	**2,200**	**7,926**	**-**	**-**
	2019							
Total commercial	856	-	-	1	3,608	3,412	-	-
Total credit to the public risk	**856**	**-**	**-**	**1**	**3,608**	**3,412**	**-**	**-**
Credit to governments	-	-	-	-	-	750	-	-
Total debts	**856**	**-**	**-**	**1**	**3,608**	**4,162**	**-**	**-**

Footnotes:

(1) The data for the year 2019 do not include credit acquisition transactions at IDB Bank, most of which is short-term factoring. The balance of the transactions amounted to NIS 428 million as of December 31, 2019.

(2) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

For details regarding profit net in respect of loans sold, see Note 3.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year (continued)

2. Syndications and participation in loan syndications (consolidated)

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Share of the banking corporation		Share of others		Share of the banking corporation	
	Credit	Off-balance sheet credit risk[1]	Credit	Off-balance sheet credit risk[1]	Credit	Off-balance sheet credit risk[1]
	In NIS millions					
	2020					
Total commercial	3,152	453	6,986	352	5,478	1,902
Total credit to the public risk	**3,152**	**453**	**6,986**	**352**	**5,478**	**1,902**
Credit to governments	533	-	182	-	-	-
Total debts	**3,685**	**453**	**7,168**	**352**	**5,478**	**1,902**
	2019					
Total commercial	3,272	765	7,292	853	5,418	1,880
Total credit to the public risk	**3,272**	**765**	**7,292**	**853**	**5,418**	**1,880**
Credit to governments	563	22	242	14	-	-
Total debts	**3,835**	**788**	**7,535**	**867**	**5,418**	**1,880**

Footnote:
(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

3. Loan management activity

MDB manages loans for others, an activity that was acquired by it from Municipal Bank within the framework of the merger. Within this framework, MDB manages two types of loans, the balances of which as of December 31, 2020 amounted to NIS 1,972 million (December 31, 2019: NIS 2,274 million), as follows:

- loans sold in the past by Municipal Bank to commercial entities – NIS 1,001 million (December 31, 2019: NIS 1,260 million);
- loans granted to local authorities from the state budget – NIS 971 million (December 31, 2019: NIS 1,014 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public[1] and off-balance-sheet credit risk[3], by size of credit to individual burrowers

1. Consolidated

				December 31					
				2020			2019		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,485,946	2,510	2,009	1,394,092	2,330	1,943
Over	10	Up to	20	541,436	3,085	5,830	534,507	3,174	5,639
Over	20	Up to	40	567,543	5,980	10,728	554,852	6,397	9,875
Over	40	Up to	80	283,235	7,873	7,166	275,315	8,445	6,285
Over	80	Up to	150	95,032	7,051	3,239	96,652	7,675	2,870
Over	150	Up to	300	48,728	7,839	2,299	50,559	8,453	2,069
Over	300	Up to	600	31,949	11,822	2,111	32,066	11,773	2,245
Over	600	Up to	1,200	34,673	25,411	4,257	31,228	22,471	4,140
Over	1,200	Up to	2,000	10,459	12,387	3,078	8,853	10,626	2,558
Over	2,000	Up to	[4]4,000	4,077	8,652	2,421	3,677	7,891	2,186
Over	4,000	Up to	[4]8,000	1,545	6,984	1,916	1,460	6,826	1,724
Over	8,000	Up to	[4]20,000	1,245	12,785	3,044	1,205	12,202	3,043
Over	20,000	Up to	[4]40,000	684	15,848	3,616	678	15,976	3,358
Over	40,000	Up to	[4]200,000	743	43,684	16,963	724	40,954	16,772
Over	200,000	Up to	[4]400,000	*69	*12,647	5,427	*68	*13,058	5,229
Over	400,000	Up to	[4]800,000	19	8,001	3,055	11	3,778	2,491
Over	800,000	Up to	[4]1,200,000	6	4,732	1,568	7	4,008	2,857
Over	1,200,000	Up to	[4]1,600,000	3	2,524	1,283	2	2,519	193
Over	1,600,000	Up to	[4]2,000,000	-	-	-	-	-	-
Over	2,000,000	Up to	[4]2,400,000	1	247	1,875	2	2,303	2,276
Over	2,400,000	Up to	[4]2,800,000	-	-	-	-	-	-
Over	2,800,000	Up to	[4]3,200,000	-	-	-	-	-	-
Over	[4]3,200,000			**1	**6,385	-	**1	**5,656	-
Total				**3,107,394**	**206,447**	**81,885**	**2,985,959**	**196,515**	**77,753**
Mortgage backed securities issued by:									
**GNMA				1	6,385	-	1	5,656	-
*FNMA				1	244	-	1	349	-
*FHLMC				1	276	-	1	369	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2020 - 7,363 NIS million, as of December 31, 2019 - NIS 6,846 million).

(4) Consolidated - by combining specific balances.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public[1] and off-balance-sheet credit risk[3], by size of credit to individual burrowers (continued)

2. The Bank

				December 31					
				2020			2019		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
					in NIS millions				
Credit limit (in NIS thousand):									
		Up to	10	279,230	239	572	236,189	198	521
Over	10	Up to	20	105,743	529	1,116	102,939	587	1,036
Over	20	Up to	40	120,034	1,320	2,224	118,154	1,492	2,032
Over	40	Up to	80	102,814	2,950	2,986	102,416	3,284	2,668
Over	80	Up to	150	67,173	4,769	2,566	67,879	5,187	2,270
Over	150	Up to	300	36,489	5,749	1,843	37,387	6,110	1,674
Over	300	Up to	600	23,979	8,811	1,677	24,154	8,783	1,844
Over	600	Up to	1,200	28,250	20,681	3,569	25,820	18,521	3,576
Over	1,200	Up to	2,000	8,378	9,775	2,569	7,140	8,387	2,202
Over	2,000	Up to	4,000	2,910	5,845	1,966	2,623	5,344	1,785
Over	4,000	Up to	8,000	1,095	4,475	1,585	1,039	4,472	1,349
Over	8,000	Up to	20,000	686	6,728	1,753	653	6,275	1,748
Over	20,000	Up to	40,000	317	6,881	2,102	302	6,765	1,882
Over	40,000	Up to	200,000	392	23,663	10,218	379	21,497	10,074
Over	200,000	Up to	400,000	55	9,608	4,943	50	8,710	4,750
Over	400,000	Up to	800,000	18	7,289	2,966	11	3,778	2,484
Over	800,000	Up to	1,200,000	6	4,717	1,568	7	4,008	2,799
Over	1,200,000	Up to	1,600,000	3	2,524	1,283	3	3,991	221
Over	1,600,000	Up to	2,000,000	-	-	-	-	-	-
Over	2,000,000	Up to	2,400,000	2	1,587	2,567	2	2,303	2,276
Over	2,400,000	Up to	2,800,000	-	-	-	-	-	-
Over	2,800,000	Up to	3,200,000	1	2,231	914	-	-	-
Over	3,200,000			-	-	-	1	3,624	2
Total				**777,574**	**130,371**	**50,987**	**727,148**	**123,316**	**47,193**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

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

(4) The credit limit un the top level: NIS 3,145 million (2019: NIS 3,626 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

E. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	December 31, 2020				December 31, 2019			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,248	7	718	6	904	5	561	4
Credit guarantees	2,256	42	1,571	34	2,426	28	1,632	22
Guarantees for home purchasers	11,169	4	10,455	4	11,183	3	10,277	2
Other guarantees and obligations	10,801	59	9,404	54	9,835	81	8,720	79
Unutilized facilities for transactions in derivative instruments	2,054	-	1,957	-	1,724	-	1,631	-
Unutilized facilities credit line for credit cards	33,537	67	6,871	20	31,052	44	6,256	10
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,584	47	8,482	40	9,402	24	7,742	20
Irrevocable commitments to extend credit approved but not yet granted[3]	23,199	67	16,543	63	22,619	34	14,431	31
Commitment to issue guarantees	6,119	5	5,633	5	6,425	4	6,107	3

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaning interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

F. Guarantees

(1) General

The Bank provides a broad variety of guarantees and indemnities for its customers in order to improve their credit ability and to enable them to complete a wide range of transactions. For certain contracts, which meet the definition of the guarantee, the Bank recognizes – at the time of initial recognition – a liability in the amount of the fair value of the obligation with respect to the guarantee at the time of issuing the guarantee. The maximum amount of the potential future payments is determined in accordance with the nominal amount of the guarantees, without taking into account possible repayments or collateral held or pledged.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments

	Consolidated						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2020						
Letters of credit (standby)	183	-	2	-	-	185	-
Credit guarantees	1,837	381	30	8	-	2,256	22
Guarantees for home purchasers	-	-	-	-	11,169	11,169	39
Other guarantees and obligations	5,598	3,443	961	799	-	10,801	60
Total	**7,618**	**3,824**	**993**	**807**	**11,169**	**24,411**	**121**
	December 31, 2019						
Letters of credit (standby)	184	35	-	-	-	219	-
Credit guarantees	1,792	532	66	36	-	2,426	21
Guarantees for home purchasers	-	-	-	-	11,183	11,183	41
Other guarantees and obligations	5,115	1,904	1,758	1,058	-	9,835	54
Total	**7,091**	**2,471**	**1,824**	**1,094**	**11,183**	**23,663**	**116**

	The Bank						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2020						
Letters of credit (standby)	166	-	-	-	-	166	-
Credit guarantees	1,194	345	24	8	-	1,571	16
Guarantees for home purchasers	-	-	-	-	10,455	10,455	36
Other guarantees and obligations	4,920	2,837	859	788	-	9,404	45
Total	**6,280**	**3,182**	**883**	**796**	**10,455**	**21,596**	**97**
	December 31, 2019						
Letters of credit (standby)	159	28	-	-	-	187	-
Credit guarantees	1,050	485	61	36	-	1,632	14
Guarantees for home purchasers	-	-	-	-	10,277	10,277	37
Other guarantees and obligations	4,293	1,648	1,738	1,041	-	8,720	41
Total	**5,502**	**2,161**	**1,799**	**1,077**	**10,277**	**20,816**	**92**

(3) Evaluation of the guarantee risk

Most of the guaranties are rated according to the Credit Granting Rating.

32. Assets and Liabilities according to Linkage Terms

Consolidated

	December 31, 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	36,801	1,590	3,854	342	349	-	42,936
Securities	25,814	991	14,122	764	1	1,093	42,785
Securities borrowed or purchased under agreements to resell	1,074	-	-	-	-	-	1,074
Net credit to the public	139,083	18,999	27,908	2,425	303	-	188,718
Credit to the Government	868	255	1,445	905	-	-	3,473
Investments in associates	-	-	-	-	-	348	348
Buildings and equipment	-	-	-	-	-	2,995	2,995
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	3,363	66	1,840	386	417	328	6,400
Other assets	2,665	30	954	70	108	1,249	5,076
Total assets	**209,668**	**21,931**	**50,123**	**4,892**	**1,178**	**6,177**	**293,969**
Liabilities							
Deposits from the public	157,927	4,576	56,063	5,773	1,779	-	226,118
Deposits from banks	9,745	1	3,315	46	-	-	13,107
Deposits from the Government	136	6	202	-	-	-	344
Bonds and Subordinated debt notes	3,179	6,989	-	31	-	2	10,201
Liabilities in respect of derivative instruments	4,201	136	1,933	381	385	329	7,365
Other liabilities	14,875	823	686	10	371	181	16,946
Total liabilities	**190,063**	**12,531**	**62,360**	**6,241**	**2,535**	**512**	**274,242**
Difference	19,605	9,400	(12,237)	(1,349)	(1,357)	5,665	19,727
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(16,120)	(3,660)	17,009	1,414	1,357	-	-
Net options in the money (in terms of underlying asset)	1,051	-	(1,155)	100	4	-	-
Net options out of the money (in terms of underlying asset)	267	-	(90)	(189)	12	-	-
Total	**4,803**	**5,740**	**3,527**	**(24)**	**16**	**5,665**	**19,727**
Net options in the money (discounted par value)	855	-	(1,000)	171	(26)	-	-
Net options out of the money (discounted par value)	1,968	-	(1,037)	(993)	62	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

Consolidated (continued)

	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	-	-
Net options in the money (in terms of underlying asset)	1,219	-	(968)	(299)	48	-	-
Net options out of the money (in terms of underlying asset)	(47)	-	(65)	109	3	-	-
Total	**7,196**	**4,294**	**3,751**	**(81)**	**(92)**	**4,125**	**19,193**
Net options in the money (discounted par value)	1,148	-	(878)	(336)	66	-	-
Net options out of the money (discounted par value)	(308)	-	(119)	520	(93)	-	-

Footnote:
(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank

	December 31, 2020						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	29,353	-	2,538	233	246	-	32,370
Securities	20,381	787	4,715	602	1	59	26,545
under agreements to resell securities borrowed or purchased	1,074	-	-	-	-	-	1,074
Net credit granted to the public	100,607	14,906	4,835	2,312	242	-	122,902
Credit granted to Governments	842	255	1,445	905	-	-	3,447
Investments in associates	997	93	-	-	-	9,568	10,658
Buildings and equipment	-	-	-	-	-	1,943	1,943
Debit balances of derivative financial instruments	3,289	66	1,331	385	339	321	5,731
Other assets	2,087	1	198	5	108	682	3,081
Total assets	**158,630**	**16,108**	**15,062**	**4,442**	**936**	**12,573**	**207,751**
Liabilities							
Deposits from the public	125,367	4,769	26,511	5,326	1,560	-	163,533
Deposits from banks	4,958	30	811	36	3	-	5,838
Deposits from the Government	2	6	118	-	-	-	126
Subordinated capital notes	975	2,518	-	31	-	-	3,524
Credit balances of derivative financial instruments	4,064	114	1,394	380	306	322	6,580
Other liabilities	7,727	611	160	6	345	119	8,968
Total liabilities	**143,093**	**8,048**	**28,994**	**5,779**	**2,214**	**441**	**188,569**
Difference	15,537	8,060	(13,932)	(1,337)	(1,278)	12,132	19,182
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(14,216)	(3,654)	15,209	1,340	1,321	-	-
Net options in the money (in terms of base asset)	1,050	-	(1,154)	100	4	-	-
Net options out of the money (in terms of base asset)	267	-	(90)	(189)	12	-	-
Total	**2,638**	**4,406**	**33**	**(86)**	**59**	**12,132**	**19,182**
Net options in the money (discounted nominal value)	854	-	(999)	171	(26)	-	-
Net options out of the money (discounted nominal value)	1,967	-	(1,037)	(993)	63	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank (continued)

	December 31,2019						
	Israeli currency		Foreign currency[(1)]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	17,321	-	2,168	243	264	-	19,996
Securities	16,281	520	5,430	1,298	10	101	23,640
under agreements to resell securities borrowed or purchased	531	-	-	-	-	-	531
Net credit granted to the public	96,702	14,532	3,609	1,336	360	-	116,539
Credit granted to Governments	849	297	1,412	957	-	-	3,515
Investments in associates	1,008	94	-	-	-	9,215	10,317
Buildings and equipment	-	-	-	-	-	1,698	1,698
Debit balances of derivative financial instruments	1,590	115	1,866	128	193	364	4,256
Other assets	1,681	1	2	8	467	83	2,242
Total assets	**135,963**	**15,559**	**14,487**	**3,970**	**1,294**	**11,461**	**182,734**
Liabilities							
Deposits from the public	107,645	5,446	25,586	5,432	2,050	-	146,159
Deposits from banks	1,330	36	307	84	5	-	1,762
Deposits from the Government	4	12	-	-	-	-	16
Subordinated capital notes	1,159	2,691	-	41	-	-	3,891
Credit balances of derivative financial instruments	1,745	158	1,913	170	168	359	4,513
Other liabilities	7,289	89	64	4	150	119	7,715
Total liabilities	**119,172**	**8,432**	**27,870**	**5,731**	**2,373**	**478**	**164,056**
Difference	16,791	7,127	(13,383)	(1,761)	(1,079)	10,983	18,678
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(14,184)	(3,272)	14,633	1,875	948	-	-
Net options in the money (in terms of base asset)	1,218	-	(967)	(299)	48	-	-
Net options out of the money (in terms of base asset)	(46)	-	(65)	109	2	-	-
Total	**3,779**	**3,855**	**218**	**(76)**	**(81)**	**10,983**	**18,678**
Net options in the money (discounted nominal value)	1,147	-	(878)	(335)	66	-	-
Net options out of the money (discounted nominal value)	(308)	-	(119)	520	(93)	-	-

Footnote:
(1) Includes those linked to foreign currency.

33. Assets and Liabilities according to Currency and Maturity Periods

Consolidated - in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2020

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets[10]	74,940	14,043	29,392	23,277	18,172
Liabilities	137,410	15,320	25,423	8,543	7,612
Difference	**(62,470)**	**(1,277)**	**3,969**	**14,734**	**10,560**
Derivative instruments (excluding options)	(7,177)	(3,738)	(8,410)	(224)	214
Options (in terms of underlying assets)	(158)	305	882	(20)	1
Difference after effect of derivative instruments:	(69,805)	(4,710)	(3,559)	14,490	10,775
Foreign currency[8]:					
Assets[11]	10,448	3,285	8,476	7,383	5,187
Liabilities	52,956	5,295	9,921	1,108	573
Difference	**(42,508)**	**(2,010)**	**(1,445)**	**6,275**	**4,614**
Of which: Difference in dollar	(38,238)	(1,864)	(1,585)	5,853	4,125
Of which: Difference in respect of foreign activity	(23,170)	570	4,013	4,629	3,530
Derivative instruments (excluding options)	7,177	3,738	8,410	224	(214)
Options (in terms of underlying assets)	158	(305)	(882)	20	(1)
Difference after effect of derivative instruments:	(35,173)	1,423	6,083	6,519	4,399
Total:					
Assets[1]	85,388	17,328	37,868	30,660	23,359
Liabilities[2]	190,366	20,615	35,344	9,651	8,185
Difference	**(104,978)**	**(3,287)**	**2,524**	**21,009**	**15,174**
Derivative instruments (excluding options)					
Options (in terms of underlying assets)					
[1] Of which: Credit to the public	39,433	15,781	31,966	25,880	17,834
[2] Of which: Deposits from the public	173,807	17,365	29,360	3,352	947
B. Balance Sheet Amount as December 31, 2019					
Total:					
Assets[3]	66,894	20,180	37,669	31,534	21,971
Liabilities[4]	154,685	22,148	40,649	6,336	6,901
Difference	**(87,791)**	**(1,968)**	**(2,980)**	**25,198**	**15,070**
[3] Of which: Credit to the public	38,625	18,298	31,369	25,007	17,593
[4] Of which: Deposits from the public	142,311	18,995	33,551	3,426	1,445

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according , to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 344 million (2019: NIS 469 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 4,797 million (2019: NIS 6,333 million) and an amount of NIS 520 million with no due date (2019: NIS 746 million).

(11) Including current loan account credit facilities in the amount of NIS 179 million (2019: NIS 141 million) and an amount of NIS 111 million with no due date (2019: NIS 33 million).

	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6]		
							No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
	13,570	10,154	38,496	22,505	6,920	251,469	1,209	231,955	1.81
	1,967	2,364	3,538	1,557	271	204,005	-	203,081	0.26
	11,603	**7,790**	**34,958**	**20,948**	**6,649**	**47,464**	**1,209**	**28,874**	**1.55**
	(165)	(125)	493	(224)	-	(19,356)	-	(19,555)	-
	-	-	-	-	-	1,010	-	1,051	-
	11,438	7,665	35,451	20,724	6,649	29,118	1,209	10,370	-
	3,593	2,800	9,988	5,756	3,486	60,402	1,285	55,837	1.62
	319	247	755	182	98	71,454	27	70,649	0.37
	3,274	**2,553**	**9,233**	**5,574**	**3,388**	**(11,052)**	**1,258**	**(14,812)**	**1.25**
	2,438	2,442	8,860	5,268	3,358	(9,343)	1,649	(12,435)	-
	1,877	1,881	5,425	4,486	2,685	5,926	1,065	2,895	-
	165	125	(493)	224	-	19,356	-	19,555	-
	-	-	-	-	-	(1,010)	-	(1,051)	-
	3,439	2,678	8,740	5,798	3,388	7,294	1,258	3,692	-
	17,163	12,954	48,484	28,261	10,406	311,871	2,494	287,792	1.77
	2,286	2,611	4,293	1,739	369	275,459	27	273,730	0.29
	14,877	**10,343**	**44,191**	**26,522**	**10,037**	**36,412**	**2,467**	**14,062**	**1.48**
	12,645	10,107	26,653	21,760	5,974	208,033	1,264	188,718	2.44
	594	294	510	286	3	226,518	-	226,118	0.19
	16,049	14,691	38,946	26,417	8,007	282,358	2,655	255,151	2.33
	2,087	1,855	5,750	1,724	488	242,623	35	240,083	0.59
	13,962	**12,836**	**33,196**	**24,693**	**7,519**	**39,735**	**2,620**	**15,068**	**1.74**
	11,986	9,986	24,469	19,903	5,643	202,879	1,415	180,467	3.07
	627	486	996	252	2	202,091	-	201,450	0.60

33. Assets and Liabilities according to Currency and Maturity Periods (continued)

The Bank - in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2020

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	58,034	8,726	20,409	17,107	13,617
Liabilities	106,018	9,093	17,802	6,402	5,269
Difference	**(47,984)**	**(367)**	**2,607**	**10,705**	**8,348**
Derivative instruments (excluding options)	(6,076)	(3,364)	(7,928)	(249)	214
Options (in terms of base assets)	(159)	305	882	(20)	1
Difference after effect of derivative instruments:	(54,219)	(3,426)	(4,439)	10,436	8,563
Foreign currency[8]:					
Assets[11]	6,814	1,332	2,101	2,127	1,359
Liabilities	24,125	3,819	7,123	564	296
Difference	**(17,311)**	**(2,487)**	**(5,022)**	**1,563**	**1,063**
Of which: Difference in dollar	(13,684)	(2,317)	(5,157)	1,202	776
Of which: Difference in respect of foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	6,076	3,364	7,928	249	(214)
Options (in terms of underlying assets)	159	(305)	(882)	20	(1)
Difference after effect of derivative instruments:	(11,076)	572	2,024	1,832	848
Total:					
Assets[1]	64,848	10,058	22,510	19,234	14,976
Liabilities[2]	130,143	12,912	24,925	6,966	5,565
Difference	**(65,295)**	**(2,854)**	**(2,415)**	**12,268**	**9,411**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
(1) Of which: Credit to the public	30,481	8,604	17,801	15,285	10,002
(2) Of which: Deposits from the public	122,794	10,827	21,872	2,683	1,214
B. Balance Sheet Amount as December 31, 2019					
Total:					
Assets[3]	52,444	12,663	21,685	18,986	13,637
Liabilities[4]	105,111	13,503	27,709	4,221	5,592
Difference	**(52,667)**	**(840)**	**(6,024)**	**14,765**	**8,045**
(3) Of which: Credit to the public	30,575	10,832	16,006	13,955	10,170
(4) Of which: Deposits from the public	99,476	12,187	25,509	2,781	1,594

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 178 million (2019: NIS 304 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 2,733 million (2019: NIS 3,776 million) and an amount of NIS 402 million with no due date (2019: NIS 572 million).

(11) Including current loan account credit facilities in the amount of NIS 152 million (2019: NIS 103 million) and an amount of NIS 102 million with no due date (2019: NIS 22 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6] No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
10,408	7,634	29,183	18,049	5,121	188,288	1,247	174,985	1.98
1,642	2,247	2,859	1,135	170	152,637	-	151,603	0.27
8,766	**5,387**	**26,324**	**16,914**	**4,951**	**35,651**	**1,247**	**23,382**	**1.71**
(165)	(125)	493	(224)	-	(17,424)	-	(17,622)	-
-	-	-	-	-	1,009	-	1,050	-
8,601	5,262	26,817	16,690	4,951	19,236	1,247	6,810	-
1,558	791	3,772	1,185	520	21,559	186	20,194	1.97
196	137	390	182	98	36,930	2	36,525	0.27
1,362	**654**	**3,382**	**1,003**	**422**	**(15,371)**	**184**	**(16,331)**	**1.70**
557	547	3,086	697	425	(13,868)	802	(14,044)	-
-	-	-	-	-	-	-	-	-
165	125	(493)	224	-	17,424	-	17,622	-
-	-	-	-	-	(1,009)	-	(1,050)	-
1,527	779	2,889	1,227	422	1,044	184	241	-
11,966	8,425	32,955	19,234	5,641	209,847	1,433	195,179	1.98
1,838	2,384	3,249	1,317	268	189,567	2	188,128	0.27
10,128	**6,041**	**29,706**	**17,917**	**5,373**	**20,280**	**1,431**	**7,051**	**1.71**
7,761	6,071	17,852	17,185	4,675	135,717	697	122,902	2.76
1,075	1,842	1,860	122	-	164,289	-	163,533	0.22
9,576	9,678	27,113	17,924	5,411	189,117	1,547	171,273	2.48
1,667	1,549	4,894	1,499	392	166,137	2	163,578	0.60
7,909	**8,129**	**22,219**	**16,425**	**5,019**	**22,980**	**1,545**	**7,695**	**1.88**
7,003	5,902	16,769	16,091	4,810	132,113	804	116,539	3.08
1,025	997	3,280	322	-	147,171	-	146,159	0.52

34. Balances and Fair Value Estimates of Financial Instruments

A. General

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not necessarily serve as an indication for the realization value of the financial instrument on the reporting date.

Estimating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Additionally, no consideration was given to fees and commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value and the amounts presented in fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

C. **Methods and main assumptions used in estimating the fair value of financial instruments**

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Net credit to the public - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2020, the Bank has classified approx. 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2019: approx. 99%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have increased the fair value of the problematic debts by NIS 0.3 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1 million (compared to a decrease of fair value by NIS 2 million and NIS 1 million, respectively, as of December 31, 2019).

Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 131 million (compared to a decrease of NIS 149 million at December 31, 2019). 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 December 31, 2020, compared to 3.54 years, taking into consideration the forecast for early redemptions (December 31, 2019: 3.91 years and 3.35 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 18 million (compared to NIS 25 million at December 31, 2019). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2020 to 2.73 years, compared to 2.57 years, taking into consideration the forecast for early redemption (December 31, 2019: 2.80 years and 2.64 years, respectively).

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of fees and commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

D. Composition - consolidated[3]

	December 31, 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	42,936	16,716	-	26,163	42,879
Securities[2]	42,785	27,884	14,211	1,000	43,095
Securities borrowed or purchased under agreements to resell	1,074	-	-	1,074	1,074
Net credit to the public	188,718	2,387	-	187,121	189,508
Credit to Governments	3,473	-	-	3,459	3,459
Assets in respect of derivative instruments	6,400	340	4,600	1,460	6,400
Other financial assets	1,701	7	10	1,684	1,701
Total financial assets	**(3)287,087**	**47,334**	**18,821**	**221,961**	**288,116**
Financial liabilities					
Deposits from the public	226,118	25,593	164,914	36,224	226,731
Deposits from banks	13,107	1,666	4,961	6,435	13,062
Deposits from the Government	344	-	252	97	349
Securities lent or sold under agreements to repurchase	161	-	-	161	161
Bonds and Subordinated debt notes	10,201	9,211	59	1,247	10,517
Liabilities in respect of derivative instruments	7,365	340	6,710	315	7,365
Other financial liabilities [4]	12,224	821	10	11,393	12,224
Total financial liabilities	**(3)269,520**	**37,631**	**176,906**	**55,872**	**270,409**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	121	-	-	121	121

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 62,418 million and NIS 144,837 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 sections B and C below.

(4) Not including liabilities in respect of leasing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. Composition - consolidated[3] (continued)

	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 12.

(3) Of which: assets and liabilities in the amount of NIS 54,496 million and NIS 108,470 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see sections B and C below.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis

	December 31, 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	17,925	3,284	-	-	21,209
Foreign Governments bonds	772	64	-	-	836
Israeli financial institutions bonds	110	28	-	-	138
Foreign financial institutions bonds	-	475	-	-	475
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,798	-	-	7,799
Bonds of others in Israel	256	123	-	-	379
Bonds of others abroad	-	1,797	-	-	1,797
Shares not for trading	79	13	-	-	92
Total available-for-sale bonds and shares not for trading	**19,143**	**13,582**	**-**	**-**	**32,725**
Trading Securities					
Israeli Government bonds	852	205	-	-	1,057
Foreign Governments bonds	26	-	-	-	26
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	40	-	-	40
Bonds of others in Israel	12	1	-	-	13
Bonds of others abroad	-	-	-	-	-
Trading Shares	1	-	-	-	1
Total trading securities	**891**	**246**	**-**	**-**	**1,137**
Credit to the public in respect of securities loaned	2,387	-	-	-	2,387
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	246	-	246
Other Interest Rate Contracts	-	2,279	248	-	2,527
Foreign Currency Contracts	38	2,241	929	-	3,208
Shares Contracts	302	40	-	-	342
Commodity and other Contracts	-	40	37	-	77
Total assets in respect of derivative instruments	340	4,600	1,460	-	6,400
Other	-	10	-	-	10
Assets in respect of the "Maof" market operations	7	-	-	-	7
Total assets	**22,768**	**18,438**	**1,460**	**-**	**42,666**
Liabilities					
Deposits from the public in respect of securities borrowed	1,718	-	-	-	1,718
CLN deposits	-	-	31	-	31
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	168	-	168
Other Interest Rate Contracts	-	2,765	-	-	2,765
Foreign Currency Contracts	38	3,838	147	-	4,023
Shares Contracts	302	33	-	-	335
Commodity and other Contracts	-	74	-	-	74
Total liabilities in respect of derivative instruments	340	6,710	315	-	7,365
Other	-	10	-	-	10
Commitments in respect of the "Maof" market operations	7	-	-	-	7
Short sales of securities	814	-	-	-	814
Total liabilities	**2,879**	**6,720**	**346**	**-**	**9,945**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	December 31, 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**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	December 31, 2020				
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2020
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	692	692	(122)
Not for trading shares	-	-	94	94	(24)

	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)

F. Changes in items measured at fair value on a recurring basis included in item 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
	in NIS millions							
	For the year ended December 31, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	[(1)]77	-	(74)	-	-	78	[(1)]64
Other Interest Rate Contracts	200	[(1)]169	-	(122)	(8)	9	248	[(1)]176
Foreign Currency Contracts	253	[(1)]417	(147)	262	(12)	9	782	[(1)]687
Commodity and other Contracts	23	[(1)]7	-	7	-	-	37	[(1)]36
Total	**551**	**670**	**(147)**	**73**	**(20)**	**18**	**1,145**	**963**
Liabilities								
CLN Deposits	(144)	[(2)](1)	-	114	-	-	(31)	[(2)](2)
	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 profit and loss in the item "Non-interest financing income".
(2) Included in the statement of profit and loss in the item "Interest income and expenses".

34. Balances and Fair Value Estimates of Financial Instruments (continued)

G. Transfers between hierarchy levels of fair value

Transfers to or from level 3 were made in 2019 and 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.

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Fair value as at December 31, 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	692	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	94	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	78	Discounted cash flow	Inflationary expectations	From	-4.74%	to	1.31%	(0.68%)
			Counterparty credit risk (CVA)	From	0.00%	to	3.16%	(1.00%)
Other Interest Rate Contracts	248	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	1.81%	(0.01%)
Foreign Currency Contracts	782	Discounted cash flow	Inflationary expectations	From	-4.74%	to	1.31%	(0.83%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	91.65%	(0.20%)
Commodities and other contracts	37	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					

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Fair value as at December 31, 2019	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	580	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Not for trading shares	14	Evaluation	Company value	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	75	Discounted cash flow	Expected inflation	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	Expected inflation	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). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In as much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries

A. Balances

	December 31, 2020													
	Interested parties[1]										Related parties[1]			
	Shareholders										Held by the Bank			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	9	9
Securities[12]	-	-	-	-	-	-	-	3	-	-	-	-	480	480
Credit to the public	-	-	-	-	1	1	356	410	110	115	247	261	565	668
Provision for credit losses	-	-	-	-	-	-	(2)	(2)	(1)	(1)	(1)	(1)	(23)	(24)
Net credit to the public	-	-	-	-	1	1	354	408	109	114	246	260	542	644
Investments in associates[12]	-	-	-	-	-	-	-	-	-	-	348	348	-	-
Other assets – other debtors and debit balances	-	-	-	-	-	-	231	291	-	-	-	25	53	59
Liabilities:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from the public	-	-	42	55	5	6	4,100	4,610	-	-	28	85	283	425
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	500	500
Subordinated debt notes	-	-	19	20	-	-	398	442	-	-	-	-	-	-
Other liabilities	-	-	696	696	23	23	1,743	1,743	-	-	23	23	78	84
Shares (included in equity)[13]	-	-	6,313	6,313	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	1	1	4	4	173	278	-	-	8	137	345	457

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

A. Balances (continued)

	December 31, 2019													
	Interested parties[1]										Related parties Held by the Bank[1]			
	Shareholders													
	Controlling Shareholders[2]		Other shareholders		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	4	25
Securities	-	-	-	-	-	-	3	3	-	-	-	-	468	468
Credit to the public	-	-	-	-	1	1	57	81	115	118	464	478	131	186
Provision for credit losses	-	-	-	-	-	-	-	(1)	(1)	(1)	(2)	(2)	(2)	(2)
Net credit to the public	-	-	-	-	1	1	57	80	114	117	462	476	129	184
Investments in associates[12]	-	-	-	-	-	-	-	-	-	-	171	171	-	-
Other assets – other debtors and debit balances	-	-	-	-	-	-	-	1	-	-	21	21	13	14
Liabilities:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from the public	-	-	10	106	7	7	2,117	2,277	-	-	45	61	251	404
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	599	722
Subordinated debt notes	-	-	19	20	-	-	123	123	-	-	-	-	-	-
Other liabilities	-	-	[18]705	[18]705	21	21	[18]636	[18]642	-	-	15	20	25	50
Shares (included in equity)[13]	-	-	3,721	3,721	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	1	1	4	5	41	42	-	-	98	98	437	444

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

B. Summarized results of transactions with related and interested parties

	Interested parties[1]				Related parties[1]	
	Shareholders				Held by the Bank	
	Controlling Shareholders[2]	Other shareholders[3]	Officers[4]	Others[6][7]	[8]Associates	Others[9]
	in NIS millions					
	For the year ended December 31, 2020					
Net interest income (expenses) (See item D)	-	(1)	-	(22)	3	5
credit loss expenses	-	-	-	(1)	(1)	(20)
Non-interest income	-	19	-	[15]202	58	134
Operating and other expenses (See item C)	-	-	(36)	(32)	(13)	(35)
Total	**-**	**18**	**(36)**	**147**	**47**	**84**
	For the year ended December 31, 2019					
Net interest income (expenses) (See item D)	-	4	-	(10)	8	1
credit loss expenses	-	-	-	-	(1)	(1)
Non-interest income	-	[18]14	-	[15][18]60	12	77
Operating and other expenses (See item C)	-	-	(40)	(14)	(13)	(35)
Total	**-**	**18**	**(40)**	**36**	**6**	**42**
	For the year ended December 31, 2018					
Net interest income (expenses) (See item D)	-	4	-	(3)	8	1
credit loss income (expenses)	-	(1)	-	1	-	-
Non-interest income (expenses)	-	-	-	[15](176)	7	103
Operating and other expenses (See item C)	-	-	(38)	(6)	(11)	(36)
Total	**-**	**3**	**(38)**	**(184)**	**4**	**68**

C. Remuneration and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2020		2019		2018	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf[17]	31	16	33	16	33	16
Directors who are not employed by the Bank or on its behalf	5	9	7	9	5	12
Total	**36**	**25**	**40**	**25**	**38**	**28**

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

D. Net interest income, in transactions of the Bank and its consolidated subsidiaries with related and interested parties[18]

	Consolidated			Of which from Associates		
	2020	2019	2018	2020	2019	2018
	in NIS millions					
A. On assets						
Credit to the public	14	21	25	3	8	8
Total	**14**	**21**	**25**	**3**	**8**	**8**
B. On liabilities						
Deposits from the public	(10)	(11)	(11)	-	-	-
Deposits from the banks	(3)	(4)	(4)	-	-	-
Subordinated capital notes	(16)	(3)	-	-	-	-
Total	**(29)**	**(18)**	**(15)**	**-**	**-**	**-**
Total Net interest income	**(15)**	**3**	**10**	**3**	**8**	**8**

Footnotes: relating to Note 35 A,B,C & D:
(1) Interested party, related party - as defined in item 80 d of the public Reporting Directives.
(2) Controlling shareholder and their relatives – in accordance with item 80 d (1) of the public Reporting Directives.
(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO in accordance with item 80 d (2) of the public Reporting Directive.
(4) Officers - in accordance with item 80 d (3) of the public Reporting Directives.
(5) As regards the engagement terms see item O below
(6) in accordance with item 80 d (4) of the public Reporting Directives.
(7) In respect of corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.
(8) Associates - in accordance with item 80 d (7) of the public Reporting Directives.
(9) in accordance with item 80 d (5) of the public Reporting Directives.
(10) The balance at balance sheet date.
(11) The highest balance during the year on the basis of month-end balances.
(12) Details of these item are included also in Securities - Note 12, Investments in Investee Companies - Note 15 and guarantees Note 26.
(13) Holdings of interested parties and of related parties in the equity of the banking corporation.
(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.
(15) stemming mainly from derivative financial instruments activity and Clearing commissions.
(16) The amounts of the remuneration do not include payroll tax.
(17) Including the officiating Chairman of the Board (see item F below)
(18) Reclassified – improvement of data of a subsidiary company.

E. (1) On December 3, 2013 the Bank became a bank with no core controlling interest.

(2) During 2018-2020, a number of entities managing customer funds became interested parties in the Bank, following the policy of the Bank of Israel in the matter of the granting of a bank holding permit to entities managing customer funds. It is noted that in accordance with the Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties", entities which had obtained a holding permit in accordance with the said policy, who hold means of control of the Bank of a rate that does not exceed 7.5%, have been removed from the definition of "related party", and accordingly, transactions of a banking corporation with such entities does not require approval in accordance with the said Directive.

F. **Remuneration for the officiating Chairman of the Board, the officiating President & CEO and the former President & CEO**

Remuneration for the officiating Chairman of the Board. The officiating Chairman of the Board of Directors took office as Chairman on December 3, 2018.

The Board of Directors decided on February 26, 2019, to accept the recommendation of the Remuneration Committee of February 12, 2019, and approve the terms of office of the Chairman, beginning with the date on which he takes office as Chairman of the Board of the Bank, and subject to the provisions of the law/regulation permitting such terms of office as stated:

1. Period of office - The terms of office apply as from December 3, 2018 and until the end of his period of office as Chairman of the Board (the Chairman ended his second period of office as Director on December 11, 2020, and was appointed to an additional period of office until December 11, 2023).
2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and in accordance with the Bank's needs. The Chairman may not enter into any additional paid engagement, unless he receives in advance the consent of the Board of Directors.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received in accordance with his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled in accordance with his terms of office.
4. The consideration – In respect of his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 2,425 thousand, linked to the CPI, with the addition of VAT under the law ("the annual consideration").
5. Deposits with severance pay and provident funds - In addition to the annual consideration, as stated, the Bank shall pay to the Chairman additional amounts, with the addition of VAT under the law, in lieu of severance pay, provident contributions and loss of work ability compensation, against the deposit thereof by the Chairman in Funds, so that the total of the comprehensive annual remuneration payable to the Chairman, including deposits with severance pay and provident funds, would amount to NIS 2,796 thousand (linked to the CPI).
6. Additional terms – The Chairman shall be entitled to an appropriate motor vehicle or to reimbursement of expenses in respect of use of his private vehicle and/or to telephone expenses and/or to benefits and other terms respecting his duties as Chairman of the Board, all as is the accepted practice at the Bank, and provided that the total annual cost to the Bank in respect of the terms of office shall not exceed the annual consideration (not including deposits with severance compensation and provident funds).
7. Expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties, in accordance with the accepted practice at the Bank.
8. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
9. Additional duties - The Chairman is committed to a non-competition and a "cooling-off" period of six months since the date of termination of office and to the maintaining of confidentiality for an unlimited period.

On April 3, 2019, the general meeting of the Bank's shareholders approved the aforesaid terms of office and the revision of the remuneration policy for officers accordingly. This, subject to the provisions of the law/regulation permitting such terms of office as stated.

The terms determined in the decision of the General Meeting of Shareholders regarding the entry into effect of the terms of office and employment, as stated above, were fulfilled on July 29, 2019, including the approval by the Supervisor of Banks and the terms stated by her (hereinafter: "date of entry into effect of the terms of office").

Until date of entry into effect of the terms of office, the Chairman of the Board continued to receive remuneration as a regular Director, in accordance with the Companies Regulations (Rules regarding remuneration and reimbursement of expenses to an external Director), 2000, and with the Bank's remuneration policy. Following the entry into effect of the terms of office, the Chairman of the Board received the remuneration to which he is entitled since date of the beginning of his office, net of the amounts that had been received by him as Director's remuneration, as stated.

Updating of the terms of office of the acting Chairman of the Board. Within the framework of the discussions regarding the remuneration policy for officers, and within the framework of the examination of all aspects relating to remuneration at the Bank, while making a comparative examination of the practice existing in the banking sector. On March 18, 2020, following approval by the Remuneration Committee and by the Bank's Board of Directors, the Bank's General Meeting of Shareholders approved the updating of the terms of office of the Chairman, as follows:

(1) In respect of the undertaking by the Chairman for a non-competition period, including his undertaking not to act during the non-competition period as Director of or provide services or consultation to a banking or financial institution, which is a significant competitor of the Bank, the Chairman of the Board would be entitled to a non-competition payment in an amount equal to one half of the total annual remuneration applicable to the office of the Chairman. The said payment in respect of non-competition would be paid at the end of the non-competition period, subject to compliance by the Chairman with his undertaking for a non-competition period.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(2) To the extent that the permitted maximum level under the Remuneration Act, including Section 2(b) to the Act, with the averaging of the awards granted to employees of the lowest remuneration level, shall increase in relation to the maximum level applying at date of approval for the first time of the terms of office of the Chairman by the general meeting of shareholders, which amounted to approx. NIS 3,010 thousands (which does not include payments and provisions for pension and severance pay in accordance with the Law) – the amount of the annual remuneration and the amount of deposits with severance pay and provident funds as stated in the terms of office of the Chairman, shall increase pro-rata with the rate of increase of the existing maximum level.

Terms of office and employment of the President & CEO acting in the interim period. In accordance with the provisions of Regulation 1B4 of the Companies Regulations (Relief regarding transactions with interested parties), 2000, the Remuneration Committee and the Board of Directors approved the terms of office and employment of the acting President & CEO, since the beginning of his appointment (December 2, 2019) and until date on which the Bank's general meeting of shareholders which is convened for March 18, 2020, the Agenda of which includes a proposed resolution to approve the terms of office and employment of the acting President & CEO (hereinafter: "the interim period"), stating that the terms of office and employment during the interim period are not more beneficial in comparison with the terms of office and employment of the former President & CEO.

Terms of office and engagement of the President & CEO. A special General Meeting of Shareholders held on March 18, 2020, resolved to approve the terms of office and engagement of the President & CEO, applying as from December 2, 2019, with the Bank and the President & CEO settling the account regarding the amounts paid to him in the interim period until date of approval by the Bank's General Meeting of Shareholders, as compared with amounts according to the terms of office and engagement detailed below, including by way of offsetting.

The terms of engagement had been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive No. 301A. The President & CEO is engaged in a fulltime position and is not entitled to engage in any additional paid occupation, unless he had obtained in advance the consent of the Board of Directors. The terms of engagement of the President & CEO are in effect for an indeterminate period, each party having the right to inform the other party of the termination of the engagement, which would take place at least six months following the date of the said notice (hereinafter: "the advance notice period"). During the advance notice period, the President & CEO will continue to perform his duties in a full and proper manner, unless the Bank decides to forego his work in effect during the advance notice period, in whole or in part, continuously or intermittently. To the extent that the President & CEO continues to work during the advance notice period, he would be entitled to the monthly salary and to the related benefits in accordance with the terms of engagement. In the event that the Bank decides not to continue engaging the President & CEO during the advance notice period, he would be paid the total amount of the remuneration due for the advance notice period, to which he would have been entitled if he would have continued in office as President & CEO until the end of the advance notice period.

In consideration for the fulfillment of his duties, the President & CEO is entitled to a monthly salary of NIS 225,000, gross. The monthly salary is linked to the rise in the CPI, as determined by the engagement terms. At his discretion, the President & CEO may request that his monthly salary would be updated, subject to required changes and adjustments to the related benefits, in whole or in part, as stated in the engagement terms, so that an increase or decrease in his monthly salary, as the case may be, shall come on account of a parallel increase or decrease, as the case may be, in the related benefits, and vice versa, and subject to any law and to no change occurring in the maximum amount of the fixed remuneration. As of date of approval of the engagement terms, the maximum fixed annual remuneration of the President & CEO is the amount of NIS 2,802 thousand per year, excluding payments and provisions made by the Bank in respect of severance pay, provident fund and loss of work ability, as required by law. The maximum amount of the fixed amount of the remuneration is linked to the CPI.

The President & CEO is entitled to paid vacation days (with no accumulation save as detailed below), sick leave, recreation, a suitable motor vehicle, social benefits (pension/managers' insurance arrangements, provident and/or pension funds, including provident; further education fund, loss of work ability insurance), reimbursement of certain expenses and additional benefits. At the end of his tenure of office for whatever reason, the President & CEO would be entitled to severance pay on the basis of his most recent monthly salary, or to the funds and rights accumulated in his favor according to the pension arrangement, the higher amount of the two. The President & CEO is entitled to request to make changes in the related benefits, as stated above, and everything subject to changes and adjustments in other related benefits, as stated, where required, and subject to the maximum fixed amount of remuneration.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

The Bank may be entitled to require the President & CEO to abide by a cooling-off and no competition period of up to six months following the date of termination of his office, in a way that he would not be engaged or provide services to a banking corporation or to a financial institution, which is a significant competitor of the Bank.

Subject to compliance with the minimum conditions determined by the remuneration policy for officers with respect to return on equity and capital adequacy ratios, the President & CEO would be entitled to an annual award dependent upon performance, of up to two monthly salaries, derived from the results of the Bank according to the group indices and the relating goals, as determined for that year in respect of officers of the Bank, in accordance with the remuneration policy, as stated.

In addition, the Remuneration Committee and the Board of Directors are entitled to grant to the President & CEO a qualitative annual award, not to exceed three monthly salaries, if they find, at their discretion, that reasons exist justifying the granting of an annual award to the President & CEO, as stated, even though the conditions for the granting of an annual award dependent on performance had not been attained. Entitlement to the said awards is subject to the fact that the permitted maximum amount according to the Remuneration Act (including Section 2(b) of the Act), averaged by the awards granted to employees receiving the lowest amount of remuneration, permits the payment of such an award, and the amount of the award would be cut down to the permitted level of the maximum amount, as stated.

In November 2020, the Bank's Remuneration Committee approved an immaterial change in the terms of engagement of the President & CEO, in accordance with Section 272(d) of the Companies Act, permitting the President & CEO to accumulate vacation days unutilized by him in 2020, so that they would be redeemable at the end of his engagement period or during that period. The Committee considers that this change agrees with the parameters determined by the Bank's remuneration policy regarding an immaterial change, and that it does not lead to a deviation from the maximum level of the total remuneration permitted in the case of the President & CEO according to the Remuneration Act.

Terms of office and engagement of the former President & CEO. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the former President & CEO, for a period of five years as from October 12, 2016. The said terms of office and employment, replaced the terms of office and employment as approved by the General Meeting of Shareholders held on January 17, 2014 (hereunder: "the original agreement").

The former President & CEO was entitled to an advance notice period of six months. In the event of her employment to be terminated after five years and not extended, the former President & CEO would be entitled to payment of the advance notice cost. The former President & CEO was employed in a fulltime position and was not permitted to engage in any other gainful occupation, unless the prior consent of the Board of Directors is obtained.

The engagement terms have been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive 301A. In view of the restrictions determined by the Remuneration Act, the approved remuneration terms include a reduction in the scope of remuneration applying to the President & CEO.

In consideration for the fulfillment of her duties, the former President & CEO was entitled to a monthly salary of NIS 180,000, gross (Non-linked). In each calendar year during her employment period, the former President & CEO was entitled to an additional monthly salary (13th month salary) including also social allowances in respect thereof.

The former President & CEO was entitled to paid vacation days (may not be accumulated), paid sick leave, recreation pay, a suitable motor vehicle, social benefits (pension arrangement – executives' insurance, compensation fund and/or pension fund, including provident contributions; further education fund; loss of work ability insurance), reimbursement of certain expenses and additional benefits.

The Remuneration Committee and the Board of Directors, at their discretion, were permitted to grant the former President & CEO an annual award in an amount not exceeding three monthly salaries.

Severance pay – at the end of her period of office, for whatever reason, the President & CEO would be entitled to severance pay on the basis of her last monthly salary, or to the funds and rights accumulated to her credit in respect of the pension arrangement, the higher of the two. Furthermore, she would also be entitled to an adaptation award amounting to six monthly salaries with the addition of the social and other benefits related thereto.

The annual remuneration of the former President & CEO (excluding social benefits and related benefits) did not exceed the maximum amount permitted by Section 2(b) of the Remuneration Act. Following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration were also updated. The engagement terms also state that to the extent that the maximum amount permissible by the Remuneration Act allows, the fixed remuneration component of the President & CEO shall be increased by an additional fixed remuneration component, not to exceed one additional monthly salary.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

Nothing in the terms of office and employment that were approved on November 8, 2016 shall be treated as impairing the rights accrued by the former President & CEO through October 12, 2016, including variable remuneration in respect to 2016 and the compensation for terminating the employee-employer relationship (the right to receive severance pay, within the framework of terminating the employee-employer relationship, on the initiative of the President & CEO or on the initiative of the Bank, in addition to the ongoing deposits in respect to severance pay made to her pension arrangement funds).

Remuneration in respect of the year 2018. The Remuneration Committee has confirmed that in accordance with the "restricted ratio" stated in the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016, (the Remuneration Act) - multiplication by 35 of the expense in respect of the lowest remuneration paid to a bank employee for the year 2018, including employees of contractors – the maximum amount of the potential remuneration payable to the President & CEO in respect of the year 2018, totals NIS 3,009,790 (not including severance pay and provident fund contributions under the law). Accordingly, the President & CEO is entitled to an additional fixed remuneration component in the amount equal to one monthly salary (with the addition of severance pay and provident fund contributions under the law) totaling NIS 206,700.

G. **Awards to the former President & CEO.** In accordance with the terms of the original agreement, the former President & CEO, among other things, was entitled to an annual award, a current award and to special awards, as detailed below:

(1) **Annual award.** During the term of her engagement, the President & CEO was entitled to an annual award in respect of each award year, which was restricted to a maximum amount of NIS 2.2 million, linked to the CPI in respect of December 2013.

Minimum requirements as regards entitlement to the annual award. Entitlement to the annual award in respect of a particular award year was conditional upon the existence together of all the following minimum terms:

- The rate of return on capital in the award year shall not fall below the higher of 7% or the weighted average rate of return on capital in the award year of the four major banks, less 2%;
- The total capital adequacy ratio and the core capital ratio of the Bank, according to the annual financial statements for the award year, shall not fall below the minimum ratios as determined by instructions of the Supervisor of Banks;
- At least a grade "2" marking in the qualitative index for the award year has been granted to the former President & CEO, as detailed below.

Computation of the annual award. The annual award was computed on the basis of five indices, having identical weight, which are based upon the Bank`s performance (hereinafter: "the quantitative indices" - Return on capital; Efficiency ratio; Fees and commissions and other income; Core capital ratio) and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors (hereinafter: "the qualitative index"). The Remuneration Committee and the Board of Directors were entitled to decide that with respect to a particular award year, the award shall be based solely on the quantitative indices.

(2) **Current award.** The former President & CEO was entitled to a current award in respect of each award year, in an amount of NIS 900 thousand, linked to the CPI, subject to the entitlement terms, as detailed below.

Entitlement terms to the current award. The entitlement to a current award in respect of a particular award year is conditional upon the existence together of all entitlement terms, as detailed below:

- The core capital adequacy ratio, in accordance with the annual consolidated financial statements, is not lower than the ratio determined in the work plan for the award year.
- The actual efficiency ratio, as computed on the basis of the Bank`s standalone financial statements for the award year, less special profits or losses, is not higher than the efficiency ratio to be determined by the Board of Directors at the beginning of the award year, in accordance with the Bank's work plan.
- The grade granted to the former President & CEO is at least grade "2" of the qualitative index for the award year.

(3) **Special awards**

3.1 **Award for special profits or losses.** The Remuneration Committee and the Board of Directors were entitled to grant the former President & CEO a special award, either positive or negative, in respect of special profits or losses. This award was computed as the difference between the annual award for the award year and the annual award which would have resulted had the special profits or losses not been eliminated in the computation of the quantitative indices, as stated above, with the addition of 20% of the said difference, provided that the resultant amount does not exceed NIS 700 thousand, linked to the CPI. The amount of the negative award is not to exceed the level of entitlement to the annual award.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

3.2 **Special contribution award.** In exceptionally beneficial circumstances regarding an exceptional business event and/or special contribution, which are to be defined in advance by the Board of Directors according to measurable criteria, the Remuneration Committee and the Board of Directors were allowed to grant the former President & CEO a special award, in an amount not exceeding NIS 700 thousand, linked to the CPI. The award in respect of a special contribution is subject to any approval or disclosure required by law. The award in respect of a special contribution shall not be awarded more than once in every three years.

3.3 **Award in special circumstances.** The Remuneration Committee and the Board of Directors were allowed to grant the former President & CEO an annual award in a monetary amount not exceeding the amount of two monthly salaries, in the event that the minimum conditions for the annual award had not materialized, on condition that the following cumulative terms exist:

- The Remuneration Committee and the Board of Directors have found that in that year, special circumstances had exited in the Bank itself or in the banking industry in Israel or in the macro-economic situation;
- The total capital adequacy ratio and the core capital ratio, in accordance with the annual consolidated financial statement for the award year, were not lower than the minimum ratios determined by the instructions of the Supervisor of Banks.

(4) On February 2, 2015, the Bank's Board of Directors received the recommendation of the audit committee and approved the targets for the purpose of computing the annual award to the President & CEO for the years 2015-2016.

(5) **The annual award for 2018.** The Remuneration Committee and the Board of Directors approved an annual award to the President & CEO in the amount of NIS 313 thousand, equal to 1.74 of a monthly salary. It is noted that the said award was affected by the limitation under the law. Furthermore, in view of the attainment of the return on equity goal, as determined in the original engagement agreement with the President & CEO regarding the entitlement to a deferred award, the entitlement to the second deferred installment (out of three deferred installments) had been realized regarding the awards in respect of special contribution, the current award and the special circumstances award, as approved by the Board of Directors in December 2016 and March 2017 in respect of the year 2016. The amount of the deferred installment that was payed to the President & CEO proximate to the date of publication of the financial statements for 2018, totals NIS 441 thousand, and it includes a component of linkage to the relevant share data as of that date, as determined in the original engagement agreement with the President & CEO.

(6) **The annual award in respect of 2019.** The Remuneration Committee and the Board of Directors approved the payment to her of an annual award in respect of the year 2019 of NIS 540 thousand, comprising three monthly salaries. This, in accordance with the remuneration policy and the terms of office and employment of the President & CEO, following findings showing existence of the factors justifying the granting of an annual award, as stated. The amount of the deferred installment that was payed to the former President & CEO proximate to the date of publication of the financial statements for 2019, totals NIS 559 thousand (as of December 31, 2019) and it includes a component of linkage to the relevant share data as of that date, as determined in the original engagement agreement with the President & CEO.

H. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2020, amounted to NIS 5,407 million (as at December 31, 2019 – NIS 6,930 million).

I. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 26 C 4 and Note 26 C 5.

J. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 10 sections a and b.

K. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, see Note 26 C 8, sections N and O.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

L. **Remuneration of expert directors.** Following approval by the Remuneration Committee, the Board of Directors approved on May 16, 2018, the payment of annual remuneration and remuneration for participation in meetings to external directors and other directors officiating and who would officiate at the Bank (excluding the Chairman of then Board), and who are expert directors, as defined in the Remuneration Regulations, in an amount that does not exceed the "maximum amount for an external expert director" stated in the fourth addendum to the Companies Regulations (Rules regarding remuneration and expenses payable to an external director), 2000, in accordance with the grade of the Bank (hereinafter: "the updated remuneration"). A director who is not an expert director shall continue to receive annual remuneration and remuneration for participation in meetings, as stated in Note 35 L to the financial statements as of December 31, 2017.

The said updated remuneration shall be paid to an expert director, as stated, starting with the date of beginning of office of a new external director at the Bank, or the date of renewal of office of an officiating external director, the earlier of the two.

The said approval was granted in accordance with Regulation 1A of the Relief Regulations (Relief regarding transactions with interested parties), 2000.

M. **Terms of transactions with interested and related parties.** All business with interested and related parties including non-banking transactions (such as in the insurance field), has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

N. For details regarding the remuneration policy for officers of the Bank, see Note 23 D and E. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2017-2019), see Note 23 F. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2020-2022), see Note 23 G.

36. Credit Card Activity

A. **Existing arrangements between the credit card companies and between such companies and the banks**

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Competition Tribunal for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer fees and commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Competition Commissioner (hereinafter: "the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Competition Court. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement - reduction of the issuer commission rate. The Competition Tribunal approved on March 7, 2012 a new compromise arrangement, to which had been attached an amended cross clearing arrangement. The compromise agreement determines, among other things, that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement and that the reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement.

   The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission decreased and amounts as of December 31, 2018 to an average rate that did not exceed 0.7%.

   Local clearing exemption terms. On April 25, 2018, the Competition Commissioner published his decision to exempt, under certain terms, the cross clearing arrangement between the credit card companies. The cross clearing arrangement between the credit card companies was approved in March 2012 by the Competition Tribunal within the framework of a motion to approve a restrictive arrangement. The Tribunal adopted a compromise agreement that was drawn up at the time between the three credit card companies and the Commissioner ("the Amended Clearing Arrangement").

   In accordance with the provisions of the amended arrangement, the parties submitted a request on March 21, 2012 for exemption of the Operating Arrangement. The present exemption was granted until December 31, 2023, subject to the terms set out in the decision.

36. Credit Card Activity (continued)

Clearing exemption terms. The exemption's provisions apply both to the agreement in principle signed between the bank's and the credit card companies on May 9, 2007 and also to its appendices and to the changes thereto. A part of the exemption provisions apply also to a clearing agent who is not an issuer (or vice versa) who joins the agreement, thereby being considered a credit card company in accordance with the definition stated therein.

New players becoming parties to the agreement in principle. Credit cards have to join to the agreement on an equal basis and at no cost. The credit card companies are to place at the disposal of a New Player all the information that it requires in order for it to become a party to the agreement and for it to operate thereunder, as well as perform reasonable adjustments, to the extent required so as to enable a New Player to become a party to the agreement and to operate in accordance with its provisions.

Prohibition on market power being exploited by an issuer or by a clearing agent to the detriment of competitors. An issuer with Wide-Ranging Activity may not discriminate between clearing agents or between customers according to the identity of the clearing agent of the trading house at which the transaction was done, and may not take any action whose intention or likely consequence is such discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity may not discriminate between issuer's and may not take any action whose intention or likely consequence is discrimination between issuers. The provision prescribes that differences in the terms of engagement resulting from differences in the payments that the clearing agent is required to make to the issuer by law for different types of transactions will not be deemed to be discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity or an issuer with Wide-Ranging Activity may not link the clearing of transactions using debit cards at a trading house to an engagement with that trading house within the framework of its activity as an issuer.

Prohibition on market power being utilized against a trading house. A prohibition on a credit card company being a party to an accord whose intention or likely consequence is to link the clearing of a debit card that is issued by a party to the agreement to the clearing of a debit card that is issued by an entity that is not a party to the agreement. In addition, a credit card company may not link different types of transactions that are conducted using debit cards that it clears.

Prohibiting a credit card company that is a clearing agent with Wide-Ranging Activity from being a party to accords with a trading house that prevent the trading house or that restrict the trading house from granting discounts to its customers, which depend on the payment means used by the customer.

Daily reckoning – prohibition on delaying the transfer of the payment from the issuer to the clearing agent. With effect from July 1, 2021, the transfer of funds between an issuer and a clearing agent in respect single-payment transactions is to be performed no later than one day following the transmission date of the transaction by the trading house.

The changes in the exemption decision. The main change in the new decision is the provision that requires daily clearing. In addition, the new terms contain also relief, which includes removal of the sweeping prohibition on exclusive agreements with a trading house (and on the granting of designated discounts).

The granting of the exemption is conditional upon the transition to the daily clearing of deferred debit transactions. This condition shall become effective on July 1, 2021, and would apply to a single payment transaction. In the case of such transactions, the issuer would be required to transfer the consideration to the clearing agent no later than one day following the date of broadcast of the transaction by the trading house. This condition does not apply to installment transactions.

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five phases.

The cross commission level under the 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% is implemented in stages, as follows:

- from January 1, 2019, through December 31, 2019, the issuer's fee stood at an average rate that shall not exceed 0.6%;
- from January 1, 2020, through December 31, 2020, the issuer's fee stood at an average rate that shall not exceed 0.575%;
- from January 1, 2021, through December 31, 2021, the issuer's fee will stand at an average rate that shall not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee will stand at an average rate that shall not exceed 0.525%;
- from January 1, 2023, the issuer's fee will stand at an average rate that shall not exceed 0.5%.

36. Credit Card Activity (continued)

In addition, an outline was established with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date, to a rate of 0.25%, in two phases. The aforementioned reduction is 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.

2. **Exemption for a restrictive agreement for the clearing of Isracard cards.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel.

   On May 16, 2018, ICC received an exemption for a restrictive agreement for clearing Isracard cards, further to earlier exemptions granted in this matter. This exemption is granted following the extension of the agreement between ICC and Isracard with regard to clearing "Isracard" branded cards for a further two years, i.e. through May 15, 2020. In general, the exemption is granted for the period of the agreement, but should the parties extend the agreement without making any substantive changes thereto, the exemption will be valid through December 31, 2023. In May 2020, the parties signed the extension of the agreement until December 31, 2023.

3. **A joint issuance agreement between ICC and owner banks.** ICC signed on September 30, 2013 with the Bank and with the First International Bank Group, an agreement for the joint issue of VISA and MasterCard credit cards, determining also operating arrangement and the granting of services by ICC in respect of credit cards to be issued by it and distributed by the said banks to their customers. This agreement replaces earlier agreements between the said parties. The issuance agreements were valid for 5-year periods and are extendable under certain circumstances determined in the agreements. ICC and the owner banks are conducting negotiations for renewal of the issuance agreements.

   Update of the joint issuing agreement with FIBI. On December 29, 2020, ICC and FIBI signed a joint credit cards issuing agreement for customers of the bank. The agreement anchors the parties’ obligations and rights in connection with the issuing of credit cards and the considerations to which the parties are entitled from the joint issuing operations. The agreement states, among other things, a compensation mechanism based on the volume of cards being issued. This agreement replaces previous agreements that were signed between the parties and will be valid until December 31, 2024. The agreement will be automatically renewed for additional periods of two years each.

   Extension of agreement - Discount Bank. On June 13, 2019, ICC and the Bank signed an agreement for the joint issuance of brand name charge cards of "VISA" and "MasterCard", to be operated by ICC. At the same date, Diners signed an agreement for the joint issuance of brand name charge cards of "Diners", to be operated by it. The agreements include, inter alia, mechanisms for the distribution of income, which take effect retroactively as from January 1, 2019, as well as a compensation mechanism for the Bank in respect of attainment of goals. The validity of these agreements is in effect until December 31, 2022. Under certain circumstances of a reduction in the rate of holdings of the Bank in the company, the Bank would be entitled to notify the company of the termination of the agreement, and the agreement will be terminated at the end of six month from the date of the Bank's notice. On January 29, 2020, ICC, Diners and MDB signed agreements for the joint issuance of charge cards. These agreements are valid until December 31, 2022.

36. Credit Card Activity (continued)

4. **Issuance agreements with banks participating in the arrangement.** ICC is engaged with most banks in Israel by agreements for the joint issuance and operation of the issue of charge cards. In accordance with these agreements, ICC and/or the bank issue charge cards to customers of that bank, the operation of which would be performed by ICC. According to the agreements, a mechanism was determined for the distribution of income between ICC and the banks in respect of the card operation (including: income derived from transaction in Israel and abroad, and service commission charged to card holders). Also determined are the operation fees to which ICC would be entitled in respect of certain operations, such as extending bank credit by means of the card. Under certain of the agreements the bank enjoys an increase in its share of the income based on the volume of the joint operations and/or the quantity of cards issued in accordance with the agreement. Moreover, certain of the agreements include awards dependent on attainment of goals.

   The banks were awarded the exclusive discretion regarding the issue of the credit card, its cancellation, suspension, the number of credit cards to be issued (with no commitment for a minimum number of cards), including the amount of the credit facility and the interest rates charged. Among other things, the agreements also state that the banks would be responsible for everything related to credit risk, while ICC on its part would be responsible for risks of misuse of the credit card by the customer (excluding exceptional cases as stated in the agreements). The agreements further regularize the manner of use of information derived from the use of credit cards and the ownership of the said information, as well as the manner of management of the commercial relations with the credit organizations.

   The agreements are signed for a period of several years and certain of them contain provisions regarding the extension thereof for an additional period.

B. 1. **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.

   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 December 31, 2020, is estimated at approx. NIS 52 million.

2. **Arrangements following the Strum Act.** Following the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017 ("the Strum Act"), The Bank and ICC reached the following arrangements:

   (a) **Agreement between the Bank and MAX.** The Bank signed a joint issuance agreement on March 29, 2018, with MAX, based on the commercial understandings reached between the parties. In accordance with the agreement, the Bank would issue credit cards together with MAX as from February 2019 (date of entering into effect of the duty stated in the Act to conduct the issuance operation by means of more than one operating company). Inter alia, the agreement regularizes the services to be received by the Bank, the division of responsibility and the manner of settlement between the parties. The agreement is in effect until January 31, 2024, and may be extended for an additional period of two years by a notice in advance by the Bank.

36. Credit Card Activity (continued)

(b) **A joint issuance agreement with Bank Hapoalim.** On November 21, 2018, ICC and Bank Hapoalim Ltd. signed an agreement for the joint issuance and operation of charge cards. According to the agreement, the parties will issue credit cards to customers of Bank Hapoalim, which would be operated by ICC. The agreement determines the distribution of income between the parties, as well as their rights and obligations and further arrangements regarding the said operation. The agreement will be in effect as from date of signature thereof and until December 31, 2024. Bank Hapoalim is entitled to extend the period of the agreement by means of a written request delivered to ICC no later than June 30, 2024, while ICC is entitled to inform Bank Hapoalim of its consent within 45 days from date of delivery of the request for extension.

(c) **Agreement for joint issuance with Bank Leumi.** On August 12, 2018, ICC, Diners and Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi") signed an agreement for the joint issuance and operation of debit card issuance. In accordance with the agreement, the parties would issue to customers of Leumi debit cards operated by ICC. The agreement determines the division among the parties of income and expenses derived from the joint issuance operations, as well as the rights and duties of the parties and additional arrangements relating to the described operations. The period covered by the agreement would be from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi will be entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties will be permitted to agree to extend the period of the agreement by four additional periods of one year each.

C. **Joint distribution agreement with El-Al Company.** On June 11, 2014, Diners and ICC entered into an agreement for the issue of brand name credit cards to members of the frequent flyer club of El-Al Israel Airlines Ltd. ("EL-AL") (hereinafter: "brand name credit cards"). An agreement of principles was signed on December 11, 2018, in respect of a new engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards for a period of ten years as from September 1, 2019, with a mutual termination right for each of the parties after seven years ("the engagement period"). This agreement replaces the previous agreement. It has been agreed that as from the effective date of the agreement of principles, it would be binding upon the parties for all intents and purposes.

It has been agreed that ICC shall pay EL AL a onetime signature award in a total amount of NIS 75 million, payable upon the agreement of principles taking effect (upon fulfillment of the condition precedent, as detailed below). Furthermore, EL AL would be entitled to the payment by ICC of current royalties (and under certain terms to increased royalties, dependent on reaching determined operational goals), in respect of the use of the brand name credit cards, and which shall be derived from the various income earned on the brand name credit card operations, comprising the distribution of income between the parties with respect to the cross-commission earned on transactions made by the credit cards, with respect to income on the credit extended to card holders, with respect to card fees charged to the holders and with respect to foreign currency conversion income. The agreement of principles determines in addition, instructions regarding the marketing and promotion of sale of the brand name credit cards, including marketing and advertising budgets by ICC all through the period of the engagement.

On date of entry into effect of the agreement of principles, EL AL received an advance payment of NIS 60 million, on account of a part of the above mentioned current royalties, which shall be reimbursed in full during the first seven years of the engagement period, by means of offsetting the amount against the current royalties only.

Moreover, EL AL shall be granted a "phantom" option, which would grant it economic rights in ICC (of a value equal to 8.75% of the increase in value of ICC) or in Diners (of a value equal to 35% of the increase in value of Diners). The option may be exercised only in the event of sale or share issue of any of the above companies, in accordance with the terms stated in the agreement in this respect, and shall be settled in cash.

On September 26, 2019, ICC and Diners signed agreements with Mastercard Europe SA (hereinafter: "Mastercard") on the one part and with EL AL on the other part, as well as on a tripartite agreement with all the parties ("the tripartite agreement"). The tripartite agreement regulates the cooperation with MasterCard in implementing the Fly Card agreement: the issuance of Fly Card credit cards ("Premium" and "Bronze") under the MasterCard brand name and integrated cards under the MasterCard and Diners brand names and other matters. The agreement is in force for a period of ten years as from September 1, 2019, with the option of mutual retirement from the agreement for each one of the parties after seven years.

In accordance with the plan of operation of the agreement, ICC's profitability is expected to be impaired due to expenses relating to operating the club in the first two years of its operation.

36. Credit Card Activity (continued)

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 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. On November 25, 2020, El Al published its financial statements as of September 30, 2020, in which it reported that no agreement in principle had been reached with any financier over the terms for granting a loan for the purpose of coping with the ramifications of the Corona crisis and, accordingly, El Al intended to take action to raise debt by means of a public offering of bonds backed primarily by a guarantee from the State of Israel. In the financial statements, it is stated that, as the debt raising is essential to cope with the ramifications of the crisis, there are – at this stage – significant doubts regarding its continued existence as a going concern. On February 16, 2021, El Al announced the closing of an issue of option warrants, which raised a total of NIS 250 million.

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 over 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. **Joint distribution agreement with Shufersal Company.** On November 2, 2017, ICC and Diners (hereinafter together: "ICC") and Shufersal Company Ltd. and Supersol Finance, Limited Partnership (hereinafter together – "Shufersal") signed a memorandum of principles (hereinafter: "the Memorandum of principles") for the issue and operation of off-banking credit cards to customers of Shufersal (hereinafter: "Credit Club" and "the Cards", respectively). The parties introduced the club on January 18, 2018, in accordance with the document of principles.

The Memorandum of principles also states that the parties will act towards the signing of a detailed agreement ("the Agreement") which would regularize all matters existing between the parties with respect to the Credit Club, and this within a period of six months, while until the date of signing of the detailed Agreement, the Memorandum of Principles would bind the parties.

The Agreement would be in effect from date of signature thereof and until December 31, 2027, such period being extended for additional periods of two years each, unless any of the parties announces his wish not to extend the validity of the Agreement for an additional period, by giving a notice twelve months prior to the termination of each period.

Among other things, the Memorandum of Principles regularizes the benefits that would be granted to customers holding the Credit Club cards by the parties to the agreement, the instructions relating to the attraction of customers to the Credit Club, providing marketing and advertising budgets by the parties, distribution of costs, and instructions relating to fees charged to card holders. All liabilities applying by law to the issuer shall apply to ICC. ICC would be the exclusive issuer permitted to offer charge cards and loans to customers of Shufersal.

The Memorandum of Principles also regularizes the possibility that the cards would be registered under the Bank Identification Number (BIN) of Shufersal, if this is requested by Shufersal and subject to obtaining all relevant approvals and licenses.

The Memorandum of Principles determines the distribution of income between the parties with respect to the cross-commission earned on transactions made by use of the cards, in respect of the interest bearing credit balances created through the operation of the Credit Club, and in respect of card fees charged to the holders thereof. Card holders would also be charged by Shufersal with monthly membership fees in respect of their membership of the Credit Club, in accordance with determined terms.

Within the framework of the Memorandum of Principles, ICC has committed with respect to each of the years 2018, 2019 and 2020, that in the event that the total income of Shufersal and Supersol Finance from the activity of the Credit Club, as defined in the Memorandum of Principles for each of those years, would be lower than the amount stated in the Memorandum of Principles (approx. NIS 65 million), then ICC would pay the difference to Shufersal, until the end of the first quarter of each year in respect of the preceding year, and all subject to the terms stated in this respect in the Memorandum of Principles.

The document of principles also prescribes that ICC will pay Shufersal NIS 30 million in connection with the benefits that Shufersal will grant to members of the credit club. It also prescribes that, subject to attaining material goals determined for the operations of the Credit Club, Shufersal would be entitled to two awards of NIS 35 million each, at the end of the fourth and eighth year of the Agreement.

The Agreement also regularizes the payments to be made between the parties following the termination of the Agreement, where, as a general rule, in the event that ICC continues to operate the cards until their expiry date, the terms of the Agreement will continue to apply in respect of the distribution of income between the parties, while in the case that ICC discontinues the operation of the cards and these would instead be operated by Shufersal, Shufersal Finance or by a third party, then ICC would be entitled to receive, during a stated period, royalties based on ICC's share in income from the cards in the year preceding the date of termination of the Agreement, and all in accordance with the terms and rates determined in the Agreement.

36. Credit Card Activity (continued)

E. **Diners Club International franchise.** Diners is engaged in the operation of "Diners" credit cards. The franchise granted to it by Diners Club International is in effect until December 31, 2019. In September 2019, Diners and Diners Club International ("Diners International") signed an agreement, according to which the Diners franchise would be extended until December 31, 2029. The agreement states that Diners is entitled to an incentive for the years 2019-2020. Also determined are additional incentives subject to attainment of acceptance and volume of operation goals, as well as additional marketing incentives.

F. **Acquisition of the minority interest in Diners.** In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the “Sold Shares”), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute has arisen between the parties with respect to the entitlement of the Sellers to additional consideration subjected to the conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded.
A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is requested to order ICC to pay to Dor-Alon and Blue Square an amount of 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 May 5, 2021.

G. **Extension of the clearing license of ICC and Diners.** On March 4, 2020, ICC received letters from the Bank of Israel extending the temporary clearing licenses of the company and Diners until March 31, 2021.

37. Legislation Initiatives

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

38. 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, and thereafter an additional significant outbreak, the third in number, in the months of December 2020 and January 2021. Following the additional outbreaks, additional lockdowns were imposed in Israel in the months of September to October 2020, and during January-February 2021, which brought about a significant reduction in economic activity and a rise in the rate of unemployment. It should be noted that, toward the end of 2020, several drug companies launched vaccines against the virus and vaccination of the population began.
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, but there is still uncertainty regarding the intensity of the crisis and how long its impact is expected to last. On the background of the above stated, the Bank has decided to increase the group allowance in 2020, 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).

38. 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, on the pace of vaccination of the population and the effect of the vaccination process upon the continuation of the development of the epidemic, 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.

39. 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.

Corporate Governance, Audit, Additional Details Regarding the Business of the Banking Corporation and Management Thereof

Corporate Governance and additional details – List of tables

Corporate Governance and additional details – List of charts

• CORPORATE GOVERNANCE AND AUDIT

Board of Directors and Management

Report on Directors having Accounting and Financial Expertise

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. Accordingly, the Bank's Board of Directors has determined that three is the minimum number of its Directors having accounting and financial expertise. Subsequent to the dates of the said resolution of the Board of Directors, Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly.
At date of reporting, all of Directors have accounting and financial expertise (10 out of 10) and all the directors who are members of the Audit Committee possess accounting and financial expertise (6 out of 6). List of Directors having accounting and financial expertise, are presented below under "Details regarding members of the Board of Directors". For details regarding the factual background by which they may be regarded as having such expertise, see the Bank's periodic report for 2020 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Details regarding Members of the Board of Directors

Directors name	Date on which the term of office as Director began	Membership in the Board of Directors Committees
Shaul Kobrinsky, Chairman of the Board of Directors(3)(4)(5)	December 11, 2020 (initially appointed as Director on December 11, 2014, and as Chairman of the Board since December 3, 2018)	Chairman of the Credit Committee; Chairman of the Resources Committee; Technologies and Innovation Committee
Iris Avner(2)(3)(4)(5)	March 22, 2018	Audit Committee; Credit Committee; Technologies and Innovation Committee; Risk Management Committee
Aharon Abramovich(1)(2)(4)(5)	October 30, 2020 (initially appointed on October 30, 2017)	Chairman of the Remuneration Committee; Audit Committee; Resources Committee; Risk Management Committee
Reuven Adler(4)(5)	August 1, 2018	Audit Committee; Remuneration Committee; Risk Management Committee; Resources Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2019 (initially appointed on February 15, 2016)	Chairperson of the Technologies and Innovation Committee; Credit Committee; Resources Committee
Prof. Shalom Hochman(1)(2)(4)(5)	August 1, 2018	Audit Committee; Remuneration Committee; Credit Committee
Prof. Ben-Zion Zilberfarb(4)(5)	August 1, 2018	Chairman of the Risk Management Committee; Resources Committee; Technologies and Innovation Committee
Miriam (Miri) Katz(2)(3)(4)(5)	February 1, 2020 (initially appointed on February 1, 2017)	Audit Committee; Remuneration Committee; Technologies and Innovation Committee; Resources Committee
Baruch Lederman(1)(2)(4)(5)	November 27, 2020 (initially appointed on November 27, 2014)	Chairman of the Audit Committee; Remuneration Committee; Credit Committee; Risk Management Committee
Dr. Yaacov Lifshitz(2)(3)(4)(5)	March 26, 2018	Credit Committee; Technologies and Innovation Committee; Risk Management Committee

Notes:
(1) External Director as defined in the Companies Act.
(2) Independent Director as defined in the Companies Act.
(3) External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives.
(4) Accounting and financial expertise.
(5) Professional qualifications.

For additional details regarding members of the Board of Directors, see the Bank's periodic report for 2020 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Committee for the appointment of Directors in Banking Corporations

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The annual general meeting of shareholders had been asked to elect three Directors of external director status, as defined in Directive No. 301 of the Proper Conduct of Banking Business Directives, out of four candidates proposed by the Committee for appointment of directors in banking corporations. Furthermore, the General Meeting of Shareholders was asked to elect two external Directors, within the meaning of the term in the Companies Act, 1999, out of three candidates proposed by the said Committee. For details regarding the elected Directors, see "Changes in the Board of Directors" below.

Changes in the Board of Directors

Within the context of amendment to Proper Conduct of Banking Business Directive No. 301, the maximum number of directors in a banking corporation has been reduced from 15 to 10. For further details, see “Legislation and Supervision” below.

Appointment of Directors. 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.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Uri Levin(1)	The President & CEO	December 2, 2019
Assaf Eldar	Executive Vice President, Head of the Operations and Properties Division	January 1, 2020
Joseph Beressi	Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Accounting Division	April 1, 2000
Yuval Gavish	Senior Executive Vice President, Head of the Corporate Division	January 1, 2020(2)
Yafit Gheriani	Senior Executive Vice President, Head of the Retail Banking Division	January 1, 2020(2)
Esther Deutsch	Senior Executive Vice President, Head of the Group Management and Regulation Division	April 1, 2019(4)
Adi Kaplan	Executive Vice President, Head of the Technologies Division	January 17, 2021
Orit Caspi	Executive Vice President, Head of the Human Resources Division	January 1, 2020
Avraham (Avi) Levy	Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division	July 21, 2016(3)
Hagit Meirovitz	Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory Division	April 1, 2019
Barak Nardi	Executive Vice President, Head of the Planning, Strategy and Finance Division	December 15, 2019
Assaf Pasternak	Executive Vice President, Head of the Financial Markets Division	April 1, 2018
Arik Frishman	Executive Vice President; Head of the Digital, Data and Innovation Division	August 1, 2018
Nir Abel	Executive Vice President, The Internal Auditor	May 18, 2011

Notes:
(1) Interested party of the corporation.
(2) Acted as Senior Executive Vice President; Head of the Banking Division as from January 11, 2011 and until December 31, 2019.
(3) Acted as Executive Vice President, Head of the Human Resources and Properties Division as from April 13, 2014 and until December 31, 2019.
(4) Acted as Chief Legal Adviser and Head of the Legal Advisory and Regulation Division since June 1, 2006 and until March 31, 2019.
(5) Acted as Executive Vice President, Head of the Customer Assets Division at the Bank, as from August 28, 2011 and until July 21, 2016.

For additional details regarding members of Management, see the Bank's periodic report for 2020 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Changes in Management

Mr. Yuval Gavish, Senior Executive Vice President, assumed office on January 1, 2020, as Head of the Corporate Division, replacing Ms. Orit Alster, who retired from this office on that date.

Ms. Yafit Gheriani, Executive Vice President, assumed office on January 1, 2020, as Head of the Banking Division, replacing Mr. Yuval Gavish, who retired from this office on that date.

Ms. Orit Caspi assumed office on January 1, 2020, as Executive Vice President, Head of the Human Resources Division, replacing Ms. Yafit Gheriani, who retired from this office on that date.

Mr. Assaf Eldar assumed office on January 1, 2020, as Executive Vice President, Head of the Operations and Properties Division.

Mr. Adi Kaplan assumed office on January 17, 2021, as Executive Vice President, Head of the Technologies Division, replacing Mr. Yakki Zano who retired from this office on that date.

The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Yakki Zano for his activity and contribution during his period of office at the Bank, and wish Mr. Adi Kaplan success in fulfilling his office.

Meetings of the Board of Directors and its Committees

In 2020, the Board of Directors held 38 meetings. In addition, 81 meetings of committees of the Board of Directors were held (including one joint meeting of two Committees).

The detailed information contained in the immediate reports mentioned above in the section "Board of Directors and Management", is presented herewith by way of reference.

The Internal Audit in the Group in 2020

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.
The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit). In addition, until July 2020, Mr. Nir Abel had served also as Internal Auditor of Israel Credit Cards Ltd.
The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.
Letter of appointment. The letter of appointment is presented for approval of the Audit Committee and the Board of Directors once every three years. The letter of appointment was last approved by the Audit Committee in December 2018, and by the Board of Directors in January 2019.
The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.
Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives. The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function). Prior to the work plan being submitted for approval, it is forwarded to the Bank's independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board's Audit Committee and to the Bank's President & CEO for lodging comments and elucidations. The Board of Director's Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.
It is noted that in May 2020, following the Corona crisis, the internal audit updated the work plan relating to the developing risks stemming from the Corona crisis, changes in control and work processes, regulatory instructions, etc. The updated plan has been approved by the Audit Committee and by the Board of Directors
The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank`s internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.
Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank's investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank's Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank's Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 89.8 positions (including overheads; not including 4.8 outsourcing positions), of which, 36.4 positions in corporations that engage an independent Internal Auditor (MDB, ICC and IDB Bank). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Average number of positions in 2020 engaged in internal audit at the Bank and in investee companies in Israel and abroad

	Group employees	Outsourcing employees
The Bank	51.3	1.5
Investee companies in Israel audited by the Bank's internal auditor(1)	1.3	-
In overseas extensions - IDB Bank	0.8	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	24.3	0.8
Investee companies abroad where the audit is performed by an independent internal audito(3)	12.1	2.5
Total	**89.8**	**4.8**

Notes:

(1) Inputs in non-banking subsidiaries and inputs in respects of audit of independent banking corporations by the parent company.

(2) The inputs include 18.6 positions in respect of MDB (of which 0.3 outsourced positions) and 6.5 positions in respect of ICC (of which 0.5 outsourced positions). It is noted that until July 2020, the Bank's Internal Auditor had served also as the Internal Auditor of ICC, therefore the inputs are presented within the framework of audits performed by the Internal Auditor.

(3) Auditors in IDB Bank.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.

The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the internal audit function was performed in 2019 by a CPA firm selected by the Audit Committee. This was made in addition to an internal assessment performed by the internal audit, in accordance with the guideline contained in Proper Conduct of Banking Business Directive No. 307. The external assessment as well as the internal assessment and review were discussed by the Audit Committee in February 2020.

A review of the internal audit work has also been made by the Bank of Israel, which was also discussed by the Audit Committee.

Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.

Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.

A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.

The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved. The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.

In addition, the audit committee discusses specific audit reports regarding the Bank's units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.

The periodic reports were submitted and discussed as follows:

- The report on the activities of the internal audit in the fourth quarter of 2019, submitted on January 20, 2020, and discussed by the Audit Committee on March 31, 2020;
- The annual report on the activities of the internal audit in 2019, submitted on March 15, 2020, and discussed by the Audit Committee on March 31, 2020 and by the Board of Directors on April 19, 2020;
- The report on the activities of the internal audit in the first quarter of 2020 was submitted May 5, 2020, and discussed by the Audit Committee on May 25, 2020;
- The 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 report on the activities of the internal audit in the third quarter of 2020, submitted on November 2, 2020, and discussed by the Audit Committee on November 17, 2020;
- The report on the activities of the internal audit in the fourth quarter of 2020, submitted on January 20, 2021 and discussed by the Audit Committee on March 8, 2021.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals set out for internal audit at the Bank.

Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

The Internal Auditor's Remuneration

General details			Remuneration* for services						
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
			in NIS thousands						
2020	100%	-	1,214	-	669	212	2,095	1,854	-
2019	100%	-	1,210	528	328	207	2,273	2,120	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), non-competition/adaptation award in an amount equal to six monthly salaries. Mr. Abel is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). Mr. Abel was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 D and F to the financial statements).

Auditor's Remuneration

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000[7], and KPMG Somekh Chaikin, CPA, since 1998.

Remuneration[(1)(2)(3)] paid to the auditors (in NIS thousand)

	Consolidated		The Bank	
	For the year ended December 31,			
	2020	2019	2020	2019
For Auditing[(3)]:				
To the joint auditors	18,472	18,595	6,921	6,927
For Other Services:				
Audit related services[(4)]:				
To the joint auditors	3,077	2,656	2,634	2,267
Taxation Services[(5)]:				
To the joint auditors	1,946	1,266	786	854
Other Services:				
To the joint auditors	2,795	3,070	2,726	2,958
To other auditors	-	-	-	-
Total	**7,818**	**6,992**	**6,146**	**6,079**
Total Auditors' Remuneration	**26,290**	**25,587**	**13,067**	**13,006**

Footnotes:

(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the remuneration of the independent auditors for their audit work and for services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Act, 1999.

(2) Includes remuneration that has been paid and remuneration that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

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

Remuneration of Interested Parties and Senior Officers and Transactions with Interested Parties

Remuneration of Interested Parties Senior Officers

Year 2020

Details of the recipient				Remuneration* for services						
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
				in NIS thousands						
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	2,838	-	-	46	2,884	2,513	-
Mr. Uri Levin	President and CEO	100%	-	2,717	-	578	36	3,331	2,926	-
Mr. Ziv Biron	President and CEO of IDB Bank	100%	-	3,700	857	227	416	5,200	(4)-	-
Mr. Liran Razmovich	President and CEO of Discount Capital Underwriting	100%	-	1,380	1,352	433	333	(5)3,498	(4)-	-
Ms. Hila Himi-Alpert	President and CEO of Discount Capital	100%	-	1,189	1,185	624	206	3,204	(4)-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB Bank	100%	-	1,876	721	370	67	3,034	(4)-	-
Mr. Avraham (Avi) Levy	Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division	100%	-	1,379	-	805	242	2,426	2,116	-
Mr. Yaakov (Yakki) Zano	Executive Vice President, Head of the Technologies Division	100%	-	1,118	-	976	245	2,339	2,177	-
Ms. Esther Deutsch	Senior Executive Vice President, Head of the Group Management and Regulation Division	100%	-	1,266	(1)	832	204	2,301	1,960	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Corporate Division	100%	-	1,345	(3)	731	223	2,296	2,087	66

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, early notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(4) The Remuneration for Officers of Financial Corporations Act does not apply to this officer.

(5) Not including share based payment in the amount of NIS 266 thousand.

Remuneration of Interested Parties Senior Officers (continued)

Year 2019

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
				in NIS thousands							
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	2,823	-	-	4	-	2,827	2,452	-
Mr. Uri Levin	President and CEO	100%	-	3,762	(4)4,911	559	(5)582	-	9,814	(6)229	-
Ms. Lilach Asher Topilsky	Former President and CEO	100%	-	2,370	540	(7)(193)	210	(8)135	3,062	2,589	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB Bank	100%	-	1,955	1,014	480	65	-	3,514	(6)-	-
Mr. Joseph Beressi	Senior Executive Vice President, Chief Accounting Officer and Head of the Accounting Division	100%	-	1,261	551	696	192	-	2,700	2,175	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Corporate Division	100%	-	1,340	771	388	196	-	2,695	2,508	76
Ms.Yafit Gheriani	Executive Vice President, Head of the Retail Banking Division	100%	-	1,226	717	420	184	-	2,547	2,311	-
Ms. Hagit Meirovitz	Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory Division	100%	-	1,136	628	(9)603	168	-	2,535	2,388	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee") and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

(4) Including a performance dependent award as well as an award in respect of the termination of office as President & CEO of IDB Bank.

(5) Including the reimbursement of special expenses in respect of the short notice curtailment and termination of office as President & CEO of IDB Bank.

(6) The Remuneration of Officers of Financial Corporations Act does not apply to IDB Bank.

(7) Including reduction in the provision regarding early notice in the amount of NIS 566 thousands.

(8) Adjustments in respect of linkage of deferred awards to changes in price of the Bank's shares (applying to awards recognized in the 2016 financial statements).

(9) Includes a provision at the date of appointment for an adaptation grant.

Mr. Shaul Kobrinsky serves as Chairman of the Board of Directors since December 3, 2018. For details regarding the terms of office of Mr. Kobrinsky, see Note 35 F to the financial statements.

Mr. Uri Levin, Mr. Levin officiates as the Bank's President & CEO since December 2, 2019. For details regarding the terms of office of Mr. Levin, see Note 35 F to the financial statements.

Mr. Ziv Biron, President & CEO of IDB Bank, is employed pursuant to the terms of an Employment Agreement. IDB New York's Compensation Committee of the Board of Directors approved the initial terms of the Employment Agreement and annually reviews and approves Mr. Biron's incentive compensation. Mr. Biron is entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank. IDB Bank provides Mr. Biron with the use of an automobile and annual home leave in Israel.

Mr. Liran Razmovich, serves as the CEO of Discount Capital Underwriting Ltd. Mr. Razmovich is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving two months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of his employment with the company. Mr. Razmovich is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund), and additional benefits. Furthermore, Mr. Razmovich is entitled to equity-based remuneration, in Discount Capital Underwriting shares, as part of the company's remuneration plan.

Ms. Hila Himi-Alpert, serves as CEO of Discount Capital Ltd. Ms. Himi-Alpert is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving four months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of her employment with the company. Ms. Himi-Alpert is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund), and additional benefits. Upon terminating her employment, Ms. Himi-Alpert is entitled to an adaptation award equal to three monthly salaries.

Mr. Yaakov (Yakki) Zano was employed by the Bank as Executive Vice President, Head of Technologies Division. Mr. Zano was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). Mr. Zano was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 D and F to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Lissa Baum, Executive Vice President, Head of the Corporate Division in IDB Bank. For additional details, see below "Terms of employment of members of Management of IDB Bank".

Mr. Avraham (Avi) Levy, employed by the Bank as Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division. Mr. Levy is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). Mr. Levy was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 D and F to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Esther Deutsch, employed by the Bank as Senior Executive Vice President, Head of the Group Management and Regulation Division. Ms. Deutsch is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). Ms. Deutsch was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 D and F to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Yuval Gavish, employed by the Bank as Senior Executive Vice President, Head of the Corporate Division. Mr. Gavish is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). Mr. Gavish was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 D and F to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Terms of employment of members of the Bank's Management. Members of the Bank's Management mentioned above are employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. The period of limitation on competition stated in the agreement is three to six months from date of termination of their employment with the Bank, unless it is otherwise agreed by the parties. The salary of the members of the Bank's Management is linked to the CPI, and in the event of the CPI falling, their salary will not change until such time that the rise in the CPI offsets the rate of the fall. Members of the members of the Bank's Management are entitled to vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, the Bank's management are entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to non-competition/adaptation award in an amount equal to four to six monthly salaries. For details regarding the principal changes between the remuneration policy for the Bank's officers (2020-2022) and the previous remuneration policy for officers, see Note 23 E to the financial statements.

Terms of employment of members of Management of IDB Bank. Members of IDB Bank Management mentioned above are employed by IDB Bank as an "employee at will." IDB Bank's Compensation Committee of the Board of Directors annually reviews and approves the compensation of members of the IDB Bank management. Members of the IDB Bank management are entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank.

For details regarding officers included in the Table for 2019, but not included in the Table for 2020, see the 2019 annual report (pp. 302-304).

Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000 (the "regulations"). The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. For details regarding the payment to expert directors (as defined in the Regulations), see Note 35 L. The cost of remuneration in respect of all the Directors, excluding the officiating Chairman of the Board, amounted in 2020, to NIS 5,314 thousand (2019: NIS 7,121 thousand).

Remuneration policy for Officers of the Bank. For details respecting the remuneration policy for officers of the Bank, see Note 23 D and E to the financial statements. For details regarding the principal changes between the remuneration policy for the Bank’s officers (2020-2022) and the previous remuneration policy for officers, see Note 23 E to the financial statements. For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

For details regarding the Remuneration of Officers of Financial Corporations Act, 2016, see the 2016 Annual Report (pp. 406-407).

Letter of the Supervisor of Banks in the matter of "principles for determining the terms of office of the chairman of the board of a bank having no core controlling interest". The letter, published on August 1, 2019, states that the Supervisor of Banks would not intervene with regards to the terms of office of the Chairman of the Board, determined in accordance with the principles stated in the letter, on condition that these are determined for the period ending at the end of the year 2020. During this period, the Supervisor will examine the definitions of the office and the new terms of office relating to chairmen of boards of directors of banking corporations having no core controlling interest as well as the need to amend the Directive. The letter clarifies that the terms of office of the chairman of the board shall be determined in accordance with principles, which ensure that the duties and authority of the chairman do not deviate from the duties and authority conferred upon him by Law, and that the terms of remuneration do not create "affinity" and/or might impair the independence of the chairman. Furthermore, the letter notes that the need to establish the status of the chairman of the Board as being part of the board of directors and segregate him from the management of the bank, including by means of determining his remuneration in relation to the manner in which the other members of the board of directors are being remunerated, as stated in Proper Conduct of Banking Business Directive No. 301A, is of a double importance in the case of a bank having no core controlling interest.

It is noted that the terms of office that had been approved in respect of the Bank's Chairman of the Board, as described in Note 35 F to the financial statements, comply with the principles determined by the Supervisor of Banks, as stated in her said letter.

On December 30, 2020, the Bank received a letter from the Supervisor of Banks in the matter of the principles determining the terms of office of the chairman of the Board of Directors of a bank having no core controlling interest. According to the letter, the Supervisor of Banks shall not interfere with the terms of office of the chairman of the board if such terms match his duties, provided these are determined for the period until the end of June 2021. In the course of this period, the Supervisor of Banks intends to examine the definition of the duties and the new terms of office of chairmen of boards of directors of banking corporations, as well as the need for amendment of the Directive. The said letter is an extension of the letter of August 2019, which stated, as above, that the Supervisor will not interfere with terms of office that agree with the contents thereof until the end of 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.

For details regarding the terms of office of Mr. Kobrinsky, see above "Remuneration of interested parties and senior officers" and Note 35 F to the financial statements.

For additional details, see Note 35 to the financial statements.

Corporate Governance Code for the Discount Group

The corporate governance code approved by the Bank's Board of Directors in October, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. In December 2017, the Board of Directors approved updates to the document. The updated document is available for review on the Bank's website.
Within the framework of the implementation of the corporate governance program, the Board of Directors approved a policy document and operating procedures with respect to investee companies (see below "Group Management"). In addition, the Bank's Board of Directors approved a procedure for the approval of transactions with interested parties in the Bank.

Corporate Governance Questionnaire

The Securities Authority published on January 14, 2016, an updated version of the Corporate Governance Questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even previously. A corporate governance questionnaire for the year 2020, which was voluntarily published by the Bank in an updated version, is available for review on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Special and independent committee – proceedings in Australia

Different legal proceedings have been conducted in Australia and in Israel against the Bank and against MDB ("the banks"), relating to accounts held with the 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 were 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.
On January 31, 2021, the banks signed compromise arrangements in relation to the aforementioned proceedings for the settlement of all claims and actions of the Plaintiffs against the Discount Group, including in relation to the proceedings, the family members and the related companies, with this being without any admission of liability. In accordance with the aforesaid arrangements, the amount of the settlement totals approx. AUD 138 million, equivalent to approx. NIS 343 million.
Concurrently, the Bank has agreed to an arrangement whereby the insurers will pay the banks an amount of approx. US$ 55 million in respect of which an amount of approx. US$ 47.5 million (approx. NIS 151 million) was recorded as income.
For further details, see Note 26 C 11.3 to the financial statements.
As required by the Supervisor of Banks, the Boards of the two banks have decided to establish a joint committee of the two Boards of Directors, which will be a special, independent committee that will be headed by her honor, Retired Judge Hila Gerstel. The committee will examine the administrative and control processes that allowed the conduct of the Banks that led to the proceedings in respect of which the compromise arrangements were signed, while addressing, inter alia, to corporate governance aspects and the conduct of the Board of Directors and the senior Management including drawing conclusions and making general and personal recommendations with regard to officers and employees, where necessary, including in relation to remuneration awards granted to the officers during the relevant period.
The committee will present its conclusions and recommendations to the Boards of Directors of the banks.
The committee’s conclusions and recommendations will be notified to the Supervisor of Banks, in response to the latter’s request to the banks.

Group Management

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group. The Proper Conduct of Banking Business Directive no. 301 includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company. In continuation of the above stated, Proper Conduct of Banking Business Directive No. 306, which took effect on January 1, 2019, establishes the expectations of the Supervisor of Banks for the tightening of supervision over banking extensions abroad. On December 23, 2019, the Supervisor of Banks published amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, which are intended to strengthen the control of banking corporations over their overseas extensions.

In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies ("investee companies policy"), which updates and replaces the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company. The principal companies in the Group have completed the adoption of the policy, with required changes in respect of their nature and scope of operations. As a complementary layer for this document, a procedure was formed at the beginning of 2018, with respect to the duties and responsibilities of the responsible managerial function, which defines the level of involvement required from the member of Management responsible for each company, in accordance with the nature of the company's operations and scope of holdings therein.

The Bank operates a Group Management and Regulation Division, the duties of which are to comprise a central factor in the leading and for the promotion of comprehensive management and utilizing synergies to the utmost, with the assistance of the professional factors with respect to strategic, business, regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, supervision and control fields, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group, and this in accordance with principles approved by the Bank within the framework of the investee companies policy.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" below.

Involvement with and Contribution to the Community

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The extensive voluntary work performed in aid of the community by Discount Bank employees continued in 2020 and was even widened. In this framework, the volunteering employees contribute their time and compassion through a wide range of activities, and grant assistance and support to varied groups of population in Israel, including children, youth, students, military service personnel, distress population, senior citizens, persons with disabilities, the sick and more.

In 2020, activity in the cultural and artistic fields was conducted, through sponsorships and donations to different associations.

"Sprint for the future" – Discount Bank's flag ship project. As from the year 2005, the Bank acts in cooperation with the "Sprint for the Future" Association, adopting the program "Discount Sprint for the future" focusing on students coming from the socio-geographic periphery. The program’s objective is to provide assistance to school children so that they will be able to graduate high school, attaining a full matriculation certificate, enabling them to continue with higher education. The Bank is a party to both the financial support of the Association as well as to promoting and advancing its activities. Representatives of the Bank’s management are members of the executive board of the Association. The voluntary work of the Discount Bank employees was expanded in 2020 within the framework of the programs of the Association, inter alia by the adoption of youth villages and schools participating in the project, to joint activities with branches and units of the Bank, financial education training, the donation of computers, and so forth.

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", "Yad Ezer La-Haver", and 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.

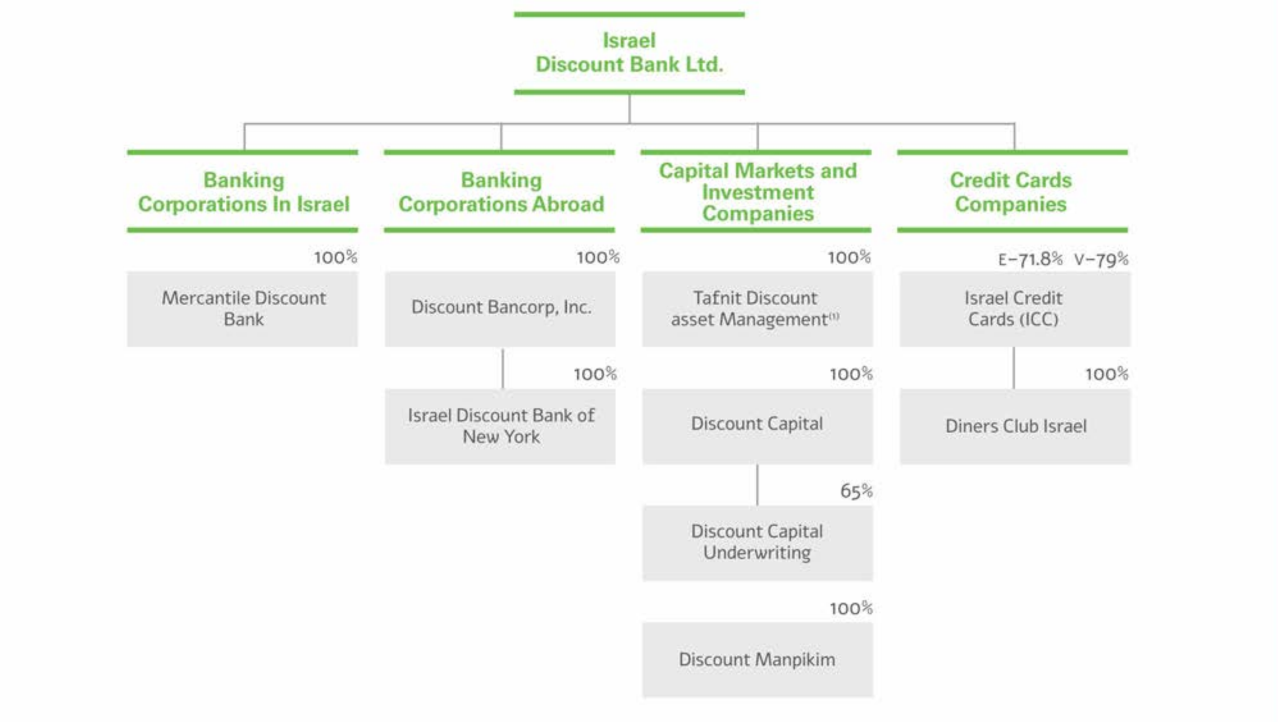
The Bank and ICC have launched an ambulance for the transportation, of seniors and handicapped persons confined to wheelchairs at no cost, in cooperation with the Savyonim Association.

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 Holidays period. In addition, as a mark of appreciation and esteem, the Bank purchased gifts for the medical teams in the corona departments of hospitals throughout Israel.
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.
Corporate Responsibility Report - Corporate Social Responsibility Report No. 9. Corporate Responsibility Report No. 9, for 2019, is available for perusal on the Bank's website. The report was prepared in accordance with the GRI guidelines (Global Reporting Initiative).
"Maala" Rating for 2020. In June 2020, "Maala" published its rating for 2020. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). ICC was rated this year for the fourth time and has maintained its Platinum rating.

• ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

Discount Group Structure



(1) Directly and Indirectly.

Control of the Bank – Bank having no Core Controlling Interest

As of December 3, 2013, the Bank became a bank with no core controlling interest.
The Banking Act (Legislation amendments). On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. In accordance with these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions.

Bank Holding Permits to Entities Managing Customer Funds

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.
Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit in accordance with the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

Fixed Assets and Installations

Buildings and Equipment

At the end of 2020, the investment in buildings and equipment amounted to NIS 2,995 million, compared with NIS 2,577 million at the end of 2019, an increase of 16.2%. For details as to the Bank's investments in buildings and equipment, see Note 16 to the financial statements.
Establishment of the Discount Campus. In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. Discount Leasing (71.55%), ICC (18.45%) and MDB (10%) have purchased land of an area of 21 dunam in the "1000 compound" in Rishon LeZion. The scope of building rights relating to the land amounts approx. to 133 thousand square meters, both above ground main and service buildings. In addition, an option for the purchase of trading rights, granted within a contract for the purchase of the land, has been exercised. In consideration of the land a total amount of NIS 135 million was paid. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25 thousand square meters will be constructed by the acquirers for its own purposes and that construction as stated, would be carried out within five years from date of approval of the construction plan and the blueprint for the division of the site. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot.
During 2016-2018 different processes were promoted for the realization of the establishment of the Campus. In 2019-2020, the excavation, reinforcement and foundation work, as well as the underground shell were conducted, and work began on the aboveground shell.
At the end of the stage of receiving proposals for providing principal contractor services in respect of the construction project of the Discount Campus, the participants in the project decided to engage Shikun & Binui – Solel Boneh Infrastructure Ltd. as the contractor providing the principal construction contractor work – skeleton frame, systems, aluminum and development and with Electra Ltd., as a contractor that will carry out the setup work for the computer installation – compatibility, internal construction, systems and acceptance testing. The cost of the engagements is estimated at approx. NIS 650 million.
The Bank estimates that the expenses assessment of the Group Campus Project is expected to reach approx. NIS 1.8 billion. Of this

amount, NIS 404 million has already been invested by the Group until December 31, 2020. The balance of the commitment in respect of the project as of December 31, 2020, amounts to NIS 576 million. Construction work begun in 2018 and is expected to continue for two additional years.

The Bank is of the opinion that the impact on capital adequacy of the Group Campus construction project is not expected to be material, as the project is to be partly financed by the sale in the next two years of existing properties.

Forward looking information. The above stated includes, inter alia, assessments made by the Bank regarding the investment in the Project and its impact on capital adequacy, which are considered forward looking information. The above stated reflects the assessment of the Bank's Management, taking into consideration the information existing in its hands at date of preparation of the annual report, inter alia, with respect to the cost of construction of projects of this type, plans of the Project and the feasibility of the sale of existing properties. The above stated may not be realized in the case of changes occurring in the real estate sector in Israel and in case of unforeseen developments in the macro-economic conditions, which are not under the Bank's control.

Focus points for 2020-2021. In accordance with the strategic plan of the Discount Group, the Bank performs operations designed to ensure the efficient and effective utilization of real estate properties, including improved leasehold terms, replacement of rented premises, etc. This activity continues also in 2021, both at the branch network and also at the head office and operational properties, in view of the planned relocation to the Discount Campus.

As revealed by the data presented below, a downward trend is evident in the amount of real estate space used by the Bank.

Floor area at the disposal of Bank branches

As of	Sq. meters[(1)]	Number of brunches	Average Sq. meters per branch
December 31, 2020	52,900	103	513.6
December 31, 2019	53,457	103	519.0
December 31, 2018	54,130	106	510.7
December 31, 2017	55,429	111	499.4
December 31, 2016	59,503	122	487.7

Footnote:
(1) The data regarding the areas was improved in 2018, including the comparative data.

Distribution of all floor area at the disposal of the Bank

	As of December 31				
	2020	2019	2018	2017	2016
	In Sq. meters				
Freehold	91.2	92.8	95.6	98.0	107.5
Leasehold	53.0	52.7	49.9	49.8	50.3
Total	**144.2**	**145.5**	**145.5**	**147.8**	**157.8**

Gain on sale of assets. In 2020 a gain from the sale of properties of NIS 22 million was recorded, net of the tax effect, compared with NIS 32 million in 2019.

ICC's building in Givatayim. The lease – from the Israel Land Authority – of the land (two plots) in Givatayim on which ICC's building stands is for terms that end in 2058 and 2018. On October 28, 2019, a verdict was given with regard to the plot whose lease ended in 2018, on which some of the parking spaces attached to ICC's building complex in Givatayim are located, whereby the Company's claim for the extension of the lease agreement in respect of the aforesaid plot was rejected. On December 12, 2019, ICC lodged an appeal in the Supreme Court against the verdict.

New premises for the Head Office of IDB Bank. In July 2019, IDB Bank signed a twenty year lease agreement, which includes an option for termination after fifteen years, for a property in Manhattan to which the head office of the bank will be relocated. The annual rental fees (excluding taxes, insurance, and other related expenses) amount to US$8.4 million. The agreement would be recognized as an operating lease in accordance with Standard ASC 842 (at date of initial application of the Standard by IDB Bank – December 2022), and the property is expected to be stated at a total value of US$117 million. Moving to the new property is planned for May 2021.

Accessibility for Handicapped Persons

In accordance with the Equal Rights for Handicapped Persons Act, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications in accordance with the new regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service.

In addition, accessibility modifications have been made at the Internet websites and on the cellular applications, training sessions are held to the Bank's employees on the accessibility subject as well as reviews and periodic tests in accordance with requirements of the law and regulations.

Information and Computer Systems

General

The information systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. Direct banking services are provided by the Bank through a variety of lanes: Internet sites, mobile apps, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.
Most of the various computer systems serve both the Bank and MDB.
Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, in accordance with preferences of the budget and strategic plans.
For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.
Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, HDC, Checkpoint, NetApp and CISCO. These companies have engagements with the Bank through their representatives in Israel.

Locations of the Operation

The technological array is being installed in duplicate at two different sites, which are at a distance from each other. The sites provide backup for each other and are capable of working independently.

Principle Projects Conducted in 2020

1. Main computer facility –the existing computer facility has been upgraded and the planning for a new main computer facility began;
2. CRM and customer interaction – two new processes were launched in the retail CRM system: leads and mortgages (stage A). A new customer ledger account was deployed at the branches, significant improvements were made to the text team, consolidation of complaints and the duty team manager was launched, and the system's performance was enhanced.
   In the CRM system for businesses the following were launched: CRM Light and a collaborative table, dealing with potential customers and a 360° customer picture, correspondence for businesses was developed and the testing of a video chat solution was commenced.
3. Direct channels – progress was made on a wide range of developments in the direct channels, including – on the Internet sites, a digital mortgage, a service for scheduling meetings with a banker, increasing a credit facility, a marketing site for high-tech customers and correspondence with a banker for business customers; on the mobile app for private individuals, upgrade of the whole loans arena, addition of a capability to send files to a branch, and the Smart Save deposit; on the mobile app for businesses, the launch of a business portfolio deposit service, transfer of transactions for a banker's approval, a personal profile, RTGS transfers, and foreign currency transfers in Israel and overseas. Throughout the year, at monthly intervals, new versions were introduced on the apps and the sites to improve the business capabilities and the user experience.
4. Core projects – for the credit system project, the deployment of the Otzar system in the Corporate Division has been completed, the absorption of business files in automated machines, the setting of differential interest on deposits, developments for syndicated loans and digital guarantees – stage A has been completed, development of a standard for digital guarantees with the Accountant-General and other e-government entities, replacement of the Bank's in-house mortgage insurance agent, introduction of a new online foreign currency trading system for dealing room customers, allowing a customer that does not have a current account with the Bank to conduct dealing room activity, introduction of a new system for managing shekel liquidity.
5. Cyber and data security – the Discount cyber protection concept ("Hadas") has been implemented in a range of projects, with emphasis on exercising advanced capability, and first dealing with fraud on the online banking channels.

6. Projects intended to ensure compliance with regulatory directives – establishing a credit database at the Bank of Israel and executing a Strum Law project. Development of open banking – businesses line stage A – development of services for joining and current account balances and movements.

Principle Projects for 2021

1. Infrastructure projects – arrangements for the move to the new Discount campus, which includes new and advanced computer infrastructures;
2. CRM and customer interaction – improving the capabilities of the CRM system so as to upgrade the banker's abilities. In both retail and corporate, rolling out CRM for businesses at MDB and at other units. In addition – a customer experience (NPS) surveys system and digital forms for remote signature;
3. Digital channels – business capabilities are planned to be added for the various business arenas on the application and on the Internet sites;
4. Core projects – continuing the rollout of the new credit system and development of new models; developments for the mortgages arena, merger of Municipal Bank (Dexia) into MDB, modernization of the clearing system, replacement of the tax on securities server, rollout of automatic check-scanning machines, developments for syndicated loans and digital guarantees – stage B.
5. Cyber and data security – continued development of proactive protection capability, rollout of Big Data analysis capabilities and orchestrated and automated capabilities aimed at enhancing the effectiveness of the solution provided by the IT systems.
6. Projects intended to ensure compliance with regulatory directives – the Fair Credit Act and, dealing with the Cash Act, the worldwide Libor changeover, CECL – changing the accounting treatment for the recognition and measurement of credit losses in respect of financial instruments, open banking – businesses line - expanding new collaborations, and stage B – developing services for information on credit cards, as well as developing all types of transfers.

The Bank's investment budget for 2021 in respect of information systems and computerization, including for information system development projects, amounts to NIS 379 million (NIS 325 million in 2020).

The contents of the above section constitute a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carry out the Bank's plans at date of publication of the reports.

ICC

On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of IT services to the company, within the framework of a multiyear project to replace the company's core system infrastructure. The objective of the project is to improve the business continuity in the core activities, paying attention to the lifecycle termination date of the existing technological infrastructure, and its replacement with an advanced infrastructure with a long-term horizon. The scope of the entire project, including the internal inputs to be invested therein, is estimated to amount to approx. NIS 200 million. The completion of the project is expected in the year 2023.

The support of the existing operating system for the core operation of ICC terminated at the end of 2020. ICC and HPE have signed an agreement for the support of the existing system for the coming years, until the replacement of the core system infrastructure.

Furthermore, ICC has signed a host agreement and has formed a full plan for the transfer of the main computer installation located in Givataim to a host location in Modi'in. The transfer of the installation project is expected to be completed in 2021.

IDB Bank

The core systems of IDB Bank are at present provided through outsourcing by FiServ Company. The Board of Directors of IDB Bank decided to approve the managements' recommendation of the replacement of the existing core systems by a new core system, to be

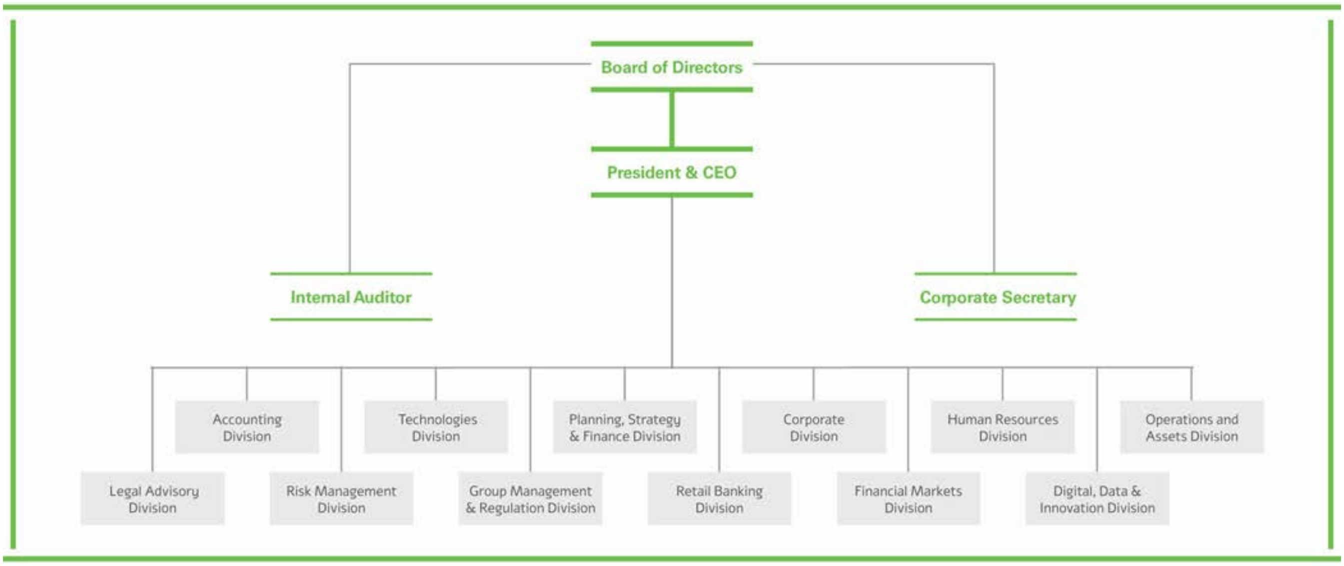
provided through outsourcing by Jack Henry & Associates. The volume of the engagement is estimated at approx. US$25.4 million, over a period of seven years.
At this stage, IDB Bank has signed an agreement with Jack Henry & Associates on December 31, 2019 and the implementation is in progress with a plan to complete the implementation in 3 phases from 2021 – 2022. In September 2019 IDB Bank signed a service agreement with the present supplier, FiServ Company, in order to secure appropriate support for the existing systems until completion of the conversion process.

Intangible Assets

Trademarks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc. In December 2018, the Bank registered the trademarks "PayBox", "PayBox App" as well as the logo.
ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trademarks in Israel, including "ICC", "Cal" "Cal Choice".
Furthermore, the Bank's subsidiary companies own trademarks, related brand names and slogans registered for the purpose of their business and marketing operations.
Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trademarks of VISA as well as the right to issue and clear credit cards under this brand name in Israel.
The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.
The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. The franchise is extended from time to time, and recently until December 31, 2029. See Note 36 E above.
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.
Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.
Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees.

The Human Capital

Organizational Structure Chart



Management of the Human Resource - General

Principal Activities in 2020

The 2020 Retirement plan. The Bank and the principal subsidiaries in Israel, MDB and ICC, introduced this year a retirement plan of the most extensive pattern ever activated within the Group. For additional details, see "The 2020 Retirement plan" in Chapter A above.
Integration of the "Clover (Tiltan) system". The continued activation of the new and advanced technological system for the management of human resources.
Occupation Register. The process of preparation and integration of an Occupation Register of the Bank was completed in 2020, following a wide compilation work of two years made jointly by the Human Resources Division with the different other Divisions and with senior managers in the organization. The Occupation Register comprises a systematic and orderly organizational infrastructure allowing an advanced and effective management of the central resource of the Bank – its human capital. On the other hand, the Occupation Register allows employees to see an authorized definition of the contents of their occupation and also to examine other occupations for future development.

Challenges for 2021

Preparations for transformation in traditional banking and for the challenges of the future.
Effective management of the labor force and its cost. The central challenge for 2021 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plan of 2020 on the one hand, and the utilization of the natural retirement potential on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.
Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.
Assisting the efficiency move at the branches. Assisting moves for the downsizing, merger or shutting down of branches, from the different human resources aspects, including the providing of a supporting and respecting cover for employees and managers expected to experience the change.

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.

Labor Force and Salary Expenses

There were 4,607 employees in full-time positions in the Bank in Israel at the end of 2020, compared with 4,905 at the end of 2019, a decrease of 6.1%. The average monthly number of employees, based on full-time positions, in the Bank dropped in 2020 and amounted to 4,889, as compared to 4,951 in 2019, a decrease of 1.3%.

There were 8,027 full-time positions in the Group in Israel and abroad at the end of 2020, compared with 8,509 at the end of 2019, a decrease of 5.7%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2020, was 8,431, compared with 8,536 at the end of 2019, a decrease of 1.2%. It should be noted that 37 positions had been added as of December 31, 2019, due to the Municipal Bank merger.

Labor force data of the Group and the Bank

	Employees					Positions[(1)]									
	As of December 31					As of December 31					Monthly average in				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
The Bank in Israel	5,085	[(2)]5,447	5,489	5,666	5,702	4,607	4,905	4,968	5,192	5,126	4,889	4,951	5,157	5,265	5,413
Domestic subsidiaries	3,246	3,467	3,477	3,221	3,214	2,855	3,040	3,055	2,895	2,946	2,982	[(3)]3,025	3,003	2,896	2,930
Group total in Israel	**8,331**	**8,914**	**8,966**	**8,887**	**8,916**	**7,462**	**7,945**	**8,023**	**8,087**	**8,072**	**7,871**	**7,976**	**8,160**	**8,161**	**8,343**
Overseas subsidiaries	557	558	522	487	485	565	564	527	491	486	560	560	508	480	499
Group total overseas	**557**	**558**	**522**	**487**	**485**	**565**	**564**	**527**	**491**	**486**	**560**	**560**	**508**	**480**	**499**
Group total overseas and Israel	**8,888**	**9,472**	**9,488**	**9,374**	**9,401**	**8,027**	**8,509**	**8,550**	**8,578**	**8,558**	**8,431**	**8,536**	**8,668**	**8,641**	**8,842**

Footnotes:

(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

(2) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries".

(3) Improvement in computing of the data.

Cost per position, in NIS thousands, on the basis of costs reported in practice

	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
The annual average direct cost[(1)] per employee position in the Bank in Israel	256	277	267	(7.6)	3.7
The total annual average cost[(1)] per employee position in the Bank in Israel	384	403	391	(4.7)	3.1
The average annual overall payroll cost[(1)] per employee of the Group in Israel and abroad	385	392	391	(1.8)	0.3

Footnotes:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, decreased in 2020 by a rate of 7.6% (see Table above). With elimination of awards, the average annual cost of the direct wage in respect of an employee position at the Bank in Israel, decreased in 2020 by a rate of 0.4% (see Table below).

The total average annual cost of an employee position at the Bank in Israel, decreased in 2020 by a rate of 4.7% (see Table above). Eliminating the effect awards, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 1.4%, compared with 2019 (see Table below).

It should be noted that, in the above and below tables, the cost per position does not include salary expenses, which, in accordance with the Public Reporting Directives, have been classified as "Other expenses" (see Note 1 C 6 (3) to the financial statements).

Cost per position, in NIS thousands, eliminating certain components

	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
The annual average direct cost[1] per employee position in the Bank in Israel - excluding awards[2]	248	249	245	(0.4)	1.6
The total annual average cost[1] per employee position in the Bank in Israel - excluding awards[2]	373	368	365	1.4	0.8
The average annual overall payroll cost[1] per employee of the Group in Israel and abroad - excluding awards and subsidiary retirement plan[2]	366	358	364	2.2	(1.6)

Footnotes:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

(2) See the effects of certain components on salaries and related expenses , p. 26.

Total income per position In NIS thousands

	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
Total income at the Bank to an average employee position at the Bank	1,089	1,044	941	4.3	10.9
Total income, consolidated to an average employee position at the Group in Israel and abroad	1,175	1,132	1,041	3.8	8.7

Human Resources according to Segments of Operation

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	For the year ended December 31, 2020									
Average number of positions in the segment	4,211	146	1,988	359	756	73	338	7,871	560	8,431
	For the year ended December 31, 2019									
Average number of positions in the segment	[1] 4,103	[1] 163	[1] 2,099	[1] 379	[1] 790	[1] 73	[1] 369	7,976	560	8,536

Footnote:

(1) The data for the year ended December 31, 2019, have been reclassified following changes in the allocation of expenses to the different segments in the bank (see Note 29 C to the financial statements) and in the subsidiary.

Labor Relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated November 30, 2016, the validity of the Charter was extended until December 31, 2021.

Principal Categories with respect to Employment Conditions

The Bank's employees are classified into three main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements.

Temporary employees. The engagement terms of temporary employees are mainly regulated in a number of special collective labor agreements, which specify their terms of employment. The temporary periods for temporary employees is being altered in accordance with their jobs: seven years for IT staff, five years for bank tellers and employees in direct banking jobs and four years for all other temporary employees. In addition, the agreement signed between the Bank’s Management and the representative committee of employees in September 2016 allows for the continued employment at a temporary status, for an indefinite period, of 250 IT staff who have already been employed for seven years on a temporary basis. As of December 31, 2020, the Bank employed 278 as "computer temporaries".

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012. It was agreed in the collective labor agreement of January 5, 2021, that due to the retirement of hundreds of permanent employees under the voluntary retirement plan of the Bank, the said ratio would not be binding on the parties until the end of 2021, or until the formation and signing of a collective labor agreement within the framework of the negotiations for the renewal of the effect of the Labor Charter, the later of the two dates.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, and the provisions of the labor charter and the collective agreements, which apply to “tenured” employees, do not apply to them. The employee population engaged under a personal agreement includes the members of the Bank's Management as well as an additional quota, as determined in the agreements, at the discretion of the Bank's Management. As of December 31, 2020, the Bank employed 213 personnel (including members of management) under personal employment agreements (December 31, 2019: 201 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

Summary of employment data in the Bank in the various categories and the changes therein

	As of December 31,					Change			
Employees	2020	2019	2018	2017	2016	2020 compared to 2019	2019 compared to 2018	2018 compared to 2017	2017 compared to 2016
Tenured employees under personal contracts and members of management	3,147	3,642	3,681	3,853	3,917	(495)	(39)	(172)	(64)
Temporary employees	1,317	1,133	1,215	1,285	1,304	184	(82)	(70)	(19)
Software house	486	507	447	364	308	(21)	60	83	56
Total	**4,950**	**5,282**	**5,343**	**5,502**	**5,529**	**(332)**	**(61)**	**(159)**	**(27)**
Additional – employees on unpaid leave and maternity leave	135	165	146	164	173	(30)	19	(18)	(9)
Total	**5,085**	**5,447**	**5,489**	**5,666**	**5,702**	**(362)**	**(42)**	**(177)**	**(36)**
Positions	2020	2019	2018	2017	2016				
Tenured employees under personal contracts and members of management	3,206	3,709	3,739	3,905	3,963	(503)	(30)	(166)	(58)
Temporary employees	1,328	1,162	1,206	1,263	1,283	166	(45)	(57)	(20)
Software house	479	395	378	345	288	84	17	33	57
Total	**5,013**	**5,266**	**5,323**	**5,513**	**5,534**	**(253)**	**(57)**	**(190)**	**(21)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	212	153	154	139	179				
Of which positions of software house employees of which has been capitalized to fixed assets	194	208	201	182	229				
Total positions before of which has been capitalized to fixed assets	**4,607**	**4,905**	**4,968**	**5,192**	**5,126**				

Footnote:

(1) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank’s workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from “expenses” to “salaries”.

Wage agreement

The Board of Directors approved on January 9, 2019 the agreements reached between the Bank's Management and the National Representative Committee of Discount Bank Employees, the essence of which are as follows:

- The wage agreement would be in effect for a period of three years until December 31, 2021;
- In each of the three years of the agreement, an average differential, shekel, salary increase will be granted in July, of NIS 450 for clerks and NIS 600 for managers would be given. The addition will be differential based on performance evaluation (on May 12, 2020 and in light of the Corona crisis, a collective agreement was signed with the employees' representative committee, which made changes to the aforementioned accords, 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);
- The maximum wage level for all second generation employees would be updated;
- The convalescence pay for second generation clerks would be updated;
- The provident fund contributions would be increased from 6.5% to 7.5% and the provision for severance pay to 8.33%, subject to the finality of the provision (Section 14 of the Severance Pay Act);
- The minimum monthly wage for severance pay purposes would be updated to NIS 6,500 in two stages in the years 2019 and 2020;
- Cancelation of the salary components of a daily newspaper and the refund of medical expenses and updating the traffic fees component.

In addition, the employees would be entitled in the years 2019-2021 to a return based award, based on a graded award mechanism determined in the previous wage agreement, which relates the annual award to employees to the rate of return on equity.

Industrial calm will be maintained at the Bank through December 31, 2021 in relation to the topics covered by the agreement. The agreement was signed on February 21, 2019.

The Bank estimates that the new wage agreement shall not have a material impact on the Bank's profits for the years 2018-2021, and that it agrees with the Bank's multi-annual strategic plan.

Remuneration Plan for Members of the Bank’s Management

The Bank approved an awards plan for Officers for 2020-2022, in accordance with the remuneration policy for officers of the Bank, as approved by the Bank's General Meeting of Shareholders of March 2020 (see Note 23 E to the financial statements). For details regarding the awards actually paid to Members of the Bank’s Management in the years 2019-2020, see Note 23 F and G, and Note 35 G, respectively.

Labor Relations of the Principal Subsidiaries

ICC. On June 11, 2019, a special collective agreement was signed by ICC, the New Federation of Labor and the national committee of ICC employees, which is effective from January 1, 2019 through December 31, 2022. The agreement prescribes that, in each of the years 2019-2022, a wage increment at an average rate of 3.1% will be granted. In addition, employees with the status of “permanent staff” will be granted a long-service increment at a rate of 0.5% for each of the aforesaid years. The agreement governs certain economic benefits to which the ICC employees will be entitled, as well as various aspects related to the company’s employment arrangements. In the agreement, the parties have undertaken to maintain industrial calm at the company through December 31, 2022 in all matters relating to the topics covered by the agreement.

MDB. Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor statute" and complementary collective agreements.

The Management of MDB and the national committee of employees of this bank signed in December 2018, a wage agreement for the years 2019-2023, which includes new and significant items. The essence of the agreement includes: detachment of the wage, work terms, and related benefits of MDB from those prevailing at Bank Leumi during the agreement period; in respect of the said detachment, the employees are to receive a onetime award amounting to 2.5 monthly salaries; a wage increment at the rate of 3.1% per year (excluding a seniority increment of 0.8%), for each of the years covered by the agreement; a gradual updating of the minimum monthly wage used for computing severance pay.

Merger of Municipal Bank. On the day of the merger, the rights of Municipal Bank’s employees to receive severance pay was anchored in two labor agreements, as follows:

- A special collective labor agreement dated July 30, 2018, which was signed between Municipal Bank and the employees’ representatives and the Histadrut – the New General Labor Federation;
- A memorandum of understanding signed on July 22, 2019 between MDB and Municipal Bank.

In accordance with the aforementioned agreements, Municipal Bank's employees will be entitled to receive enlarged severance pay from the merger date through December 31, 2021, under the terms prescribed in the agreements.

Declaration of a labor dispute at MDB. On February 15, 2021, MDB was informed by the New General Federation of Labor- MAOF Federation (hereinafter: "the Federation") of the declaration of a labor dispute and a strike at MDB, in accordance with Sections 5, 5A and 5B of the Labor Disputes Settlement Act, 1957. The notice states that the essence of the matters in dispute relate to the transfer of the Head Office of the bank to Rishon LeZion and the effect of such transfer upon the employees. According to the notice, employees of MDB may adopt, as from March 3, 2021 and thereafter, organizational measures (including a strike) in according with guidelines of the Federation.

Remuneration Policy in a Banking Corporation

Instructions in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation as updated from time to time (hereunder: "The Directive"). In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, following the recommendation of the Remuneration Committee the remuneration committee, as well as determine principles for a Group remuneration policy, which comply with the requirements stated in the Directive is in addition to the provisions of the Companies Act, 1999, and the provisions of the Remuneration of Officers of Financial Corporations Act (special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (see above).

Remuneration policy for Officers of the Bank. See Note 23 D and E above.

Employees remuneration policy. In March 2020 the Bank approved an updated remuneration policy for all employees of the Bank has been approved, including in respect of key employees, as well as the principals of group remuneration policy.

For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

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 (see "Wage agreement" above).

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.

Development of Human Resources

Provision of tools and skills in order to confront the implications of the Corona epidemic and the focusing on establishing an organizational culture supporting the Bank's Vision

Upon the outbreak of the Corona epidemic, the process of development of the human resources focused on confronting the complexity of hybrid work and the distant management of the human capital.

In this framework, instruction kits have been prepared with respect to conducting interviews and meetings at a distance, tools have been provided for effective communication at a distance, for the hybrid management of outputs, assignments and employees. Furthermore, the pool for free learning and the possibilities for distant development for all employees have been expanded.

All training programs at the Bank have been modified in accordance with the spirit of the period, performed in a hybrid format and

redeveloped from the standpoint of learning methods, learning content and tools for management in a hybrid work environment. Furthermore, response has been provided by training enriching vigor and the positive psychology for the confrontation with the challenges of the period.
In addition, in cooperation with strategy, a process has been prepared for the structuring of an organizational culture supporting persistent improvement, performance, excellence, and a high level of bonding.

Managers' development programs

The main focus in 2020 centered on the support of managers in view of the challenges of the Corona crisis and work in a hybrid format. Relevant material, which was intended to assist in distant management of the teams and assignments, was structured in March and made available to managers, in view of the reality enforced by the Corona crisis.
Upon returning to routine work under the Corona conditions, and in view of the lack of ability for frontal learning, all training programs have been converted to the "online" format and were performed at a distance. Short and focused training courses have been structured, assisting managers in confronting the complexity of management in this period. In this framework, 177 managers have undergone the training program "Management in Corona time" and have received tools for the structuring of routine work in times of emergency, the structuring of personal and team vigor and hybrid management. 185 additional managers have participated in the "Hybrid management" training program, which provided tools for the management of outputs, assignments and employees. Furthermore, pilot training programs for employees have been held on the subject of vigor, and on the subject of change and changing.
At the same time, online training courses continued to be provided regarding the intensification of management skills with a future outlook, within the framework of which, 25 managers have participated in the "The developer manager" program for locating development needs for employees and structuring a development and tutoring program, and 30 managers have participated in the training program for the management of change and changing.
In addition, virtual training programs have been provided to designated populations: 52 managers in the Financial Markets Division have participated in the program for the structuring of partnerships, 35 compliance officers have trained for management and influence under complex conditions and a training course for the structuring of management skills has been provided to 48 team leaders at the divisions of the Bank – one-third of them being segment managers at the branches.
Consultation and personal escorting were provided in 2020 to 73 managers, assisting them in the confrontation with the challenges of their duty and of the period, mostly by means of virtual platforms.

Key personnel and positions

In respect of employees identified as key-employees in the years 2018-2019, 96% of the programs for the reduction of risk that should have been completed by the end of 2020, have been completed. Furthermore, a search for additional key-employees had been performed in all divisions of the Bank, within the framework of which six additional key-employees were found and risk reduction programs are being structured in their respect.
In addition, an examination regarding the possible leaving of key-employees was performed in 2020, in view of the voluntary retirement plan and retirements at the prescribed age.

Performance assessment and feedback

The process of employee evaluation was completed in the second quarter of 2020 – a goal directed process with an emphasis on the Discount spirit values and on the dialogue of the manager with each employee as to the short and long terms development directions. Approx. 100 managers had undergone designated training as preparation for the process.
The process had been conducted taking into consideration the challenges emerging in the Corona crisis period, and the managers had been guided to refer in the feedback conversations also to the confrontation of employees with the unusual period they had gone through. Evaluations have been completed in respect of 99% of the employees.
In addition, a new employee evaluation process was structured this year, which is focused on the development of the employee and improvement of performance. Integration of the new process in "Tiltan" the new human resources management system has started.

Professional Guidance

The work plan for 2020 has been modified to the Corona crisis, both as regards the business focus points aspect and as regards the interface in "social distancing" times aspect, while endeavoring to maintain learning effectiveness.
The work plan focuses in providing response along three central routs:
Maintenance of professional competence – Special emphasis has, inter alia, been put on professionalism in credit, regulation aspects, and more. Training has been provided through online study meetings, training and distance workshops.
Providing response to the training for duty of employees – The first "data analyst" training program has been introduced for analysts acting at the Bank. Furthermore, in accordance with business requirements, distant learning "reskilling" training programs have been developed for positions of mortgage officers and business coordinators. This, alongside basic banking training programs for new employees recruited in view of the early retirement plan.
Providing answers and support for strategic projects – as part of the business strategy and the realization of the "best bank for its customers" vision, the qualifications required from employees have been defined in accordance with the business and values of Discount Bank, qualifications have been mapped in accordance with specific business, and action has been taken to integrate a supporting learning culture. One of the focal points in the integration of the learning culture was the creation and development of inquisitiveness for learning. In this respect, a free learning area has been introduced in the organizational portal, which is available for use 24/7 also by means of the mobile phone. Workshops for the improvement of soft skills have, inter alia, been introduced. Also online lectures have been held on diverse areas of the daily bank work, provided by Bank employees, and an enrichment podcast for employees – "Podiscount" – has been introduced.
Study activities were curtailed in 2020, due both to the lack of ability to hold frontal learning and also due to the fact that some of the employees were working from home or were on vacation for parts of the year. In 2020, despite the aforementioned objective difficulties, 18,605 employees participated in remote learning activity. In 2019, which due to the circumstances was not comparable, 22,174 training days took place. In addition, computerized self study continued in 2020, amounting to 21,369 self study interactions, compared with 41,863 interactions in 2019, a decline of 49%.

Organizational Culture

One of the layers of the Bank's strategic plan is to build organizational strength through deploying a winning organizational culture that supports constant improvement, performancism, excellence, and a high level of connectivity. Accordingly, in the third quarter of 2020, the Bank launched an organizational culture project, within the framework of which, five project teams were set up on the following topics: the employee experience and connectivity, strengthening managers, professional qualification, organizational optimization, and the culture of performance and change. A work plan was drawn up for the fourth quarter of 2020 and for 2021.
The teams' focus in 2020 was on establishing an infrastructure for 2021, inter alia – preparations for an employee experience survey that would be launched in the first quarter of 2021, defining an attentive strategy for a better employee experience, defining a leadership model, learning modified to improve professional qualifications, and so forth.
Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.
With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2019, including: Senior Forum - a quarterly meeting; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.
A "FaceBank" Portal. FaceBank enables access to employees, participation in know-how, a wide dialogue and contents that assist in the integration of information in a convenient manner and advanced user experience. The portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.
Communication with the Senior Forum. The Bank has a designated channel for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis.
In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:
- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices.

Organizational communication during the Corona crisis. 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

The service concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale.

The Bank strives to position itself as the best bank for its customers and to lead the Israeli banking system in the recommendations index (NPS). In 2020, a multi-year strategic project was launched with the aim of implementing a series of changes that will lead to Discount Bank realizing its goal and to it becoming the best bank for its customers.

The project is based on four main layers: (1) a comprehensive and varied array of tools for listening to customers; (2) an analysis of the feedback received from customers and converting this into action initiatives; (3) effective mechanisms for improving the customer experience and for handling problems that customers draw attention to, both in the field arrays – with the branches and with TeleBank, and also in the digital arrays and with the various head office units; (4) constant control and strict monitoring of the results.

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.

Treating Complaints

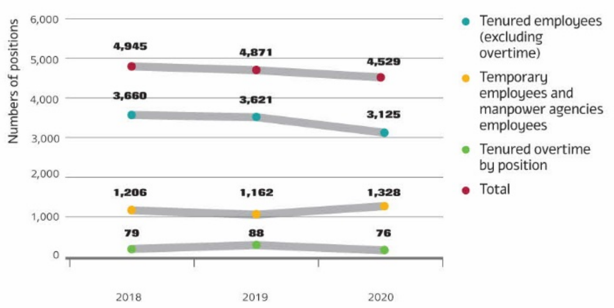
The Bank-Customer Department of the Supervisor of Banks issued in October 2020, data regarding complaints served against banks in Israel in the year 2019, as well as an outlook regarding the data for the first half of 2020 (the Corona crisis period). The ratio of justified complaints within the whole banking system, out of all complaints examined by the Supervisor of Banks, amounted to approx. 17%, compared to 8% in 2018.

According to the data produced by the Bank in 2019, the ratio of justified complaints attributed to the Bank amounted to 17.5%, as compared to 5.6% in 2018.

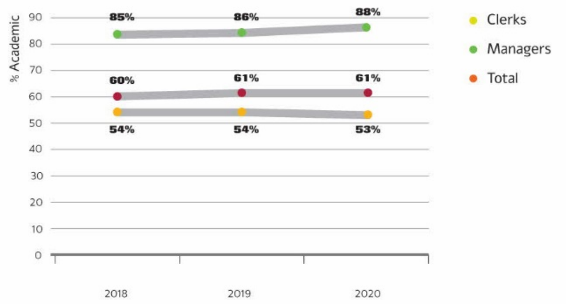
No data has yet been received from the Bank of Israel in respect of 2020.

The annual report to the public regarding the treatment of complaints by the Bank in 2019, may be viewed on the Bank's website. The annual report in respect of 2020, shall be available to the public on the Bank's website at the end of March 2021.

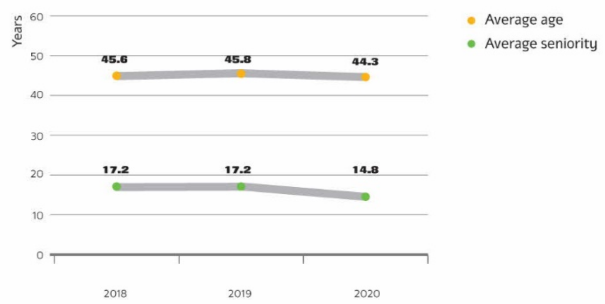
Number of positions at the Bank



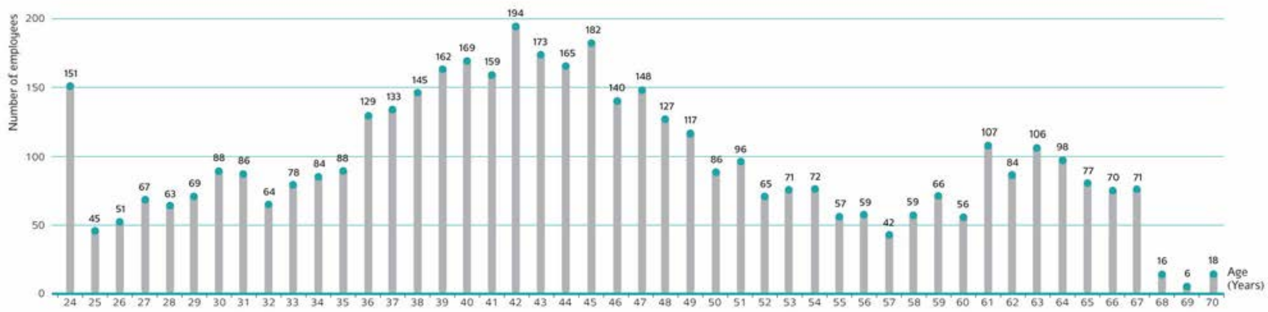
The rate of university graduates according to grade at the Bank



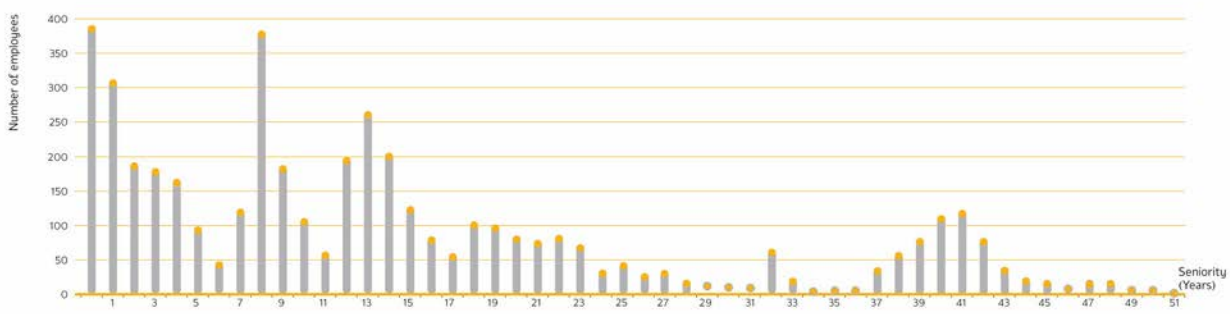
Average seniority and average age at the Bank



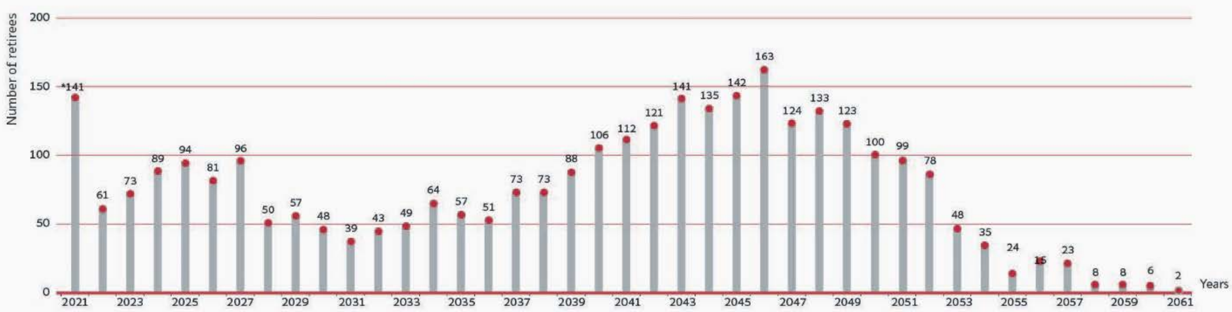
Distribution of tenured employees by age at the Bank - work force 12/20



Distribution of tenured employees by seniority at the Bank - work force 12/20



Natural Retirement by Years at the Bank (tenured employees)



* 71 employees of which retired under early retirement in the first quarter of 2021, and the remainder are in the course of natural retirement

Material Agreements

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest. Accordingly, the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For additional details, see Note 26 C 8 A to the financial statements. For details regarding this matter and the matter of exemption in advance and indemnification of Directors and other Officers of the Bank and the subsidiaries, see Note 26 C 8 to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter.

Acquisition of Municipal Bank. For details, see Note 26 C 16 to the financial statements.

Agreement for the construction of the Discount Campus. For details see above in "Fixed assets and installations".

A cooperation agreement with Shufersal Company for the establishment of a digital wallet for customers of all banks. For details see "Strategic cooperation for setting up a digital wallet" in Chapter A above.

Rating the Liabilities of the Bank and some of its Subsidiaries

Rating determined for the Bank and some of its subsidiaries by different rating agencies

Rating given by	Subject of rating	Rating	Rating outlook	Date of rating/ ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	February 23, 2021
	Issuer rating Short-term	il A-1+		February 23, 2021
	Subordinate capital notes[(1)]	il AA+	Stable	February 23, 2021
	Hybrid tier 1 capital (Series "A")	il A	Stable	February 23, 2021
	Subordinated debt notes with a loss absorption mechanism (Series "F", "G"[(3)], "L")	il AA-	Stable	February 23, 2021
	Bonds (Series M-N)	il AAA	Stable	February 23, 2021
Midroog	Long-term deposits	Aaa.il	Stable	November 4, 2020
	Short-term deposits	P-1.il		November 4, 2020
	Subordinate capital notes[(1)]	Aa1.il	Stable	November 4, 2020
	Subordinate capital notes (tier 1 capital)	Aa3.il (hyb)	Stable	November 4, 2020
	Subordinated debt notes with a loss absorption mechanism (Series "L", Series "F" and Series "G")	Aa3.il (hyb)	Stable	November 4, 2020
	Bonds (Series M-N)	Aa1	Stable	November 4, 2020
The international rating agency S&P	Issuer rating Long-term	BBB+	Stable	February 23, 2021
The international rating agency Moody's	Long-term foreign currency deposits	A3	Positive	January 19, 2021
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	February 23, 2021[(2)]
	Issuer rating Short-term	A-1		February 23, 2021
	Subordinate capital notes	il AA+	Stable	February 23, 2021
	Bonds (Series B)	il AAA	Stable	February 23, 2021
	IDB Bank			
Kroll Bond Rating agency	Deposits	A-	Stable	October 16, 2020
The international rating agency S&P	Issuer rating Long-term	BBB+	Stable	May 7, 2020

Footnotes:
(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.
(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.
(3) Date of rating: June 18, 2020.

The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A-1	Stable
The international rating agency S&P	AA	Stable
The international rating agency Fitch	A+	Stable

* The data is taken from the website of the Accountant General at the Ministry of Finance.

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.

Activity of the Group according to Regulatory Segments of Operation – Additional Details

Points of Emphasis for 2021

As part of the changes that the banking sector is undergoing, the Discount Group will act to accelerate the evolution in banking activity, with the aim of improving its competitive ability and increasing its market share and profitability in the banking activity. The aforesaid acceleration will be done by focusing on five areas: a winning customer experience; significant growth and a larger market share in the focus segments; innovation; banking excellence; and, a winning organizational culture. For further details see "Goals and business strategy" above.
In 2021, following the formulation of an updated, multi-year Group strategy plan, all the operating segments are planned to undergo strategic focusing and clarification taking a forward-looking viewpoint.

Household segment (Domestic operations) - additional details

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of 175 branches located all over the country. This in addition to the range of services provided by the direct channels. The customers are classified into a number of customer populations according to groups of age, financial wealth and additional parameters.

Points of Emphasis for the coming year

In 2021, the Bank will focus on customer experience and on the modification of the operating model to market trends and to customer preferences. This, with a view to bring about the vision and strategy of Discount Bank as being the best bank for its customers:
- The continuing improvement of customer experience on the human and digital channels;
- The Bank is to continue and act towards the accessibility of a wide range of services with an advanced experience, a 24/7 availability of the digital platforms (including digital mortgages, opening an account through the application, and more), and would train its customers in adopting the advanced services;
- Enlarging the use of the service for the ordering of a meeting with a Bank officer, as well as cash and consultant services;
- Upgrading the effectiveness of sales by means of customer modified value offers in all channels;
- Development and use of analytical models as a supporting tool for credit granting decisions.

The integration of the strategy at the branches and at the regional offices will continue in 2020.

Service

General. An emphasis was placed in recent years on upgrading of multi-channel service experience, with the aim of providing a varied, qualitative, fast and accessible service.
Among the services in the different channels may be mentioned:
Personal service TeleBank. A customer telephonic response center – automatic transfer to online banking of customer calls to the branch telephone exchange. The service enables improvement of telephone response time and clears time for branch employees to create added value for customers from the aspect of service, initiative and sales.
Activity on the Bank website and on the mobile application – It is possible to conduct by means of these channels varied banking transactions, such as: depositing funds with a deposit account, obtaining a loan and the transfer of funds between accounts, and to receive diverse information.
Correspondence with a banker by the cellular application - allows the obtaining of information and effecting transactions.
The management of customer communication strategy was integrated in 2019, in accordance with life events of the customer, while focusing on designated products adapted to the household segment.

Consulting Layout

Investment banking. The Bank operate under the private banking segment – 11 investment banking units and extensions spread throughout Israel that provide investment consulting services to customers having investment capital of NIS 1-4 million or customers active on the capital market. The service is provided by expert investment consultants.
Investment consulting services. Consulting services that are provided at the Bank's branches by licensed investment consultants are intended for customers having investment capital in excess of NIS 100 thousand. Customers receiving consulting that have investment capital in excess of NIS 1 million are also offered the choice of receiving counseling services at the investment centers, as described above.
Pension advisory services. The Bank provides pension advisory services at the Bank's branches and private banking centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.
Portfolio management. Directing customers in need of services to authorized portfolio managers.

Marketing and Distribution

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:
- at the branches - frontal activity through screens located in areas where customers await service;
- by means of the telephone, Telebank, the Bank's application and the Internet, as well as through feedback and direct mailings.

The Bank continues to offer its customers and to those joining it the unique "Family Program", which grants benefits to the family members that join it, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members.

Bank Branches

At the end of 2020, the Discount Group has 177 branches in operation in Israel (103 branches of the Bank and 74 branches of MDB). The Bank's Machaneh Yheudah Branch in Jerusalem was closed down in 2020, and the Jerusalem Center extension was opened. MDB closed down in 2020 its Dizengoff Branch and the Sharon Center Branch.

Direct Channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. For additional details, see "Technological improvements and innovation" hereunder.

Service Concept

In recent years the Bank focused on differentiating service according to customer segments, including the modification of a variety of segment adjusted products.
Conduct of the service is based on the following principles:
- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enables the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements;
- Service initiative - Forecasting customer needs, product adaptation and services;
- The integration of standards for handling customer approaches and the continued reduction in complaints;

- Easy and convenient communication with the Bank's customers through emails to the banker;
- Fixing a meeting with a banker;
- Conducting telephonic services surveys and of SMS surveys applying to customers of the Bank who have had interaction with a banker at the branch/TeleBank/investment centers (both frontal or by telephone), which enable an examination and analysis of their satisfaction, both with respect to the most recent service obtained from the banker and from the Bank itself.

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.

"Discount Key"

In 2020, the Bank continued the unique marketing effort in the area of financial consumption – "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount's credit cards (Visa CAL, Visa MAX, Diners and MasterCard) enjoy discounts at over 100 marketing chains and from unique benefits, such as free parking in the afternoons and at week-ends, and from the "VIP Discount key" benefit at the Ben Gurion Airport.
Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.

Competition

Competitors. The number of competitors in the household segment is the same as the number of banks operating in the market. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank (with emphasis on the merger with Union Bank). Furthermore, competition has arisen in recent years from "off banking" financial entities, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.
Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers, by means of the branch layout;
- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

Retail Segment at MDB

MDB views the retail segment in general, as well as the household segment in particular, as a central target of its business development and is diligently working on broadening its activity in the segment as well as improving the service to its customers.

Mortgage Activity

The Bank views mortgage activity as a strategic activity and as a tool for retaining existing customers and for attracting new customers.
Mortgage loan services were provided in 2020 at 65 branches.
In 2020 the Bank operated two channels in the process of approving a mortgage, as follows:

- The mortgage consultants' channel at branches;
- A call center channel specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with applications from customers interested in a new loan and enabling a conditional approval in principle to be granted (on the basis of set criteria), with the process being continued at a personal meeting with the customer at the branch;
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch;
  - Response to existing customer questions regarding ongoing loans.

In February 2021, the Bank began to gradually activate a new channel - "digital mortgage".

Developments in the mortgage market

	December 31,		
	2020	2019	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	78,109	67,597	15.6
Loans from State funds	637	688	(7.4)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the year ended December 31,		
	2020	2019	
	In NIS millions		Change in %
From bank funds(1)	10,037	8,151	23.1
From Treasury funds(2)	56	59	(5.1)
Total of new loans	10,093	8,210	22.9
Recycled loans	1,079	650	66.0
Total granted(3)	**11,172**	**8,860**	**26.1**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 255 million in 2020, compared to NIS 130 million in 2019.
(2) Including standing loans in the amount of NIS 20 million in 2020, compared to 12 million in 2019.
(3) At the Bank and MDB.

Legislative restrictions and regulations

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. The Bank of Israel published an outline on November 30, 2020, intended to help customers seriously affected by the Corona crisis, whose monthly income prior to the crisis had not exceeded NIS 20,000 and has been affected by at least 40%. Such customers are entitled to ask for a partial deferment of the repayments of the loan in a way that the monthly repayment shall be reduced by 40% to 75% for a period of twenty-four months, as elected by the customer.

Guidelines and directives of the Supervisor of Banks designed to restrain the mortgage market. In the years 2010 to 2015, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market. For additional details, see the 2017 Annual Report (pp. 336-338).

Annulment of the limitation regarding the rate of the "Prime" component in housing loans. With a view of lightening the burden on the public taking mortgages, due to the condition existing in the market following the Corona crisis, and in the light of experience accumulated over the years regarding credit risks pertaining to housing loans, the Supervisor of Banks published on December 27, 2020, an amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of: "restrictions on the granting of housing loans", within the framework of which, the guideline limiting the component of housing loans bearing a variable interest rate based on the Prime interest rate, to a rate not exceeding 33.33% had been cancelled (however, the limitation, according to which the component of housing loans bearing a variable interest rate shall not exceed 66.66% of the amount of the loan, remained unchanged). It is further determined that as from February 28, 2021, the Amendment shall apply also to refinanced loans.

Developments in the mortgage market

The growth trend in the system continued in 2020, and despite the Corona crisis, no slowdown is marked in the demand for mortgage loans, this market being characterized by a high level of competition. The volume of loans granted in 2020 amounted to approx. NIS 8 billion, compared to approx. NIS 6.8 billion in 2019, an increase of 18%. The volume of mortgage loan granted in 2020 by the system, amounted to approx. NIS 83 billion, reflecting an increase of 19% in relation to the volume recorded in 2019.
The volume of housing loans at Discount Bank increased at a higher rate than the increase in the housing loan portfolio of the whole banking system, 13.2% and 8.9%, respectively.

Sectors of operation

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank`s funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.
Multipurpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).
Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Small-scale projects are performed by the Mortgages branch of the Banking Division. Approval of the individual mortgage files is conducted in designated branches. Since 2019, the Bank has resumed extending credit to purchase groups, after having discontinued activity in this sector from 2012.
Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.
The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank’s and MDB's telephone services, respectively.

Business strategy

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.
Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.
The Bank operates a rating model, used in the approval of the transaction and its pricing.

Additional details regarding the mortgage portfolio of the Discount Group and the risks inherent therein

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

Competition

The mortgage loan sector was characterized in recent years by mergers of mortgage banks that had been operating as separate entities, with the commercial banks owning them. At present, the five major banks have completed the merger of their subsidiaries operating in the mortgage field. This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.

The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans and making processes more efficient. The Bank is upgrading its systems by means of computerizing of processes, with a view of improving the reaction time to customers' new mortgage loan applications, while conducting a controlled management of the risks. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

Private Banking Segment (Domestic operations) - Additional Details

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter: "private banking customers").
Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
Customers active on the capital market in amounts of between NIS 1 million and NIS 4 million receive expert consulting services only, at the investment banking units that report to the private banking centers (4 units and 7 extensions spread throughout Israel).

Developments in the Segment

In 2020, the Bank continued its efforts to intensify the activity with private banking customers, while confronting the Corona crisis and its implications (see below).
Private banking focused on providing ongoing service, by means of four service centers and 6 extensions in Herzliyah, Haifa, Jerusalem, Tel Aviv, Rishon LeZion and in Ashdod, as well as on intensifying the activity with existing customers and further work in aligning customers at branches and private banking centers with the service arrangements appropriate to their needs, in accordance with their profiles.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. In accordance with the service concept, the Bank has conducted during the year focused online meetings with central customers with respect to different economic and current matters.
Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the meticulous implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks. In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.
For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Strategic Emphasis

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international banking department, serving foreign resident private banking customers and new immigrants, and the investments and Private Banking, serving Israeli resident private customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to foreign residents and new immigrant customers with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by investment consultants responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while

focusing on nurturing the continuing generation and maintaining a thorough risk management in the process of attracting new customers and servicing the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. For several years, the Bank adopts and implements a strict, risk based, policy with respect to foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts. In addition, the risk management unit at the Banking Division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to Customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them.
Segment customers with passive investments exceeding NIS 4 million, enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants, VIP mortgage consultants, as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
Customers with passive investments of between NIS 1 million and NIS 4 million receive investment and pension advisory services at the private banking – investment banking centers, while banking services are provided at the branch.
The private banking provides service to customers six days per week and the private banking centers in Herzliyah, Tel Aviv and Jerusalem operate from 8 AM to 7 PM (on Fridays from 8 AM to 1 PM), in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.
In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank’s subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment’s customers.
Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.
A product initiation unit acts to create unique products suitable for this segment of customers.
The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Development in the Segment's Markets and Competition

The year 2020 was a singular year in relation to service due to the outbreak of the Corona epidemic and the need of the Bank for a quick adjustment of service to customer needs, without affecting the business process. Competition in the private banking segment with respect to prices, commission rates and the level of service to the customer was increased, mostly due to concern regarding liquidity distress of banks concerning the crisis in the capital market. Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth.

Discount invest

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.
"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.
The service also includes foreign securities operations on the U.S. Stock Exchanges.
Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer,

with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 19:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.
In 2020, the Bank continued the process of transferring the investment consultants from the branches to unique consulting centers, which provide available and professional response to all Bank customers in the securities world.
Customers having investments in amounts of between NIS 1 million and NIS 4 million, obtain services from four private banking centers, the investment banking segment and seven extensions countrywide, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.
Customers of the investment banking centers, excluding the users of "Discount trade", enjoy varied service lanes at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.
Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.
For details regarding innovative digital services, see below in the “technological and innovative improvements” section.

Small and Minute Businesses Segment (Domestic Operations) - Additional Details

General

The small business segment provides services and diverse financial products to small business customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 176 branches located all over the country, in addition to a variety of direct channels.

Business Strategy, Goals and Points of Emphasis

The Bank applies strategic emphasis to the small businesses field, performing within this framework different moves regarding this segment that would enable assistance of the operation of the business and contribute to the growth of the business, with the aim of comprising a supporting network for Discount customers belonging to this segment.
The small businesses segment is characterized by the granting of a comprehensive and professional banking service for business development, which includes focusing on all possible banking operations alongside the development of areas of relevant banking services, and which also includes integration of innovations and the introduction of tools maintaining the differentiating value.
The values on which the new strategy is structured is reflected in the professional training of bank officers, in work routine, measurement and value offers to new customers.
The Bank is implementing an operating model for small businesses, in which the emphasis is on offering of a modified and unique to the Bank's business customers, and attracting new qualitative business customers. Within the framework of the operating model, the Bank has started a new characterization of business customers of the Bank and at the same time business Bank officers and credit coordinators have been assigned to designated teams.

Business Strategy, Goals and Points of Emphasis for 2021

The focusing by the small and minute businesses segment continued with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.
Goals have been set for controlled growth in the small and minute businesses segment, with focus and emphasis on existing and new quality customers, having a reasonable level of risk and having risk-adjusted profitability suitable for the Bank. Among other things, the following goals were set:
- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;

- Sale of products fitting to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Expansion of the use of direct channels, with a focus on upgrading the designated website for customers of this segment – "Business +" and a designated application for business customers;
- Integration of the change within the branch network and the movement and concentration of business customers to appointed designated branches, thus maximizing the professional service granted to segment's customers.
- Implementation of a new operating concept for small businesses while combining attractive value offers for this segment;

The integration of the strategy at the branches and at the regional offices will continue in 2021.

Competition

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies, as well as through designated, private, off-banking companies that finance specific activity, such as: the purchase of vehicles, equipment, imports activity, and the provision of lines of credit for working capital purposes. The principal steps that the Bank takes to cope with the competition, include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

Service to Segment Customers

The small business segment provides the full variety of services to the segments' customers. The service is provided at the Bank's branches, including foreign trade services through a head office support unit. Also available to business customers is the possibility of receiving service via an Internet website and a designated application and over the telephone.

Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").

Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to approx. NIS 15 million and indebtedness of up to approx. NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.

Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.

Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.

"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.

SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.

Application for business customers. A designated Application became available in 2019 for use by business customers, offering them a wide range of services and transactions regarding their current work.

Legislative restrictions and regulations

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. For details, see "Legislation and Supervision" below.

The Small Business Segment at Mercantile Discount Bank ("MDB")

Within the framework of implementing its policy, which view the retail segment in general and the “small and minute” segment in particular, a central goal in its business development, MDB is striving to improve the service to customers belonging to this activity segment.

Medium businesses Segment (Domestic operations) - Additional Details

Service to Segment Customers

Customers of the group's Medium businesses segment are medium size business customers (middle market). These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers that operate nationwide: Jerusalem, Tel Aviv, the Sharon Region, Haifa and the Lowlands, as well as through a southern extension in Beer Sheva, which provides service and response to business customers in the Southern Region.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room designed for providing operating services to middle-market and small business segments customers and provides purchase and conversion of foreign currency services and performing hedge transactions.

In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

Goals and Points of Emphasis for 2021

- The medium business segment is one of the Bank's strategic focus segments for 2021. Growth targets have been set for this segment while focusing and placing an emphasis on existing and new, quality customers having a reasonable risk level and satisfactory risk-adjusted profitability for the Bank;
- Expanding the activity with customers operating in economic sectors that are preferred for growth in accordance with the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuing the improvement of professionalism, availability and the processes of credit risk management and amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition;
- The integration of advanced credit risk management models with the aim of improving the pricing of the marginal transaction and adjustment of the financing spread to the nature of the transaction and to the risk to the Bank, while improving the ability to compete for quality customers.

Anticipated Developments in the Coming Year

The Bank estimates that economic growth in 2021 is expected to be around the potential growth rate with the continuation of expansion in exports and in private consumption. However, the Bank estimates that the principal risks threatening the realization of this forecast stem from global events, principally, the slowdown in global economy, the length of time required for the overcoming of the Corona virus and political uncertainty, as well as from domestic events, predominantly, the uncertainty regarding measures which the new Government would adopt and the possibility of escalation of the security situation.

In view of the above, growth is anticipated in bank credit to the commercial sector, both for the financing of working capital and the financing of investments.

Competition

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions. The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

Large businesses Segment (Domestic Operations) - Additional Details

Review of Developments in the Corporate Banking Segment in 2020

Economic activity in Israel, with private consumption in the center of it, has contracted at an unprecedented rate in the first half of the year, following the Corona crisis and Government measures to curb the spread of the virus. During the second half, with the support of the gradual opening of the economy, finding vaccination against the virus and global recovery, a fast growth was recorded. In total for the year, the GDP contracted in 2020 at an unprecedented rate of 2.5% and the business product by 3.1%, most of the decline originating in private consumption.
Following are the factors which impacted the development of the business product in 2020, compared with 2019:

- Private consumption, which in recent years served as a central growth generator, contracted at a sharp rate of 9.5%, the consumption of services contracting at a dramatic rate of approx. 27%;
- A decline of approx. 2% was recorded in investments in economic sectors (excluding ships and aircraft) following contraction of approx. 8% in investments in residential construction, alongside a decline of approx. 22% in investments in motor vehicles (mostly passenger cars). A marginal growth was recorded in investments in non-residential construction and in machinery and equipment;
- On the other hand, exports (excluding startup companies and diamonds) grew by approx. 2%. Export of other services, mostly hi-tech services grew at an impressive rate of approx. 12%, and industrial exports grew by 3.5%. In contrast, income from tourism recorded an unprecedented decline of approx. 76%, in the wake of a nearly complete shutdown of the sector;
- Public consumption (excluding defense imports) grew by a rate of approx. 3%, with an outstanding growth in purchases for civilian consumption and an exceptional decline in payroll expenses.

In consequence of the above developments, total input in the economy has declined by approx. 4%. At the same time, the import of goods and services (excluding defense import, ships, aircraft and diamonds) has contracted by approx. 8%, with an exceptional decline in the import of services – approx. 21% (mostly tourism services), compared to negligible growth in the import of goods.

Developments in the Debt of the Corporate Banking Segment

At the end of November 2020[8], the debt of the business sector (excluding banks and insurance companies) amounted to NIS 970 billion, an increase of approx. 1% compared to the end of December 2019 (all rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).
Debts to banks have recorded a rise of 4.5%, concurrently with a rise of 2.6% in the debt to institutional bodies, mostly through the issue of bonds. On the other hand, the debt to foreign residents has recorded a sharp decline of 9% (a significant part of the decline stems from the appreciation of the shekel), and the debt to households has declined by approx. 1%. As a result of the said trends, the weight of banks in the total debt of the business sector increased, reaching at the end of November 2020, 49.7% (as compared to 47.9% at the end of 2019).
In the course of 2020, the business sector, excluding banks and insurance companies, has raised (on the Tel Aviv Stock Exchange), through the issue of bonds, an amount of approx. NIS 39 billion, similarly to 2019.
The margin between corporate bonds (included in the Tel-bond 60 Index) and government bonds at the end of 2020, amounted to 1.35%, as compared to 3.5% in the middle of March (1.05% at the end of 2019). The decline in margins was supported by the Bank of Israel plan for the purchase of government bonds, and at a later stage, also corporate bonds.

8 The most updated data available at the time of submitting the report to print.

Developments in Segment Markets

The renewed outbreak in morbidity, including the third lockdown, has caused additional impairment to economic activity. However, as compared with earlier rounds, the level of optimism regarding the exit from the crisis is higher, inter alia, due to the more intensive vaccination effort, also when compared globally.
Following are development directions in the principal economic sectors:

- Industrial sector – regression occurred during 2020 in economic activity of most industrial sectors, similarly to the global trend. This, on the background of the impact of the crisis, which, inter alia, included a decline in demand in target countries alongside impairment to the chain of supply. Moreover, Israeli industry is recently facing an additional threat on the part of the significant appreciation of the shekel against the US dollar;
- Tourism sector – this sector suffers a significant and continuous impairment, which is reflected in the countrywide occupancy rates and in the volume of income;
- Commercial sector – the shutdown of the commercial sector alongside the continuous impairment in the buying power of the consumer, due to the high unemployment rate, has led to impairment to the sector. However, impairment is not the same across the segment, and subsectors exist that had been defined as vital and continued in operation regularly. In addition, performance in this sector is correlated with the buying power of the consumer, so that the recovery potential is largely dependent on it;
- Real estate sector - for details, see below ""Construction and real estate activity" in the Chapter "Additional details regarding activity in certain products".

Anticipated Developments in the Segment's Markets

In accordance with the updated growth forecast of the Bank of Israel, the economy is expected to recover from the crisis in 2021, so that the product is expected to grow in the range of between 3.5% and 6.5%, based on scenarios regarding the progress of the vaccination effort of the population. In addition, the unemployment rate, which has risen to a historically high level, is expected to return to a single-digit rate by the end of the year. However, the rate of inflation will continue to remain below the Bank of Israel target.

Reaching Targets and Business Strategy - 2020

The Bank continued to act in the ordinance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.
In addition, the Bank focused on syndication transactions and capital mitigation, as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return, in terms of return on the regulatory capital and return on the economic capital.
In addition, the Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

Targets and Business Strategy

In 2021, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.
Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2019:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies in Israel and abroad;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;

- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (targeted populations, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2018". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

Developments in the segment

Establishment of the 360 plus for business banking wing. Within the framework of the consistent effort to improve the quality of service offered to the Bank's customers, Management of the Bank decided in September 2019, to establish the 360 plus for business banking wing, which incorporates the foreign trade units, Cash Management and the Tel Aviv Main Branch. The wing is expected to lead the offering of operating and digital services to large corporate business customers engaged in these areas.

Purchase of a credit risk insurance policy

The Bank purchased credit risk insurance for the real estate field. The policy covers the existing loan portfolio as well as new loans extended during the period of the policy, the nature of which loans agrees with the definitions contained in the insurance contract. These purchases are in addition to the purchase of a credit risk insurance policy with respect to Sale Act guaranties and to an insurance policy covering other non-financial guaranties.

Within the framework of the policies, the Bank transfers a part of the credit risk to an international consortium of re-insurers. Under the provisions of Proper Conduct of Banking Business Directive No. 203, the insurance transaction allows the Bank to reduce its risk assets, by way of reducing the risk weight of the exposure, and bringing it to a risk weight of 20%, in accordance with the international rating of the re-insurers.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

The principal restrictions applicable to this segment are briefly described hereunder.

Proper Conduct of Banking Business Directive No. 313. In accordance with the directive, the indebtedness limit for a single borrower (that is not a bank) stands at 15% of the bank's capital, the indebtedness limit for a group of borrowers stands at 25% of the bank's capital and the indebtedness limit for a group of banking borrowers or a group of credit card borrowers stands at 15% of the bank's capital. The total indebtedness of borrowers, groups of borrowers, groups of banking borrowers and groups of credit card borrowers, whose net indebtedness to the banking corporation exceeds 10% of the bank's capital, is not to exceed 120% of the bank's capital.

The definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. As of December 31, 2020 no deviations existed to the limitations as set in the directive.

The Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.

During 2018, the percentage at which Sales Act guarantees are weighted for the purpose of the concentration calculation was reduced to 30% with respect to residential units still to be delivered.

The Supervisor of Banks published on October 27, 2019, an amendment to the Directive, which adds restrictions relating to indebtedness of a borrower/groups of borrowers engaged in speculative activity. The Amendment takes effect on July 1, 2020.

The limitation on "related persons". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2020, there were no deviations from the said limitations.

Service to Segment Customers

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.
The financing operations of the large corporations are performed by business managers in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. The teams include a business manager, a business banker, economists and credit coordinators. Such teams serve as the banking address for all the financial needs of the corporate customer.
The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities.
Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking.
The Capital Market Department. The aim of the department is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The department engages in the allotment of credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.
Customers engaged in international trade are being served by the foreign trade unit (for additional details, see below).
The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.
Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").
Application for business customers. A designated Application became available in 2019 for use by business customers, offering them a wide range of services and transactions regarding their current work.

Foreign Trade Operations

General. The Bank's foreign trade operations are conducted by the foreign trade unit and by the hybrid foreign trade finance unit. These two units operate within the framework of the Bank's Corporate Division, and provide varied services to customers of the different business sectors that engage in international trade.
Operations. The business activity of the foreign trade unit includes all the services in the foreign trade field that the customer requires (import, export, finance, conducting factoring of foreign guarantees, etc.). In addition to conducting the activity, intensive activity continues in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.

Substitutes for Products and Services of the Segment and Changes therein

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities. In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.
Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

Products and Services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.
In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

Construction and Real Estate activity

Market developments

Residential construction. The number of new residential units sold during 2020 increased, inter alia, with the support of investors, who had returned to the market following the reduction in acquisition tax to a level of 5%, and with the support of the base data of the housing market – principally surplus demand over supply. Notwithstanding the above, a general slowdown in economic activity, particularly during lockdown periods, constitutes a factor moderating the scope of activity.
Income generating real-estate for office buildings. The office premises field demonstrates stability and has not yet experienced a significant adverse effect. However, the effects of the crisis might be reflected at the time of renewal of lease agreements, tilting the balance in this field in favor of lessees.
Income generating real-estate commercial buildings. The Corona crisis involved erosion in the NOI, due to the granting of initiated discounts to lessees and the waiving of lease fees during the lockdown periods. Looking ahead, the potential for recovery is linked to performance in retail trade and in the wider sphere to a recovery in the Israeli consumer's purchasing power, which currently remains at a low level due to the high rate of unemployment.
Infrastructure. The scope of activity of the infrastructure sector continued to grow in 2020. In addition to projects already under execution, additional significant projects are expected to begin.

Developments in the financing resources of the activities

Competition on the part of the institutional bodies. In recent years, the growth in the nonmarketable credit offered by institutional bodies has a consistent growth. Most of the credit was designated for the finance of real estate and infrastructure projects in Israel and abroad. This trend is expected to continue in the coming years, leading to a more intense competition between the banks and these bodies.

Expected developments in the activity

Residential construction. The trends that characterized the past year are expected to continue in the short term. However, uncertainty exists on the background of the upcoming general elections and the anticipated policy of the Government.
Office and commercial income generating real estate. With the entry into the market in the coming years of a large volume of new office and commercial properties, most of which in demand areas, excess supply might occur leading to a decline in rental prices in certain areas.
So long as weakness continues in the activity of major tenants at the commercial centers, it may lead to damaging the profitability of certain commercial centers.
Infrastructure. Substantial activity is expected to continue in the infrastructure sector in the coming years.

Directions of business development in the markets activities

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:
- Closed housing project financing, including small projects, in low volume of finance, in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing projects in the form of closed project financing;
- Financing projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

Credit policy in the construction and real estate activity

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.
The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted in the Proper Conduct of Banking Business Directives no. 315 regarding a sectoral indebtedness limit, a limitation was set to apply to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank's exposure as regards credit to the construction and real-estate industry as of December 31, 2020 reached a rate of 19.43% (18.85% at the end of 2019).
The Supervisor of Banks announced on December 7, 2020, that with the aim of continuing the support of the construction and real estate sector during the Corona crisis period and thereafter, the sectional limitation on the construction and real estate sector shall be updated, as follows: Proper Conduct of Banking Business Directives Nos. 250 and 315 in the matter of "limitation on sector indebtedness" – the effect of the relief stated in the Provisional Instruction, which allowed banks to increase exposure to the construction and real estate sector from 20% to 22% (excluding national infrastructure projects) shall be extended to the year 2025; the limitation on exposure to the construction and real estate sector (including national infrastructure projects) was increased from 24% to 26%; and it is determined that credit secured by qualified credit insurance shall be classified in accordance with the insurer sector.

Service to customers of the segment

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition, the financing operations of the segment are also conducted by business managers at the large corporations department, mainly with income producing real estate holding corporations, as well as by means of the business centers of the Banking Division.
Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method). The unit engages in allocating appropriate finance packages though at smaller volumes.
MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

Alternatives to products and services of the operations and changes therein

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.
In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

Structure of the competition prevailing in the operations and changes therein

Competition exists in this sector both on the part of banking corporations and on the part of institutional bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Certain of the institutional bodies have even extended their activity to granting Sales Act guarantees to purchasers of residential units.

Coping with competition

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.
Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

Products and services

The services provided include, among other: credit for the construction or purchase of properties intended for housing and/or intended to serve as income producing property (mostly commercial and office space, large parts of which are marketed in advance); credit financing national infrastructure projects at the construction and operating stages; credit financing working capital and/or investments in Israel, and in exceptional cases also investments abroad; credit granted to acquisition groups; providing Sales act guarantees to purchasers of residential units and guarantees to landowners within the framework of combination construction transactions.

Institutional bodies Segment (Domestic operations) - Additional Details

Condensed description of the characteristics of the segment

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (by means of mutual funds and ETFs).

Areas of operation

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, managers of mutual funds and ETFs. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

Competition

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years.

A Competitive Process

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

Operating Services

At the present time, the Bank does not provide operating services to institutional bodies.

Financial Management Segment (Domestic Operations) - Additional Details

Dealing room

A dealing room acts for the Bank's customers to execute transactions in the global financial and capital markets, while providing personal and professional financial services. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. The combination of several fields of activity enables customers to obtain trading services in foreign currency, interest rates, securities and derivatives under one roof.
The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading - Foreign Currency and Interest Rate Trading

The OTC unit develops and adapts different market risk hedge transactions in accordance with customer needs. The unit serves also as a "principal market maker" with respect to Dollar/Shekel and government bonds transactions.
The main transactions carried out by the unit with Bank customers, are: Purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives.

Trading in securities

Foreign securities. The foreign securities desk operates in a wide range of markets around the world, and is conducting brokerage transactions in a wide range of instruments: shares traded on foreign stock exchanges, options, state and corporate bonds, mutual funds and hedge funds.
Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded in the Israeli market. The desk provides brokerage services involving both marketable and non-marketable securities (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Global Treasury

The Global Treasury unit coordinates the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, management of interest risk, inflation risk and exchange rate risk management, and managing the capital. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance at the subsidiaries.
Following are details of the principal areas of operation of the Global Treasury:
Liquidity risk management and formation of the financing plan of the Bank. Liquidity risk management is performed using internal models and regulatory models, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of a current analysis of changes in the volume of assets and liabilities of the Group. In addition, the unit recommends to Management and to the Board of Directors liquidity ratios goals and forms financing plans for the Bank and for the Group companies.
Managing the Capital. Formation of recommendations to Management and to the Board of Directors with respect to the equity ratio targets, formation of a risk asset budget for Group companies and business units, and its current management.
Market exposure management. The management of market exposure is conducted by means of a designated computer system, which calculates risk indices in relation to up-to-date data, reflecting the overall business activity at the Bank. The ALM committee, headed by the President & CEO, determines the market risk exposure targets, within the framework of limitations set by the Board of Directors as regards the risk appetite.
The raising of liquidity and investment of the surplus. The Treasury Desk operates mostly through the Bank of Israel tenders, deposits by corporate customers and SWAP transactions, the government bonds market and the interest derivatives market. The desk provides interest quotations for deposits of large customers in foreign and Israeli currency, invests the surplus short-term liquidity and conducts transactions for the hedging of the Bank's interest risk.
Raising of secondary capital and bonds. The Global Treasury Unit is responsible for the raising of secondary capital and bonds in accordance with the capital planning and the financing plan of the Bank.

Transfer prices and management of the marginal financial spread. A daily calculation of the Bank's internal transfer prices, serving as a basis for the pricing and measuring profitability of credit and deposits. The prices are being updated in accordance with developments in the capital and financial markets.
Deposit product management. Formation of a strategy for the management of the deposit product, while providing response to changes in the business environment. The setting up and updating of products belonging to the core system of the Bank for deposit management. Production and publication of deposit interest tables.
Development of financial models. Development of models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, premature withdrawal option regarding deposits, early repayment forecasts for mortgages and more.

Nostro Management

"Nostro" portfolio management policy. The Bank's "Nostro" Unit is subject to the decisions of investment committee and to frameworks determined by the Bank's Board of Directors.
The investment portfolio of the "Nostro" unit, manages a facility out of the surplus liquidity balances comprising investments embodying credit margin risk – inter alia, corporate bonds, state bonds and other debt instruments.
The investment activity of the subsidiary companies, in particular, IDB Bank, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank. The Group's "Nostro" portfolios are being managed from an overall standpoint, subject to risk limitations determined by the Bank's Board of Directors.

Competition

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

Business Strategy and Targets

The goals for the year 2021 set for this segment are the continuation of profitability improvement in a low interest rate environment and in a challenging macro-economic environment, and a difficult competitive environment also with respect to non-banking financial entities and fintech initiatives. All this, while maintaining a risk level in accordance with the risk appetite of the Bank.

Investments in Non-Financial Companies

Policy regarding non-financial investments

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank's Board of Directors prior to their execution.

Principal areas of operation

The investments of the Discount Group in non-financial companies are made primarily through the subsidiary Discount Capital and are divided into three principal categories:
- Investment in private equity funds (PE) and in venture capital funds (VC);
- Investment in corporations, divided into investments in traditional corporations and investments in technology companies at different stages;
- Mezzanine operations.

Non-financial investments portfolio – principal data

Scope of the portfolio. The total value of the non-financial investments portfolio of Discount Capital amounted at December 31, 2020 to NIS 1,392 million. The outstanding investment commitments of Discount Capital amounted on December 31, 2020, to NIS 730 million (approx. US$227 million) most of which in Funds the investment period of which has not yet expired.

Income. Discount Capital recorded in 2020 net income from non-financial investments in a total amount of approx. NIS 197 million (including an amount of approx. NIS 124 million from investment in Funds and approx. NIS 36 million from the issue by Menif – see below). This, compared to net income in a total amount of approx. NIS 85 million in 2019 (including approx. NIS 36 million from investments in Funds and an amount of approx. NIS 24 million from the realization of the investment in Super-Pharm).

New investments. Discount Capital completed in 2020 some twenty investment transactions in investment Funds and in corporations in a total amount of approx. US$192 million (see below).

Investments in private equity funds and in venture capital funds

Discount Capital's strategy for investing in investment funds places emphasis on the portfolio's decentralization from the aspects of management groups, the life-stage of the portfolio companies, the activity spheres of the funds and the geographical region in which they invest. As of December 31, 2020, Discount Capital was invested in 40 funds which were spread over 25 different management groups. most of which in two main areas:

- **Private Equity Funds** – The balance of the investments of Discount Capital in Private Equity Funds at December 31, 2020, amounted to NIS 553 million, with a balance of investment commitments of NIS 444 million (approx. US$138 million). Total exposure to Funds of the FIMI Group consist approx. 30% of the portfolio.
- **Technology Funds** - the balance of the investments of Discount Capital in technology funds as at December 31, 2020, totaled NIS 235 million, with a balance of investment commitments of NIS 231 million (approx. US$ 72 million). The technology funds in which Discount Capital invests specialize in investments in early stage companies and in growth stage companies.

Discount Capital's investment balances in funds amounted to NIS 805 million as of December 31, 2020 and the balance of its liability to funds that had not yet reached the end of their investment period amounted to NIS 692 million (US$ 215 million).

Distribution of investments in private equity funds and in venture capital funds

Name of fund	Investment commitment(1)	Invested(1)	Balance of commitment (1)	Additional information and remarks
	(In US$ millions)	Until December 31, 2020		
Funds of the Fimi Group	314	195	104	Israeli Private Equity Funds.
Funds of the Fortissimo Group	43	34	8	Israeli venture capital funds.
Funds of the Qumra Group	28	9	19	Israeli venture capital funds that focus on growth stage technology companies.
Funds of the IGP I (Israel Growth Partners) Group	23	25 (2)	10	Israeli venture capital funds that focus on growth stage technology companies. Investment in the first fund comprised an investment commitment and an option for enlarging the investment (Pool B).
SKY III	20	11	9	An Israeli private equity fund specializing in investments in mid-market companies.
Funds of the Vertex Israel Group	33	23	10	Israeli venture capital funds that focus on early stage technology companies.
Funds of the aMoon Group	20	8	12	Israeli venture capital funds that focus on technology companies in the health field at growth stage, under the brand of aMoon, and at early stage under the brand of Velocity.
Other technology funds (4)	79	54	21	
Other Funds(3)(4)	96	75	22	
Total	656	434	215	

Notes:
(1) The data is presented in terms of investment commitment and not in terms of book value.
(2) Of which an amount of approx. US$12 million was invested following the exercise of the option to join the investment and not as part of the settlement of the liability
(3) Most of the amount relates to funds nearing the end of their lives.
(4) The balance does not include a fund or group of Funds, the investment commitment that had been granted at date of establishment of such Funds exceeds US$12 million.

Direct investment in non-financial companies

The direct investments balance of Discount Capital as of December 31, 2020 amounted to NIS 440 million, in some 25 companies (as of December 31, 2019 amounted to NIS 170 million in some 15 companies).
Following is a summary description of the principal investments in 2020:
Investment in ImageSat International (ISI). During the second quarter of 2020, Discount Capital had completed a transaction for investment in ImageSat International (ISI), in consideration for the allotment of approx. 17% of the share capital of the company, in consideration for an amount of approx. NIS 110 million. The company is engaged in the operation and marketing of high-resolution surveillance satellite solutions.
Investment in Marina Group. During the fourth quarter of 2020, Discount Capital completed a transaction for the acquisition of 16.5% of the share capital of Marina Group, in consideration for an amount of NIS 50 million. The company is engaged in growing, packing, distributing and marketing mushrooms, as well as in packing, marketing and distributing fresh fruit and vegetables. It is the leading player in the Israeli mushroom sector.
Issue of Menif company - Financial Services Ltd. During the fourth quarter of 2020, Menif's public share offering was complited. As a result of the offering, Discount Capital holds approx. 17.4% of Menif's share capital. As a result of the issue, Discount Capital recorded a profit of NIS 36 million (before tax).
Menif is engaged in the financing field and the supplementing of equity capital to entrepreneurs regarding construction projects. Complementing the equity capital is effected by way of providing guarantees in favor of the project in consideration of a return participating in profits. Within the framework of the issue, all guarantees that had been granted by Discount Capital to the company were cancelled. For additional details regarding guarantees provided by Discount Capital, see Note 26 C 14 (b).
Investment in technology companies. Nine direct investments were made by Discount Capital in 2020, in technology companies at different stages of development, including investments in the fintech field.

Additional developments

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 a 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.
As of date of publication of the financial statements, Discount Capital has invested a total amount of US$15 million in five investments within the framework of plan 43.

Legislative and regulatory limitations and special constraints applicable to the investments operations

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -
(1) Up to 15% of its capital - in any non-financial corporation;
(2) Up to a further 5% of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;
(3) Up to a further 5% of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.
As of December 31, 2020, no violation of these restrictions exists.
Within the framework of the Concentration Law, restrictions have been prescribed whereby a banking corporation may not hold more than 1% of a certain class of the means of control of a significant non-financial corporation (a significant non-financial corporation is a corporation the volume of operations of which, or the volume of its indebtedness exceed NIS 6 billion, and which is included in the list of significant non-financial corporations published in accordance with the Concentration Act). Notwithstanding the aforesaid, a banking corporation may hold more than 1%, but not more than 10%, of a single significant non-financial corporation. As of December 31, 2020, no violation of these restrictions exists.

International Operations Segment - Additional Details

General

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On December 31, 2020, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.3% 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 (restriction of the exposure rate, as stated, was 25% on December 31, 2020). The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

IDB Bank - Risk Based and Leverage Capital Ratios. Beginning on January 1, 2015, IDB Bank became subject to new Basel III capital rules based on the final rules published by the FRB in July 2013 (the “Basel III Capital Rules”). The new rules establish a new comprehensive capital framework for U.S. banking organizations.

The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 ("CET1") minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a “capital conservation buffer”, consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.

The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios as of January 1, 2016 are as follows:

- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

US legislation. The operation of IDB Bank is subject to different legislative instructions, such as the Dodd Frank legislation, including amendments thereto enacted over the years, such as within the framework of the Economic Growth, Regulatory Relief and Consumer Protection Act.

Following the crossing of the US$10 billion line of total assets in 2020, IDB Bank will be defined as a "Large bank", and different regulatory requirements are expected to apply to it, and accordingly, these are being prepared for by IDB Bank. Inter alia, different instructions are expected to apply to operations regarding derivative instruments and to the methodology regarding the calculation of deposit insurance. With the crossing of the line, the activity of IDB Bank would also be subject to supervision by the Consumer Financial Protection Bureau, the authority of which relates to compliance and to different instructions intended for the protection of customers. In addition, a change is expected to take place in the frequency and depth of the regulatory audits by the FDIC and NYDFS applying to IDB Bank, so that they would be wider and more consecutive.

Guidelines of the Supervisor of Banks. In 2016, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB Bank is preparing for the implementation of these guidelines with modifications required by the local laws applying to it. For further details regarding the guidelines, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

New Proper Conduct of Banking Business Directive in the matter of "supervision over overseas extensions". For details see "Other risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is published concurrently with this report, and which is available on the MAGNA and MAYA sites as well as on the Bank's website.

Taxation

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Service to Segment Customers

In addition to the main branch in New York and the branches in Brooklyn, Staten Island and New Jersey, IDB Bank operates branches in South Florida, and South California. IDB Bank offers diverse private banking and commercial banking services, both to US and foreign customers.

Services and Principal Products of IDB Bank

Credit. IDB Bank provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.
Middle Market. IDB Bank grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.
Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.
Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.
Private Banking. IDB Bank provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth.
At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, and products and services of IDB Capital, as subsidiary of IDB Bank, engaged in securities transactions and insurance products in behalf of customers.

Credit Card Operations

Structure of the field of operation

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.
The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission". This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.

According to publications by the Central Bureau of Statistics, over 85% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2019 was approx. 12 million. Furthermore, some 80 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

The Operations of ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card and clearing of credit card transactions. ICC directly issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement with ICC, Diners and MAX (see Note 36 B 1).

In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards that are divided into two main groups: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. As regards these cards, ICC issues and manages the card, bears the costs of management of the card and of theft and forgery damage. The banks provide the credit facilities to the customer and bear the full credit risk involved with the card; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.

ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.

ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only).

In the clearing field, ICC offers its customers voucher factoring services, loans, the advancing of payment dates and the granting of advances. Most of the marketing efforts in the clearing field are directed at trading houses, including chains, through focusing on their needs.

Quantitative data regarding the activity of ICC

	December 31, 2020		December 31, 2019	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	2,019	1,737	1,880	1,618
Off-banking cards	1,707	1,231	1,683	1,259
Total	**3,726**	**2,968**	**3,563**	**2,877**

Transactions turnover	For the year ended December 31, 2020	For the year ended December 31, 2019
	in NIS millions	
Bank cards	76,961	75,455
Off-banking cards	30,968	31,641
Total	**107,929**	**107,096**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and fees and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

Breakout of the Corona virus. For details, see above "Main Investee Companies".

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.

New activities and strategic collaborations

The Strum Act. For details regarding the uncertainty stemming from the implementation of the Strum Act, see Note 36 B to the financial statements.

Arrangements following the Strum Act. For details regarding the signing of agreements between ICC and Bank Leumi and ICC and Bank Hapoalim on the one hand, and between the Bank and LeumiCard on other hand, see Note 36 B to the financial statements.

Memorandum of principles with Shufersal Company. For details, see Note 36 D above.

Agreement with El Al. On December 11, 2018, an agreement in principle was signed for ICC to enter into a new engagement with El Al with regard to the issuance and operation of branded credit cards. For further details, see Note 36 C above.

Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and ICC.

The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of Concentration in the Banking Market in Israel Act, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses. The period of the agreement was extended in 2019 until January 5, 2025.

A tripartite agreement between ICC, Shufersal and EL AL. A tripartite agreement was signed on November 26, 2019, between ICC, Shufersal and EL AL for the establishment of the "Shufersal Flight" Club and in respect of the accelerated accumulation of points by use of FlyCards in the Shufersal chain.

Extension of the Diners franchise. For details, see Note 36 E above.

Agreement for the issue of off-banking cards to customers of Bank Leumi and for users of the "BIT" Application. ICC and Bank Leumi Le'Israel B.M. signed an agreement on November 11, 2020, for the distribution of off-banking credit cards to customers of Bank Leumi, which would be issued and operated by ICC and under ICC's responsibility. The agreement is in force for a period of twenty-four months, and would be automatically renewed for additional periods of twelve months.

ICC and Bank Hapoalim B.M. signed a cooperation agreement in January 2021, within the framework of which ICC would issue to users of the "BIT" Application, owned by Bank Hapoalim, charge cards under the brand name of "BitCard", for use by "BIT" users who may enjoy benefits and special services.

In connection with these agreements, ICC has received requests from various regulators, including the Competition Authority, in which it has been asked to comment on the status of each of the agreements from the aspect of the competition laws as well as on other matters. Some of the requests have already been answered by ICC and, in some of these, the matter has been finalized. ICC’s position is that the agreements do not raise a competition problem.

Additional developments in Operations

Entry of an additional clearing agent to the clearing market in Israel. On March 20, 2018, the Supervisor of Banks announced the granting of a new clearing agent license, in addition to that granted to another company on April 8, 2017. It was noted in the announcement that the additional clearing agent is expected to begin clearing operations within 18 months from date of the license. In ICC’s opinion, it is not possible at this stage to assess the effect in general of the additional clearing agents entering the clearing market in Israel, or its effect on ICC in particular, noting that the said clearing agents obtained a restricted license until completion of their preparations.

Extending the agreement with Mizrahi Tefahot Bank. On February 24, 2019, ICC and Mizrahi Tefahot Bank Ltd. signed an agreement for the extension of the previous agreement between the parties, while updating its commercial terms. The agreement is valid until December 31, 2024.

Reduction of the cross-commission rate. For details, see Note 36 A 1 above.

You Customer Club. The agreement between ICC and the Blue Square– Dor Alon Customer Club (registered partnership), under which the "YOU" Club operated, expired on September 2, 2019.

Support agreements with Visa Europe Limited. In February 2020, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC. This agreement has been signed following the announcement of VISA Europe regarding the increase in commission tariffs payable to it. ICC estimates that, the anticipated effect of the support agreement, on the one hand, and the raising of the VISA rates, on the other hand, is not expected to be material. This assessment might change in case the volume of transactions using the "VISA" brand would be materially different than that existing on date of signing the agreement.

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.

Changes regarding competition in the credit card market

The competitive environment in the credit cards field, which is growing constantly fiercer in recent years, is affected, inter alia, from the following factors:

- On the background of the separation of Isracard and Max from the respective banks, alongside the impact of regulation measures initiated by the Supervisor of Banks, as well as in view of action taken by credit card companies, competition between the credit card companies, which has intensified recently, is reflected in the decrease in clearing fees;
- Banking corporations have launched payment solutions which may operate outside the debit cards framework. Among these, the following apps should be mentioned: PAYBOX (Discount Bank), BIT (Bank Hapoalim) and PAY (Bank Leumi), as well as progress on a system for immediate account-to-account debiting and crediting, which is being promoted by BCC, and which is likely to constitute an alternative to the debit cards framework;
- The technology giants are expected to gradually arrive in Israel with the diverse financial services being offered by them. At first, Apple is expected to arrive introducing in Israel its payments Application "ApplePay" (see above), following which, it is reasonable to expect that other technology giants would also follow gradually. The entry of the technology giants into the domestic payments market is expected to increase competition and comprise a catalyst for innovation and technology in this field;
- Fierce competition exists in the customer clubs field, which, inter alia, was expressed in the commercial terms of a number of agreements signed in the credit card field;
- Competition in the off-banking credit field in recent years has also increased in view of the significant increase in the number of financial entities offering loans to households, such as: provident funds, further education funds or inter-personal loan platforms (P2P). Various regulatory measures, introduced by the Supervisor of Banks, such as the establishment of a credit data base, are expected to increase the volume of competition and enable providers of off-banking credit (including credit card companies, including ICC) to obtain more reliable information regarding existing and potential customers;
- Proper Conduct of Banking Business Directive No.368 in the matter of "open banking" published on February 24, 2020, requires the banks and credit card companies to share information regarding customers (with the customer's consent) and to even allow, at a later stage, payments initiation. Open banking constitutes an opportunity for ICC but will also permit other entities to receive the unique information that the credit card companies hold, as well as increasing competition in the payments field by means of payments initiation.

  It should be noted that the directive will take effect in several stages:
  - in the first stage – with effect from April 18, 2021 – obligation to provide data regarding current accounts and the option of being data consumers. At this stage, the credit card companies will be solely and exclusively data consumers, while the banks will be required to be a data source but can also be data consumers;
  - in the second stage – with effect from October 10, 2021 – obligation to transmit data regarding debit cards with an option to also initiate payments. Both the banks and the credit card companies will be data sources and data consumers;
  - in the third stage – with effect from March 31, 2022 – providing data regarding credit, deposits and securities.

ICC had prepared and is preparing for such changes, and has formed a strategy aimed at enabling it to handle these changes in an optimal manner (for additional details, see above "Main Investee Companies").

It is noted that, on July 9, 2019 the Governor of the Bank of Israel issued a position paper regarding activity via the banks' payments applications for payment at trading houses. The main provisions of the position paper are as follows:

- a turnover limit of NIS 2, 2.5 and 3 billion has been stipulated for each application for the years 2019, 2020 and 2021, respectively;
- the bank applications will not operate on an immediate payment service basis unless the immediate payment switch service is also accessible to non-banking entities;
- with effect from 2021, the applications' turnover limit will not apply to merchants that execute transactions on the basis of the international EMV Standard for the performance of smart transactions;
- it has been clarified that credit card companies would be able to operate by means of applications for payment to trading houses with no restrictions.

Concurrently, the Bank of Israel Issued a permit for the expansion of the use of the "PayBox" application for trading houses subject to the turnover limit detailed above, subject to certain conditions, among which, are: (1) Determination of limits with respect to the transfer of payments from customers to trading houses based on risk evaluation; it has been determined in this respect that no transfer of payments to trading houses (including individuals) would be made in an amount exceeding an annual volume of NIS 50,000, without conducting a process of identification and verification of the entity receiving the payments; (2) Approval of the Board of Directors in accordance with the procedure regarding a new product; (3) Informing the Supervisor of Banks of any change in the payment system (by means of a credit card or accumulated balance).

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 during 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.

Regulations, Legislation and Arrangements

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. Upon the Payment Services Act taking effect, the Debit Cards Act will be revoked. For details regarding the Payment Services Act, see “Legislation and Supervision” below. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.
Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.
The Competition Commissioner. The Competition Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 B 1 and 2 to the financial statements.
Reduction of the cross-commission rate. For details regarding the outline for the reduction of the cross-commission rate, in respect of deferred debit transactions and in respect of immediate debit transactions, published by the Governor of the Bank of Israel, and regarding the draft of the exemption terms for the new agreement in this field, published by the Competition Commissioner, see above Note 36 A 1 to the financial statements.
Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. The Ministry of Finance informed ICC on July 24, 2017, that to the extent that the maximum trading house commission applying to domestic transactions, charged in relation to an exclusive issue and clearing brand, shall be reduced over the period from 2017 to 2020 by four significant installments, reaching until the end of December 2017 a level not exceeding 2.95%, until the end of December 2018 a level not exceeding 2.45%, until the end of December 2019 a level not exceeding 2.10%, and until the end of June 2020 a level not exceeding 1.99%, so that at that date, the Minister of Finance does not see the need to use his authority under section 36 M (a) of the Banking Act (Licensing), 1981, or to support proposed Bills, the contents of which is identical with acting under the said authority, or which directly interfere with the brand commission above and beyond the reduction outline described above. ICC has acted in accordance with the said outline.
Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017. For details, see "Legislation and Supervision" below.
Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. For details, see "Legislation and Supervision" below.
Amendment of Proper Conduct of Banking Business Directive No. 470 in the matter of "Debit Cards". The Amendment was published on January 15, 2020, with the aim of promoting the integration of the EMV Standard in Israel designed to reduce fraud with respect to payments by use of debit cards and the withdrawal of cash from ATMs, acceleration of the integration of the technology into trading houses and encouragement of competition. Directive No. 470 states that all debit cards issued by a banking corporation, an auxiliary corporation and a clearing agent would be cards in accordance with the EMV Standard, which would enable contactless transactions, except for a bank card used for cash withdrawals, a rechargeable card, designated cards for payments between trading houses (B2B) and cards enabling purchases at specific trading houses (SPC). The Directive clarifies that a banking corporation may not connect to his systems ATMs that do not support in practice the EMV Standard. The Amendment took effect on March 3, 2020.

Amendment of Proper Conduct of Banking Business Directive No. 472 in the matter of "clearing agents and clearing of transaction made by use of debit cards". Following the amendment of Directive 470, as stated above, an amendment was published on January 15, 2020, stating that debit card transactions shall be made using the EMV technology and that where a smartcard is used for the transaction also a personal identification number (PIN) or another amplified verification item is required, unless the issuer or clearing agent determine otherwise. The Amendment takes effect gradually from date of publication and until July 31, 2021, based on the volume of transactions of the trading houses.

On November 3 and 27, 2019, further drafts were published of the Proper Conduct of Banking Business directives dealing with this matter. The amendments proposed in the drafts relate to advancing the EMV standard in Israel and include, inter alia, a plan that will gradually discontinue the performance of transactions using the existing communications protocol or the performance of transactions by means of a smart card without a PIN, as well as the transition to performing full EMV transactions. According to the proposed outline, the Israeli economy in its entirety is meant to transition to full EMV by July 31, 2022. Discussions in relation to the manner of implementing the outline, including the timetable for its implementation, are taking place in parallel at the Banking Supervision Department and at the Debit Cards Committee of the Bank of Israel.

Critical Success Factors

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Competition Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; the existence of cross-clearing agreements between all clearing agents in the country; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the clearing switch and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

Market entry barriers

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the holding of control over the issuer by a financially stable corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling banking corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertising and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

Alternative Products

Credit cards have many alternative products, starting with the traditional alternative products, such as cash, checks, bank transfers, standing orders, purchase vouchers, rechargeable cards and credit extended by banks and off-banking credit companies, and ending with technology based alternative products that are available and convenient, such as: payment by means of the smart phone (including, inter alia, payment applications operated by banking corporations in Israel) as well as the "digital wallet" service.

Customers

The issuance field. Customers in this field are holders of credit cards, among whom are private customers, employees of large corporations and businesses. ICC is active in increasing the rate of holders of off-banking credit cards, mainly through the framework of customer clubs, subject to the examination of solvency of each potential customer.
The clearing field. ICC is engaged in clearing agreements with businesses in a variety of economic sectors. Additional customers in the clearing field are trading houses that require services of discounting vouchers, obtaining credit, early payments and advances.

Marketing and Distribution

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a "recruitment base" for ICC in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are Shufersal, FlyCard, Cal-365, Cal-H&O and PowerCard. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.
Distribution of non-bank cards is based, usually, on sales-promotion agreements with companies, which operate distribution stands on their sales floors.
ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.
The clearing field. Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more. The marketing of clearing services is also performed by means of GAMA Company (for details of the agreement with it, see above "New activities and strategic collaborations").
The company’s main objectives in its marketing operations are: the retention of existing trading houses as customers; improving and enhancing its image; recruiting new businesses for its services; and, enlarging the basket of services that it offers.

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard and MAX group, which in the past, had been controlled by banks, and at the present time, when they are no longer controlled by banks, may expand their operations to areas in which ICC is not permitted to operate due to it being owned by banks. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.
The clearing field is characterized by intense competition between the credit card companies.
Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and MAX clearing the brands "VISA", "MasterCard" and "IsraCard".
Various regulatory changes may bring about the entry of additional clearing agents and increase competition in this segment.
ICC is competing in order to expand the range of businesses that receive clearing and supplementary services from it and is focusing on recruiting new businesses to sign clearing agreements and on retaining existing trading houses as its customers, through investing in considerable marketing and sales efforts.

Another aspect of the competition in the segment relates to the development of financial and operational products and services for trading houses, which will lead to a rise in the scope of those businesses' turnover with ICC.
In order to cope with the competition in the segment and to strengthen trading houses' loyalty toward it, ICC is implementing the following measures: a competitive tariffs policy, investment of resources for the improvement of service to trading houses and for their retention, while aligning the products and services to the business' needs; strengthening cooperation with trading houses; activating an efficient service array and marketing and sales array that will be able to provide solutions to trading houses and to respond to their changing needs; and, marketing a comprehensive basket of products to trading houses, while enlarging market share in the segment.

Business Goals and Strategy

The issuance field. Leading the market through the exhaustion of the banking lane and through offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.
Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).
The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing sector. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

For additional details, see Note 36 to the financial statements.

Technological Improvements and Innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience. Among the measures taken in this field may be noted the establishment of the Digital, Data and Innovation Division, operating within the framework of which are the digital department, the fintech and innovation unit, the PayBox application and the Data department.
The digital department operates to promote and develop all the digital platforms offered to customers of the Bank, first and foremost, the banking Application and the operations website. The fintech and innovation unit operates to create cooperation with fintech companies and their integration in value offers to the customer, within the work environment of the Bank officer and the systems of the Bank. The PayBox unit, which is destined to turn into an independent company, operates to develop the digital wallet for customers of all banks, which would include, in addition to advanced payment services, also an open trading arena, in which products and services of diverse manufacturers and suppliers would be offered. The data department promotes the educated use of the Bank's data assets, in order to improve the value offer and customer experience, as well as to increase the efficiency and effectiveness of central processes at the Bank.
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. Discount Bank was the first bank in the Israeli banking sector that has implemented, in cooperation with iCount Company, the concept of open banking, for the interface with third party suppliers, by means of the API platform (Application Programming Interface), being one of the most advanced in the world (for additional details, see the 2018 Annual Report, p. 358). The Bank 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. 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).

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.

PayBox

In April 2017 the Bank entered into an agreement with a startup company in the Fintech field by the name of PayBox Payment Solutions Ltd. ("the company"). The company has developed a cellular phone application and a designated Internet website under the brand name of "PayBox", which enablesthe transfer of funds between private individuals, as well as the collective collection of funds for a defined purpose by way of establishing a closed group for this purpose. The Bank acquired from the company an exclusive license to operate the application and the website in Israel, and also a number of assets and services that enable it to independently operate the application and the website.
The technological changes required for its operation by the Bank. The Bank received a permit from the Bank of Israel to acquire the activity of PayBox Israel. A permit from the Bank of Israel was received on July 9, 2019, for the expansion of the use of the "PayBox" application for trading houses.
As part of expanding the payment operations on the PayBox application, on March 27, 2019, the Bank signed an agreement with HopOn Mobility Ltd., which offers, inter alia, refill services for the “Rav-Kav” card used for travel on public transport, in partnership with Dan Public Transportation Co. Ltd.. During the second quarter, the Bank integrated within the PayBox application the company’s solution for topping up Rav Kav travelcards, whereby PayBox users can top-up their Rav Kav travelcard via the application. In addition, the Bank has recently introduced a designated area in the application, which enables the transfer of donations to a variety of associations.
The Bank, in cooperation with HopOn Mobility Ltd. and Cellopark Technologies Ltd., had submitted a proposal for a procedure by the Ministry of Transport for the payment of public transport fares by means of a cellular application, which was chosen as a candidate for obtaining an operating permit.
As part of the expansion of the payment operations on the PayBox application, a service designated for minute businesses was introduced in 2020, which allows the creation of a personal link for payment by means of PayBox. The link may be integrated by the businessman in his digital assets, such as: website, as a payment key, WhatsApp, Instagram, etc., as well as create a designated QR code. All this, with a view of allowing his customers an easy way of payment using the channels of operation with them.
Strategic cooperation for setting up a digital wallet. For details see "Management's handling of current material issues" above.

DIDI – a digital representative

In December 2017, the Bank began the staged launch of a new service to its banking app customers, through which it is possible to correspond and talk on the app with a digital representative, called “Didi”. Didi offers an innovative and unique way for digital banking activity and thereby changes the way in which customers work with the app. The conversation with Didi takes place in free language and is based on sophisticated artificial intelligence technology, which enables to decipher the text that the customer inputs on the one hand, and holding a conversation with a smart learning robot on the other hand. Didi is able to present customers with account information, to link to the transaction execution portal, to assist with navigating within the app, and to create artificial intelligence-based insight regarding important events that have taken place on the account.
The service is unique and is a first in the Israeli banking system. The effort to enrich "Didi" continued in 2019, so as to enable her to provide response to additional questions regarding a variety of subjects. "Didi" was asked over one million questions during the year.

Direct channels

The year 2020 in the Digital was marked with the Corona pandemic, which revalidated the activities over digital channels, emphasizing the importance of obtaining extensive information and transacting a wide selection of banking operations in an independent, simple, convenient and also secure way, which may be conducted by the customer from his home.
Concurrently with the reduction in the number of customers coming into branches, in accordance with the instructions of the Ministry of Health and the Bank of Israel, activity over the digital channels has become the main track for customers.
The contents of the marketing websites have been adapted to the dynamic and varying pace of the Bank’s updates to its customers, through creating pages that provide customers with a guide as to how they can continue to easily manage their account from home, defer mortgage payments or apply for a loan, this in accordance with both private individuals’ needs and those of business customers.

Also in applications, services have been promoted that make it easier for customers to perform remote operations, such as: correspondence with a banker, making withdrawals from deposits, remotely obtaining approval for business transfers, sending files to a banker by means of correspondence on the app for private individuals, and so forth.
At the business development and work plans level, new and existing processes have been added and improved in order to facilitate customer in these times and concurrently, the Bank has placed emphasis on joining new customers to the digital.
During 2020, innovations and updates were made in the following areas:

Current accounts and foreign currency

Updating limits for depositing checks via the app. In order to enable more customers to deposit checks remotely, the ceiling limits for depositing checks using the app have been raised. The ceiling limits have been updated for a single check, the total daily deposits and the total monthly deposits. Both the private individuals' app and the Business + app have been updated.
Increasing the government vouchers payment amount. The government vouchers payment amount has been increased on the private individuals' website and it is now possible to pay up to NIS 100 thousand on a single voucher.
Displaying reasons for a check's return. In order to improve the customer experience in all matters relating to the reasons for a check's return/cancellation, the notice to the customer now includes 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. This applies to all the platforms.
Ordering balance confirmations. A service 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 (by Discount's postal service or by the Israel Postal Company) to the customer's postal address, as specified for the account. This applies to the private individuals' website and the Business + website.
Viewing numerous data. An option to view current account movements, checks and also foreign currency by means of downloading the data to an Excel table, even when there are thousands of movements. This applies to the private individuals' website, the Business + website and the website in English.
Printing out returned checks. It is now possible to print out a check even when there is no photocopy/picture thereof. This applies to the private individuals' website, the Business + website and the website in English.
Summarized data regarding current accounts in Israeli currency and foreign currency. A new query tool that summarizes, in one document, all the essential details regarding a customer's account in Israeli currency or in foreign currency. This applies to the private individuals' website, the Business + website and the website in English.
Opening a foreign currency account in the course of converting foreign currency. In the course of the process of converting to foreign currency, should the customer select a currency for which he does not have an account, he is transferred to a short process to open an account in that specific currency. This applies to all the platforms.

Deposits

Launch of "Smart Save" – automatic, smart and customer customized savings. This is a new and advanced 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 intended to assist customers, who do not save on their own initiative, to improve their financial position, with all this 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 app.
Option to make a partial/premature withdrawal from a deposit. Including the automatic savings service (Smart Save) and new deposits by standing orders (in accordance with the product's terms), including key deposits, either wholly or partly. This applies to all the platforms.
Making deposits by standing orders. An option has been added to open a deposit by standing order, with extreme ease, by selecting from a broader range of products, with the possibility of updating the amounts and/or the date of the deposit. In the case of some of the deposits by standing order, it is also possible to make a one-time deposit. This applies to the private individuals' website and the Business + website, as well as to the private individuals' app by transfer to the adopted website with no need for further identification.

Credit

Immediate loan via the private individuals' app. The immediate loan process via the app has been renewed and enhanced for an advanced customer experience.
Full repayment of loans with variable interest that were taken via the digital channels. An option has been added for the full repayment of loans, without an early repayment fee, via the private individuals' app and on the private individuals' website.
Addition of an option to apply for credit with a banker as part of the loan process. A customer in the process of applying for a loan via the private individuals' app and wishing to apply for a loan in a greater amount or for another loan, is able to transfer the further handling and review of his credit application to his branch.
Application to defer repayments of an existing loan. An option to submit a request for deferment of an existing loan's repayments, via the private individuals' app.

Credit cards

In response to regulatory requirements regarding the presentation of non-bank cards, the whole area of the credit cards has been redesigned and the presentation of information regarding the transactions carried out online by the customer has been added. This applies to all the platforms.
In addition, the following have been added:
Spreading the monthly charge on credit cards. The charge is spread by transferring the customer to the issuer's website (ICC or MAX), without need for further identification. This applies to the private individuals' website and app and to the Business + website.
Freezing a credit card or a service card. The freeze is for a 48-hour period, due to the card's loss, or for up to 14 days, due to another reason. The freeze is implemented through a transfer to the adopted website, without need for further identification. This applies to all the platforms.
Updating the credit card facility. It is possible to update a set or temporary credit facility on credit cards. On selecting the card, the customer is transferred to the adopted website, without need for further identification. This applies to the private individuals' app and to the private individuals' website.

Securities, capital market

Purchase of mutual funds by standing order. The customer is transferred from the private individuals' app to the adopted website without need for further identification.
Request to transfer a securities portfolio. In accordance with regulatory directives, customers wishing to transfer their securities portfolio (in whole or in part) are able to submit a request for the portfolio's transfer on the Internet website (for private individuals or for businesses) or from the Bank's app (via a link to the website).
Link to capital market surveys. The link takes the customer to the surveys of the Chief Economist and to the surveys of the Investments Committee that is published on the Bank's marketing website. This applies to the private individuals' website and to the Business + website.
Proceeds from securities. An indication has been added to the private individuals' app for the amount of the expected proceeds from securities in Israel.
Improvements of the Search mechanism on the private individuals' website and app.
Broadening information regarding an order. The information presented with regard to each order has been broadened and filters have been added to the orders and executions query on the private individuals' app.
Response to a capital market event. An indication has been added on the private individuals' app for when there is a response to an event and the indication on the private individuals' website has been improved so that its display is more noticeable.
Sale of the entire quantity. A button has been added for the sale of the entire quantity when performing a sale transaction on the private individuals' app.

Passwords

Improving the customer experience with regard to passwords. The "I've forgotten my password" process has been upgraded to a simple and intuitive interface of a chat with Didi, the digital assistant. The innovation applies to the private individuals' app.
Extending the validity of the digital password. The validity of the digital password has been extended from 180 days to 270 days. The service applies to all the platforms.

Graphic indication on setting a new password. When entering a new password, the customer receives assistance in the process of selecting a password that complies with the Bank's guidelines, whereby the customer will see the expression "V" or "X" against each line. This applies to the private individuals' website, to the Business + website and to the website in English. Concurrently a prominent error notice has been added for the customer in the private individuals' app when he is not in compliance with the guidelines, together with an explanation as to which of the guidelines he is not in compliance with.

Digital for business

Approving several transactions concurrently. In addition to single transfer transactions and transfers between accounts, business customers can concurrently approve transfers to several beneficiaries, salary transfers, RTGS transfers and bill payments. The service applies to the Business + website.

Remote approval for a single transfer and for a transfer between accounts. For a customer that has a balance on his account that is insufficient to carry out the transaction (for various reasons), the transaction will be sent for a banker's remote approval, thereby obviating the need for the customer to go to the branch to execute the transaction. The service applies to the Business + app.

Business portfolio. Within the framework of the business portfolio service for making better use of cash, in addition to the possibility of making cash deposits, an option has been added to allow the deposit of checks and coupons. This applies to the Business + app.

RTGS transfers. RTGS transfers can be executed using the Business + app.

Foreign currency proceeds from foreign trade. Foreign trade customers will be sent an SMS alert that foreign currency proceeds have been received for them. They can then go on to the Business + website and approve their receipt there. The approval is sent to the banker, who will complete the process with the customer.

Details of credit card transactions for businesses too. Similar to the private individuals' app, more detailed information is displayed on the Business + app regarding transactions, including a map with the location of the trading house and a graph that illustrates card use in recent months.

Changes and ongoing improvements in CM and in foreign trade.

Future and recurring transfers. A recurring transfer that is supported by the signatures composition in accordance with the existing legality (WF) on the Business + website and app. In addition, an option has been added for viewing the instructions for making future and recurring transfers (orders that have not yet been executed) on the Business + app (in addition to the option of viewing transfers executed at the branch or through Telebank). Concurrently, an option exists also on the Business + app for canceling a recurring transfer (this action is performed through a transfer to the adopted 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 transfer amount limit, the request is sent to a banker at the branch for execution. This applies to the Business + website.

Uploading foreign trade documents. Documents with documentary credit instructions can be uploaded to the Business + website.

Declared check indication. The check query function will also display out-of-date checks. This applies to the Business + app, the Business + website and the private individuals' website.

Factoring (invoice discounting). On the Business + website, invoices can be uploaded for the purpose of executing invoice discounting with the Bank.

Depositing checks with the Business + app by those authorized to receive information and to input data. An option for the deposit of checks via the app also by parties authorized to receive information and by parties authorized to input data. This can be done only on a business account, either large or small.

Displaying reasons for the return of the check on the Business + website and app and referral to the marketing website.

Customer experience

Unifying communication channels and the new correspondence via the private individuals' app. As part of the process of unifying the digital communication channels, the Bank has improved the existing process for interfacing a single upgraded chat on the private individuals' app. Didi, the digital assistant, acts as a first responder to customers by means of structured questions that direct the customer to the requested information or action. When necessary and in accordance with the subject of the inquiry, Didi navigates the customers to a correspondence with a human banker. In such an instance, the response time is displayed to the customer so as to reduce uncertainty.

Sending files to a banker via the correspondence on the private individuals' app. An option has been added for "sending files to a banker" (forms or files) via the app, directly to the branch.

Listening to customers of the application and improving. A new zone has been added to the main menu of the private individuals' app, on which customers can provide the Bank with feedback regarding the app 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' app. New insights on various topics continue to be uploaded from time to time.
Training videos on the private individuals' app. In order to expose the customers to information and transactions on the digital channels, short videos have been created of the 'How to' kind, on a variety of topics.
Indication for the customer regarding an unopened notice from a banker. When a customer has an unopened 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' app.

Opening an account with the app

The service was launched at the end of 2019. During 2020, numerous improvements have been made to it in order to upgrade the customer experience and in accordance with regulatory directives.

Website in English

Executing transactions on the website in English. For the first time, an option has been added for executing transactions on the website in English: making regular transfers (without the possibility of making a future and immediate transfer) and performing a foreign currency conversion (without the possibility of opening a foreign currency account during the conversion process).
Transferring from the Hebrew website to the website in English and vice versa. Transferring from the private individuals' website in Hebrew to the website in English and back, without having to log out and then having to log in again.
Updating authorizations on the website in English. The authorizations for executing digital transactions can also be updated from the website in English.

Main developments in Israel and around the world in 2020

Developments in Global Economy

General. The global economy suffered a blow from the Corona virus outbreak and a sharp contraction was recorded in the first half of the year. The return to activity, following the shutdown, has led to a rapid recovery in activity since the third quarter of the year, Following an expansionary fiscal and monetary policy of an unprecedented scale. The recovery in the United States is considerably faster than that in the Eurozone.
Following the rapid recovery, the product in the United States and the Eurozone in 2020 was hit considerably less than expected and shrank by -3.5% and -6.6%, respectively.
Inflation around the world has risen but remains below the targets of the central banks that are indicating expansionary policies in place for a considerable time.
Financial markets. Global equity indices fell steeply at the beginning of the crisis but, since the end of March 2020, there has been a recovery supported by the expansion from the central banks and governments. As a result, for the year as a whole, most of the leading indices recorded price rises, with the US equity indices recording steep increases.

Changes in the leading equities indices recorded during the years 2019 and 2020

Index	2020	2019
500 S&P	16.3%	28.9%
DAX	3.5%	25.5%
MSCI Emerging Markets	15.8%	15.4%

At the start of the crisis, high volatility was recorded in returns on government bond, but, following the massive intervention of the central banks, calm returned to the markets and returns stabilized at a low level. During the second half of the year, as optimism rose and with the support of higher inflation expectations, the nominal returns began an upward trend. As a result, for the year as a whole, returns on 10 year bond fell by approx. 100 basis points in the US, while in Germany they fell by approx. 40 basis points.

Returns on government bonds

Return on bonds for 10 years	December 31, 2020	December 31, 2019
U.S.A.	0.91%	1.92%
Germany	(0.57%)	(0.19%)

In 2020, the dollar basket ("the Dollar Index") weakened by 6.7%, due to the narrowing of the interest margins between the United States and the rest of the world and the high liquidity.

Changes in the U.S. dollar against selected currencies

Exchange rate	2020	2019
EUR	8.9%	(2.0%)
JPY	(4.9%)	(1.0%)
GBP	2.8%	(4.1%)

As a result of the crisis and the idling of global activity, commodity prices fell steeply throughout the world in the first quarter of 2020, led by oil prices that plummeted by double-digit percentages. Against the background of a gradual return of global activity and an expected recovery in demand, commodity prices began to recover from the second quarter, even though oil was still being traded at the end of the year at a price significantly lower than at the start of the year. The status of gold as a safe and liquid asset, together with fiscal and monetary expansionary policy in significant scopes, supported the steep rise in its price through the end of July. Against the background of the rise in returns, the price of gold fell steeply during the second half of the year, although, at the end of the year, its price was still significantly higher than at the start of the year.

Changes in selected commodities indexes

	2020	2019
The commodities index - GSCI	(6.1%)	16.5%
The oil price (BRENT)	(21.5%)	22.7%
The oil price (WTI)	(20.6%)	34.5%
Gold	24.4%	18.8%

Main Developments in the Israeli Economy

General

Economic activity in Israel, with private consumption at its core, contracted at an unprecedented rate in the first half of the year, as a result of the Corona crisis and the government measures taken to counter the effects of the epidemic. During the second half, supported by the gradual reopening of the economy, the discovery of vaccines against the virus and the global recovery, rapid growth has been recorded, which has embraced a large number of sectors. The growth data for the fourth quarter showed an upwards surprise, in view of a steep rise in vehicle imports for individuals and businesses, and accounted for more than half of the quarter's growth. As a result, the GDP level for the last quarter of the year was just 0.5% below the level at the end of 2019, even though private consumption data still indicated a significant weakness. For the year as a whole, the GDP contracted in 2020, compared to 2019, by 2.5% - an unprecedented rate, although more moderate than preliminary estimates. The major part of the decrease is accounted for by private consumption (which contracted by 9.5%). On the other hand, the export of goods and services, other than the export of tourist services (that came to an almost complete standstill), offset a considerable portion of the decrease, with the export of high-tech services making a noticeable contribution to this.

With the outbreak of the crisis, the labor market suffered an unprecedented blow and, despite the economic recovery, in parallel with the gradual reopening of sectors that had been closed at the start of the crisis, unemployment remains at an extremely high level. Hence, the "broad" unemployment rate (that includes employees on unpaid leave due to the Corona and those that have stopped looking for work due to the crisis) stood at approx. 13% in the second half of December (some 570 thousand people), compared to 3.5% immediately prior to the crisis (36% in April). The annual average unemployment rate for 2020 stood at approx. 15.5%.

Main developments in economic sectors

The business product contracted in 2020 at a rate of 3.1% with high differentiation between sectors. Mostly impaired, were the sectors directly affected by the restrictions on activity and the social distancing measures, such as: tourism, hotels, restaurants and entertainment, though on the other hand, the hi-tech sectors continued to show strength. Thus, while the commercial, hotel and restaurant services sectors contracted by approx. 4%, the information and communication sector grew by approx. 7%.

Developments in the activity of the Israeli economy with overseas markets

A record level was recorded in 2020 in the scope of direct investments in Israel by foreign residents, amounting to US$25 billion. Financial investments by foreign residents in marketable Israeli securities amounted also to especially high volume of approx. US$18 billion, derived mostly from the investment of approx. US$20 billion in government bonds alongside realization of shares.
Concurrently, Israeli residents increased their investments in foreign shares by approx. US$16 billion, approx. third thereof in the last quarter of the year.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-December 2020	January-December 2019
	US$ million	
Total direct investments	24,759	19,047
Total financial investments	18,306	(26)
Of which: Government bonds and MAKAM	20,797	2,132
Shares	(6,311)	(3,170)

Investments abroad by Israeli residents	January-December 2020	January-December 2019
	US$ million	
Total direct investments	5,860	8,598
Total financial investments	16,279	6,439

Developments in Foreign Exchange Rates and Inflation Rates

The decline in the inflationary environment, which had started even prior to the crisis, has increased in its wake, with the annual inflation rate dropping to a negative territory. Thus, 2020 concluded with a negative inflation of -0.7% and the "core inflation" (excluding energy, vegetables and fruits) amounted to -0.4%. Despite the recovery process, the Index contracts for one year were traded at the end of December at approx. 0.3%, well below the lower limit of the target, compared to approx. 0.8% at its beginning.
The steep decline in the markets and the dollar liquidity stress at the outbreak of the crisis have led to a steep devaluation of the shekel. As a result, the Bank of Israel provided liquidity to the market, and the shekel reverted to a strengthening trend again, a fact requiring the Bank of Israel to revert to the purchase of dollars. Despite the Bank of Israel's activity on the foreign currency market, the shekel appreciated during the year by approx. 5% in effective exchange rate terms, and by approx. 7% against the US dollar.

Fiscal and Monetary policy

Fiscal policy. The deficit of the budget amounted in 2020 to approx. NIS 160 billion, comprising 11.6% of the GDP, compared to 3.7% in 2019. Most of the increase in the deficit stems from a steep rise in expenditure, while the impact on revenues was more moderate than expected. It should be noted, that 80% of the amount of NIS 137 billion allocated to the economic plan for the treatment of the crisis, have been utilized during the year. Despite the high deficit and the steep rise to approx. 73% in the ratio of the public debt to the GDP (in 2019 – approx. 60%), the three rating companies have ratified during the year the credit rating of the State of Israel, leaving the rating outlook as "stable".

Monetary policy. Since the outbreak of the crisis, the Bank of Israel adopts a most expanding monetary policy, while activating a number of programs intended to treat liquidity difficulties impacting the financial system, to ensure the proper operation of the financial markets, to alleviate the credit terms in the economy and to support economic activity and financial stability. In addition, at the beginning of April, the Bank of Israel lowered the interest rate to 0.1%.
Changes in the monetary base. Since the outbreak of the crisis, the M1 money supply recorded a steep rise, on the background of a highly accelerated growth in current account deposits and a more moderate growth in the cash component. This growth has also continued during the year, so that in total for the year the M1 money supply increased by approx. 32%, of which current account deposits increased by approx. 33% and cash grew by approx. 23%. For the purpose of comparison, in 2019 the M1 money supply increased by approx. 8%. Concurrently, a steep growth was recorded in non-linked deposits of up to one year, so that that the M2 money supply (M1 together with non-linked deposits of up to one year) also presented a steep growth of 26%.
The expansionary monetary policy adopted in 2020, has been accompanied by a steep increase in the monetary base to the tune of approx. NIS 27 billion, compared with an increase of NIS 5 billion in 2019, the major part of the inflow of cash approx. NIS 21 billion, being provided by the Government (of which: approx. NIS 14 billion in the last quarter). The Bank of Israel has provided a large volume of liquidity by way of purchase of foreign currency, monetary loans to banks and by open market operations (including the purchase of government bonds and the significant reduction in the volume of issue of short-term loans (MAKAM). However, the Bank of Israel has neutralized the major part of the cash inflow trough a significant increase of tenders for shekel deposits, in an unprecedented volume.

Sources for the change in the monetary base

	January-September		
	2020	2019	change
	In NIS billion		in %
Operations on the Capital Market	84.1	(11.6)	-
The Shekel deposits tender	(171.0)	(6.0)	-
Foreign currency conversion	72.1	13.7	-
Government activity	21.4	7.2	-

The Capital Market

Share indices on the Tel Aviv Stock Exchange fell behind indices around the world, though a steep rise was recorded during the last quarter in view of the acceleration in growth and the beginning of the vaccination effort of the population. As a result, the TA 125 Index erased a large part of the drop recorded in the first three quarters of the year, ending the year with a drop of 3%.

Changes in selected share indices in the years 2019 and 2020

Index	2020	2019
TA 35	(10.9%)	15.0%
TA 125	(3.0%)	21.3%
TA banks	(20.7%)	28.3%
TA Global-Blutech	37.6%	18.6%
Real-estate 15	(4.6%)	73.2%

Trading in government bonds in Israel had been marked by a decline in returns at the beginning of the year. However, with the intensification of the crisis, the trend was reversed and returns on bonds rose steeply, with the opening of a positive gap against US bonds. The steep rise in returns led the Bank of Israel to introduce in March a program for the purchase of government bonds on the secondary market, which in continuation has been increased to NIS 85 billion. The purchase plan of the Bank of Israel has significantly lowered returns, while annulling the gap against the US bonds, though a rise in returns was recorded during the last quarter of the year, in accordance with the trend relating to US bonds. Returns on ten year shekel bonds (generic) amounted to 0.88% at the end of the year, compared to 1.02% at the end of March and 0.95% at the end of 2019.

Changes recorded in selected bond indices during 2019 and 2020

Index	2020	2019
General bonds	0.8%	8.7%
General Government bonds	1.2%	9.1%
Shekel Government bonds	1.3%	8.3%
Linked Government bonds	1.2%	10.3%
General Corporate bonds	0.6%	8.2%
Linked Corporate bonds	-	7.9%
Shekel Tel-Bond	(0.1%)	8.6%

A steep rise in margins was recorded in the corporate bond market at the outbreak of the crisis. This was stopped, following the announcement of the measures taken in the bond market by the Bank of Israel and the stopping of the redemption trend regarding mutual funds. Following a certain rise in the corporate bond margins, the Bank of Israel has announced the introduction of a plan for the purchase of corporate bonds on the secondary market. This action has contributed to a significant decline in margins.
In 2020, the amount of capital raised by means of issue of corporate bonds by Israeli companies totaled approx. NIS 52 billion, of which approx. NIS 39 billion net of banks, insurance and financial corporations. This, compared to approx. NIS 71 billion and approx. NIS 40 billion, respectively, in 2019. It is noted that the purchase of corporate bonds program of the Bank of Israel has contributed to a rise in volume of bond issues on the primary market, particularly by non-financial corporations.

The asset portfolio held by the public

The value of the financial asset portfolio held by the public increased during 2020 by 8%, with increases in most linkage segments, amounting at the end of the year to NIS 4.4 trillion. Most of the increase stemmed from the rise in the shekel component (approx. 12%), with a steep increase in the foreign equities component (approx. 28%), a moderate increase in the foreign currency linked component (approx. 7%), and a marginal increase in the Israeli equities component (approx. 1%). The CPI linked component recorded stability.

Distribution of the asset portfolio held by the public

	December 31, 2020	December 31, 2019
Shares	25.2%	24.5%
Non-linked assets	37.9%	36.4%
CPI linked assets	26.0%	28.1%
Foreign currency linked assets	10.9%	11.0%

Principal Economic Developments in January-March 2021[9]

Vaccination of the population, the gradual return to economic activity and the expansionary policy which central banks and governments adopt, support recovery in the scope of activity. However, differences exist between countries in the pace of recovery. In the US, acceleration has been recorded in the pace of vaccination of the population, and accordingly, acceleration has been recorded in economic activity. On the other hand, the pace of vaccination in the Eurozone is slow, and the Corona continues to impair economic activity. Acceleration in economic activity in the US and anticipation for expansionary government measures at a significant scope, have supported optimism in the market and a rise in inflationary expectations. Share and commodity indices have risen, as well as returns on government bonds. Returns on ten year US government bonds traded at the end of the reported period at a level of 1.52%.
Despite the recovery in economic activity and the rise in inflationary expectations, banks are expected to maintain the expansionary policy in the course of the coming year.

9 All the data in this chapter refer to the period from January 1, 2021 to March 10, 2021.

In Israel, an accelerated process for the vaccination of the population has begun at the beginning of the year, which led to optimism. However, in view of the enforcement of a tight third lockdown, the second half of January recorded a steep rise in unemployment to a level of approx. 19%. Thereafter, concurrently with the gradual exit from the lockdown, a significant expansion has taken place in economic activity, with a rise in optimism of consumers and businesses.
The budget deficit reached 12.4% of the GDP in February (cumulative for the past twelve months).
During the period, the Bank of Israel had increased its involvement in the foreign currency market. In consequence thereof, and on background of the strengthening of the US dollar globally, the shekel was devalued by approx. 3% against the dollar and by approx. 2% against the currency basket.
Concurrently with the global rise in returns, a rise was recorded in Israeli government bonds, with a rise in the graph incline. Thus, the shekel returns on ten year bonds (generic) reached approx. 1.3% at the end of the period. This rise had also been supported by inflationary expectations all along the graph, in particular, for short-terms. Thus, a CPI contract for one year was traded at the end of the period at approx. 1.3%, as compared approx. 0.3% at the end of 2020.
Following the significant lagging behind in 2020 of the local equities market, as compared with global equities markets, since the beginning of 2021, the market demonstrates over performance, rising by approx. 4%, as compared with a rise of approx. 2% in the S&P500 Index.

Legislation and Supervision

General

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, as long as these are effective over its activity.
The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank’s said operations.
Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).
Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc. The Bank is subject also to Acts imposing duties and rules involving aspect that are not singular to banks, such as the Privacy Protection Act and guidelines issued by the power thereof, the Economic Competition Act, etc.
In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, insolvency laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.
The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority, the Capital Market, Insurance and Savings Authority, the Competition Authority and the Privacy Protection Authority. These parties are authorized to conduct audits at the Bank and the subsidiaries or to require information from the Bank, relating to various fields of operation.
The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.
A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.
Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's or the Group's operations.

Regulation in the wake of the Corona crisis

During the reported period, 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. This period was characterized by a multitude of statutory and regulatory measures on these aspects, which underwent frequent changes.
Inter alia, the following measures may be mentioned:
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 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.
Amendment of the Insolvency and Economic Recovery Act (Amendment No.4 – Provisional Instruction – The new Corona virus), 2021. The Amendment was published on March 4, 2021, as a Provisional Instruction, to take effect on March 18, 2021, for a period of one year. The Provisional Instruction entitles corporations and individuals to apply to the Court for a stay of proceedings against them for a period of up to three months, with an option for extension of one additional month, for the purpose of approval of a debt arrangement (for additional details, see below).
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 some services as supervised services with respect to private and small business customers and limiting the charge of commission in respect thereof. The Order applies as from October 13, 2020, and until April 13, 2021.
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, while providing the possibility of obtaining face-to-face service in the case of services, which cannot be rendered on the online banking channels and/or where customers are unable to obtain them on the online banking channels, 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. The restriction on the amounts of a single check that can be deposited using a cellular device was also increased.

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.

On December 2, 2020, the Banking Supervision Department published a new outline for the deferral of loans, whereby customers that had already requested a payment deferral, who earned up to NIS 20 thousand a month (prior to the corona crisis) and whose income has been reduced by 40% or more, will be entitled to submit until March 31, 2021, an application for a reduction in the amount of a monthly repayment of a mortgage for a period of up to twenty-four months, and in the case of consumer loans, for a period of up to thirty-six months.

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. 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. In continuation, the power of the Regulations has been extended from time to time, until August 10, 2020. An additional draft of the Regulations proposes to determine that checks dishonored during the period as from January 8, 2021, date of beginning of the last lockdown, and until February 7, 2021, date of its end, shall be deducted from the number of checks to which the Dishonored Checks Act and the limitations by power thereof, apply.

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.). Later on, the reliefs were updated and extended.

Legislation for increasing competition in banking and financial services

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (legislation amendments), 2017, ("the Act" or "the Strum Law") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.

The Act enters into effect on date of its publication (“the beginning date”); however, certain of the provisions have later effective dates. Following are the principal issues of the Act:

1.1 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations.

This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from the beginning date, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date. It is noted that as of date of this report, the Bank is not considered a "bank having a Wide-Ranging Activity", as the term is defined in the Act.

1.2 In the period from the end of four years from the beginning date and until six years from this date, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration, inter alia, the state of competition existing in the credit market.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.

1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.

1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.

1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

For the implementation of this directive, on December 25, 2017, the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking was published, deals with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer. The Amendment took effect on July 31, 2018.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement.

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. On January 31, 2019, an order was published that deferred the application date of the aforesaid directive to January 31, 2020.

On November 13, 2018, an amendment to Proper Conduct of Banking Business Directive No. 470, “Debit Cards”, was published, within the framework of which provisions regarding the presentation of the aforesaid information were added. In addition, on February 3, 2019 the Banking Regulations (Customer Service) (Transfer of Information from an Issuer to a Banking Corporation), 2019 were published which prescribe the obligations to which issuers are subject in relation to the types of information and the dates for transferring the information from the issuers to the banking corporations.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.

These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 During a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Act had controlled or held means of control in a debit card company, as follows:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Act and until the end of the transitional period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period under the terms prescribed in the Act. The engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period, also the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers.

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Act, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Act or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5% of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator between the issuer and the clearing agent for confirming of charge card transactions – it is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Act, is entitled to determine a rate different than that stated above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.

Due to these restrictions, the Bank is required to sell its holdings in Automatic Banking Services Ltd. that exceed 10%, with this having to be done by June 1, 2021.

1.10 Within the framework of the Act, amendments were made to the Supervision over Financial Services Act (Regularized Financial Services) Act, 2016, and a chapter was added thereto in the matter of service for comparing financial costs, which will take effect on the date on which primary regulations would be set regarding the viewing and making use of online financial information. Preliminary regulations as aforesaid have yet to be published (see below “Statement of Principles for Strengthening Competition in the Financial System” regarding costs comparison service). In order that the delay in the publication of the Regulations shall not delay the start by the banks of the required implementation in the matter. The Bank of Israel informed on August 6, 2018 that it had started the project of regularizing the API Standard for open banking in Israel, which allows third parties, with the consent of the customer, to receive from the banks financial information regarding the customer.

On January 14, 2020, within the framework of a report of the inter-ministerial team regarding the identity of the Commissioner of Regulated Financial Services, it was clarified that in order to achieve the purposes of the Act and create regulation that would protect in an optimal manner the privacy of customers and of financial information, amendments to the existing legislation are required, and that in the two recent years, the team formed regulation that would replace the existing regulation. The new regulation is expected to provide an answer to all activities involved in the offering of financial information services and to the duties that would apply to financial entities in connection with their activity as sources of information holding financial information regarding their customers.

On June 24, 2020, the Ministry of Finance published the Bill Memorandum of the Provision of Financial Information Services Act, 2020 in which the regulation of all the activities included in providing financial information services, both by entities providing this service and by financial entities holding 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 the 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 solely for the benefit of that customer and for assisting him in his financial management. According to the Memorandum, a banking corporation is to be prohibited from providing cost comparison services.

An updated draft was published on March 3, 2021, of Proper Conduct of Banking Business Directive in the matter of "the relations of banking corporations with suppliers of cost comparison services", which regulates the relations of a banking corporation with suppliers of cost comparison services. The draft defines that a banking corporation (including an auxiliary corporation) may serve as a provider of cost comparison, if it had obtained in advance approval by the Supervisor of Banks.

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

1.12 By January 31, 2018, the Ministry of Finance is to implement one of these: to publish, in consultation with the Bank of Israel, a tender for establishing a technological infrastructure to provide and operate computerization services to financial bodies; to prescribe criteria for conferring grants, loans or guarantees that will enable the provision and operation of computerization services to financial bodies (see hereunder "Letter of principles for increasing the competition in the financial system" regarding the provision of assistance for establishing a banking service and computerization bureau).

1.13 At the end of eighteen months from the beginning date, if certain conditions determined in the Act are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

Issues regulated by the Act have an impact upon the Bank and ICC and upon their operations. Notwithstanding that, at this stage it is not possible to estimate the said impact, neither in terms of materiality nor in terms of quantity. The Bank and ICC are studying the implications and ramification of the Act, are acting for its implementation and follow developments in legislation and regulation, as well as moves and developments in the market following the publication of the Act.

The Committee for the examination of competition in the credit market. In accordance with the law, a committee was formed for the examination of competition in the credit market has been determined, which would monitor the implementation of the Act since the beginning date, and until the end of six years since the said date. The duties of the committee are: conduct periodic examinations regarding the state of competition in the credit market and locate barriers in respect of development of competition in this market; to monitor the implementation of the provisions of the Act; to recommend in the matter of activating the authority of the Minister of Finance in respect of extending to additional banking corporations the prohibition on engagement in the operation of issuance and clearing of charge cards, on the control of or on the holding of means of control in a corporation engaged in the said operations.

A measurable test for the measuring success in increasing competition in the banking sector. In accordance with the Law, on October 25, 2017, the Committee for the Examination of Competition in the Credit Market published measurable tests for the examination of success in increasing competition in the banking market. These tests will serve as a basis for a semi-annual analysis and for the report that the Committee will submit to the Economic Committee of the Knesset, and are also expected to serve the Committee when recommending measures for improvement and increase in competition in the market, including also the matter of exercising the authority of the Minister of Finance, under the Strum Act, to change the definition of "a bank with Wide-Ranging Activity". The Committee retains the right to change, add or reduce tests. A set of general tests have been determined, as well as an additional test relating to the Bank and ICC.

The Committee has determined tests of different types, including – tests for the removal of entry barriers and transfer barriers for customers; tests examining the entry of new competitors and customer activity; tests regarding the distribution of market shares, volume and prices; tests regarding means of payment.

A test for the Bank and ICC. The Committee decided to test whether the cumulative rate of change in credit balances (excluding large business and operations abroad) of the Discount group at the end of 2020 would be in the range of 2.5 to 4.5 percentage points over the cumulative rate of change of the other four large banking groups and the two credit card companies that had been separated. This test would be monitored on a semi-annual frequency. It has been clarified that this test, as all other tests, would serve the Committee as indication for a decision regarding the detachment of ICC from the Bank, though in any event, the Committee retains discretion in the matter.

On May 1, 2018, a draft of additional testing was published that dealt with the implementation of the Strum Committee's conclusions regarding the opening of the overdrafts sector to competition.

The first half-yearly report of the committee for examining competition in the credit market. On 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. A final examination of the test will take place after the banks and credit card companies publish their annual financial statements for 2020.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Act, the Supervisor of Bank published further amendments to Proper Conduct of Banking Business Directives. See below "Directives of the Supervisor of Banks".

Letter of principles for increasing the competition in the financial system - Continuation of the plan for strengthening competition in the banking market. On December 13, 2017, the Ministry of Finance and the Bank of Israel published a continuation of the plan for strengthening competition in the banking market. The plan includes three measures: mobility between banks at the "press of a button", making it possible for the consumer to compare costs relating to his personal financial products, reliefs for new banks by means of assisting in setting up an office for banking computerization services.

For the purpose of implementing the aforesaid measures, the following documents have been published:

- **The Economic Program Act (Legislation amendments for the implementation of the economic policy for the budgetary year 2019), 2018 – An indirect amendment of the Banking Act (Customer service).** The Act was published on the Official Gazette on March 22, 2018. The Act will enter into effect following three years from date of publication. In accordance with the Act a bank shall be obliged to enable a customer wishing to transfer his financial activity to another bank, to do so in an online, convenient and safe manner and at no cost to the customer, all this within seven business days from date of approval of the customer's request by the transferee bank; on November 13, 2018, the Banking Rules (Customer Service) (Transferring a Customer's Financial Activity between Banks), 2019, which were updated on December 17, 2019, and these set out the types of accounts that will be mobilized by the Act; a draft amendment of the Rules has recently been published, the essence thereof being complementary adjustments with respect to the clearing of checks; the Supervisor of Banks shall determine procedural instructions for fulfilling the mobility obligation; the Governor of Bank of Israel with the consent of the Minister of Finance, shall be authorized to determine that a small bank or digital bank (as defined in the Act), shall be exempt from the mobility duty, or would be permitted to postpone the date of application of the said duty because of cost or competition considerations and at the request of such bank, as stated (for additional details, see below). As a result of the Corona crisis, on August 2, 2020, 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 were published, within the framework of which, the date on which the Act will take effect was deferred by six months (until September 22, 2021).

  A draft Memorandum of the Banking Act (Customer service) (Amendment No. ___) (Responsibility of the accepting bank), 2021, has recently been published, within the framework of which it is proposed that an accepting bank, namely, the last bank to which a customer had transferred his account, shall be the factor responsible to the customer for the completion of the transfer process, for amending any failure or deficiency in the process and for compensation in case of damage.
- **Clearing of Checks and Dishonored Checks Act (Legislation amendments), 2021.** The Act was published on February 9, 2021. In view of the entry into effect of Section 15B(1) of the Banking Act (Customer service), 1981, in the matter of the transfer of a customer from one bank to another, amendments have been made to the Electronic Clearing of Checks Act, 2016, and to the Dishonored Checks Act, 1981, for the purpose of adapting them to the movement of a customer from bank to bank; monetary sanctions were determined in respect of violation of the provisions of the Electronic Clearing Act, and the name of the Act has been changed to Clearing of Checks Act. In addition, and in view of the entry into effect of the said Section, additional drafts have been published in matters of complementary adjustments of everything relating to the clearing of checks – Rules for the Electronic Clearing of Checks (Saving of checks) (Amendment), 2016; Rules for the Electronic Clearing of Checks (Scanning, saving, and producing a computerized check output) (Amendment) 2016;
- **Banking services and computer service office.** Regarding a solution to the blocking of computerization for banks and deposit and credit unions through the establishment of a banking computerization infrastructure (IT), on September 12, 2018, the Ministry of Finance published the final criteria for awarding a government grant in the amount of NIS 200 million for the establishment of a service and banking computerization bureau that will serve the new banks and deposit and credit unions.

Sale of holdings in Automated Banking Services Ltd. ("ABS"). In order to comply with the requirements of the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act, according to which the Bank has to sell its holdings in ABS that exceed 10%, the Bank sold within the framework of a public offering of shares of ABS, completed on June 5, 2019, shares comprising approx. 9.3% in ABS. On September 4, 2019, the Bank transferred to Mizrahi Tefahot Bank Ltd. shares comprising 0.7% of ABS. Following the said sale and transfer, the rate of holdings of the Bank in ABS was reduced to 10%.

Policy for establishing new banks and guidelines for license applicants

On June 3, 2018, the Bank of Israel published a policy that arranges, clarifies and simplifies the process for establishing a bank and creates regulatory certainty at an early stage of the licensing process for the entrepreneur interested in establishing a bank.
The new policy enables an entrepreneur to receive – within a relatively short period and even before its preparations have been completed – a restricted bank license, under which it will be possible to conduct limited deposit receipt and credit granting operations. Following completion of all the processes required in accordance with the outline to be agreed with it, the restricted license will be exchanged for a permanent license.
The policy prescribes reduced regulation over new banks that conduct noncomplex operations, such as retail operations. In order to implement the set policy, a Licensing and New Banks Unit has been set up at the Banking Supervision Department.

Announcement by the Bank of Israel regarding permission for the establishment of a digital bank in Israel

On September 24, 2019, the Bank of Israel announced the granting of a permit for the establishment of a new bank in Israel. In accordance with the announcement, the Governor of the Bank of Israel and the Supervisor of Banks informed the promoters of the new bank that the Governor is prepared to grant them a bank license and a permit for the control of a bank, following the conclusion of the examination of the project by the Supervisor of Banks. The promoters had presented to the Supervisor of Banks a business plan, according to which, they plan to establish a digital bank with no branches, and to focus on the offer of banking services to households, including the granting of credit, receipt of deposits, conduct of current accounts and providing services for the purchase and sale of securities.
On November 18, 2019, the Supervisor of Banks published a draft Proper Conduct of Banking Business Directive regarding adjustments to the instructions of proper conduct of banking business applying to a new banking corporation. The adjustments refer to compliance requirements that would be cumbersome for a new banking corporation, entailing high costs and having no proportion to the risk to which that new banking corporation might be exposed to or to the system risk produced by it. The announcement notes that the Supervisor of Banks will examine in the future the extension of the adjustments also to a part of the consumer instructions and to the reporting to the Supervisor of Banks Directives. Also published on that date was a draft Public Reporting Directive for a new banking corporation.

Supervision over Financial Services Act (Regularized financial services), 2016

Letter of the Supervisor of Banks regarding the policy of banking corporations' activities vis-à-vis customers that are regulated financial service providers and offering coordinators. The letter was published on April 15, 2018. Accounts of entities listed in the Supervision over Financial Services Act (Regulated financial services), 2016. The Bank is preparing accordingly. For details regarding the Act, see the 2018 Annual (p. 368).

Regulation of Off-Banking Loans Act (Amendment No. 5), 2017 ("Fair Credit Law")

On August 9, 2017, the Amendment was published in the Official Gazette and entered into effect on August 25, 2019. The main points of the amendment: changing the name of the law to the Fair Credit Law, extending the application of the Law to additional lenders, including banking corporations and auxiliary corporations. The Law applies to borrowers who are private individuals. However, the Minister of Justice is authorized to extend its application to types of corporations to be specified; a definition of a loan to which the Law applies has been added; a uniform ceiling has been set for the cost of the credit that is granted by lenders; a ceiling has been set for arrears interest; the addition of "criminal interest", the charging of which is prohibited and constitutes a criminal offense punishable by imprisonment; broad disclosure obligations and borrower protections are prescribed. Criminal and financial sanctions have been determined for breaching the provisions of the Law; Offences under the Law that are punishable by three years' imprisonment are defined as "predicate offences"; it states that in the period starting with the end of two years from the date of the Amendment and ending with the end of the third year from that date, the Bank of Israel would examine the average rate of the actual cost of the credit granted by banking corporations to borrowers. If the Bank of Israel finds that the maximum cost of credit, as determined by the Act, led to an unjustified increase in the average cost, as stated, then the Bank of Israel would recommend to the Minister of Finance whether to decrease the maximum cost rate of credit. After receiving the Bank of Israel's recommendation as stated, the Minister of Finance shall examine as to whether he should use his authority under the Act and reduce the maximum rate of cost of credit.

Principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof

On July 18, 2016, the Supervisor of Banks published a document containing principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof. This, as part of promoting competition in the debit card market. The document of principles creates the terms allowing entrance of new players all along the line of performing transactions by use of debit cards.

Terms of access to controlled payment systems

On July 31, 2016, the Supervisor of Banks published the terms of access to the "debit card services" system, to the "automatic bank instruments" system operated by ABS, and to the "credit, debit and payment transfer" system operated by BCC – threshold terms for participation therein. This move is intended to allow off-banking entities to participate, either directly or indirectly, in these payment systems.
On August 13, 2018, the Memorandum of the Supervision over Financial Services (Regulated Financial Services) Bill, 2018, was published, which proposes to determine, inter alia, instructions regarding access to controlled payment systems by holders of a license to grant payment services.

Guidelines regarding clearing

2020 was characterized by abundance of guidelines relating to clearing services and the regulation of the activity of ABS and BCC, in each of which the Bank holds 10% and 25%, respectively.
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 clearing default arrangement and the signing of updated system rules, in accordance with the details of the announcement, the duty to represent providers of payment services in the system rules shall no longer exist. 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 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 structure of collateral that the participants provide in connection with the arrangement.
The ATM switching system rules in ABS. A primary version of the ABS system rules, which regulates it operations, had been passed for signing by the participants in the system. Among other things, the rules regulate aspects regarding the representation of participants in the system. The Bank had 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.

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.

Bank of Israel letter dated September 29, 2020, in the matter of clearing interface. The letter notes that in 2017, ABS and the participants in the system were asked to characterize a central solution for the ATM system that would carry out the settlement of accounts and clearing of ATM transactions between participants in the ABS systems, including the settlement of accounts and clearing of the cross-commission and chargeback operations between participants. The said request has been partly fulfilled. The Bank of Israel had asked that the said characterization process would be completed by the end of November 2020, and that the implementation of the solution would be completed by the end of October 2021. The implementation of the solution for the chargeback system is to be completed by January 2022.

Legislation and Standards in the matter of Debt Collection

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower on account of the rights of lenders, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.

In this framework, the following legislation matters should be mentioned:

- **Debt Execution Act (Amendment No. 46), 2015,** in effect as from October 2015, which greatly encumbers the delivery of notice to debtors, in view of the duty imposed on the Appellants to serve the defendant, by registered mail with delivery confirmation, a warning notice of the intention to submit the claim to the Debt Execution Office.
- **Banking Act (customer service) (Amendment No. 19), 2014**, in effect as from September 2014, does not allow a bank to call for the immediate repayment of a loan or to institute legal proceedings against the borrower, unless a prior notice in writing is delivered to the borrower in person, and this 21 business days beforehand.
- **Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks - debt collection procedures.** The directive was published on February 1, 2017, within its framework, rules, actions and various functions have been prescribed in proceedings for the collection of debts solely of households and small businesses (the directive does not apply to corporations), with the aim, inter alia, of enhancing the fairness and transparency with debtors.

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.

Draft Memorandum Execution Office Act (Amendment No.__), 2019. The draft was published in February 2020, and it relates to the realization of properties, the rights in respect thereof are registered with the Land Registry Office and had been pledged by their owners in favor of the Bank. According to the draft, it is possible to open a debt execution file only if the property is registered in the name of the Pledger. Furthermore, realization proceedings may begin only if the personal details of the registered owner of the real-estate are stated in full. In the event that identification details are missing, the Debt Execution Registrar has to refer to the Land Registrar and verify that complete identification has been reached. Such amendments are expected to have an effect on the realization proceedings conducted by the Bank.

The Insolvency and Economic Recovery Act, 2018

The Act took effect on September 15, 2019, and shall apply to insolvency proceedings instituted as from that date onwards. The Act contains many innovations and changes in the substantive law. The Bank is preparing for the implementation of the Act and Regulations enacted under it in areas relevant to its operations. For additional details, see the 2018 Annual Report (p. 371).

Insolvency and Economic Recovery Act (Amendment No.4 – Provisional Instruction – The new Corona virus), 2021. The Amendment was published on March 4, 2021, as a Provisional Instruction, being part of the move to provide relief to debtors in view of the Corona crisis. The Provisional Instruction entitles debtors, both corporations and individuals, to apply to the Court for a stay in proceedings against them for a limited period of up to three months, with the option of extension for one additional month, for the purpose of approval of a debt arrangement, without the appointment of an external function replacing the Management of the corporation. Material limitations are to apply to the creditors with respect to the institution of legal proceedings, realization of pledges, etc. Furthermore, during the stay of proceedings period, debtors are generally prohibited from the repayment of past debts, and they may continue to conduct their business as usual. The Provisional Instruction will remain in effect for a period of one year, which may be extended for two additional periods of up to six months each.

Regulations of the Insolvency and Economic Recovery Act (Amendment), 2020. The Regulations were enacted on December 30, 2020, and entered into effect. Requirements had been added within the framework of the Amendment, with respect to the notice that a creditor has to deliver to the Insolvency Commissioner, following the right of setoff taking effect. The Association of Banks has submitted a request to the Ministry of Justice to narrow the scope of the aforesaid requirements.

Economic Competition

The Economic Competition Act (Amendment No. 21), 2019. The Amendment to the Act, which was published on January 10, 2019, determines, inter alia, the duty imposed upon an Officer of a corporation to supervise and do everything possible to prevent the violation of the Act by the corporation or its employees. Violation of this duty will be considered a criminal offence carrying imprisonment and a monetary penalty, and this even if the corporation itself has not violated the Act. In the event that an offence has been committed under the Act, the Officer may be deemed to have violated the said supervisory duty, unless he can prove that he had done the utmost to fulfill his duty. An Officer is an active manager in the corporation, a partner, excluding a limited partner, or a clerk responsible on behalf of the corporation for the area in which the offence had been committed. Furthermore, the amount of the monetary sanctions, which the Commissioner is authorized to impose upon a corporation, has been increased; the duty to report mergers has been reduced; and the definition stated in the Act of an owner of a monopoly has been updated, so as to apply also to a person who holds a significant share of market power in a particular market.

Exemption from approval of a restrictive agreement in respect of the holdings and joint operation within the framework of ABS. On September 24, 2017, the Competition Commissioner published a decision regarding the exemption from approval of a restrictive agreement in the matter of Automatic Bank Services (ABS) ("the exemption decision"). Within the framework of the exemption decision, the Antitrust Commissioner instructed the transfer of the rights of ABS in the communication protocol, according to which the various entities act in the field of charge cards, with no consideration, to an association, the members of which would be all entities active in the field of charge cards.

Moreover, the exemption decision states instructions as regards the distribution of dividends by ABS and to additional conditions, subject to the sale of the surplus holdings of the banks in ABS, in accordance with the requirement of the Strum Act (see above).

Extension of 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. On October 11, 2020 the Agreement entered into effect. The agreement was amended in light of the Competition Commissioner's exemption dated July 30, 2018 and allows every supervised issuer and operator of ATMs to join the agreement. The First Digital Bank (in formation) Ltd. signed during the year an Addendum for the direct participation in the agreement, and applications by additional bodies regarding the joining of the agreement have been advanced.

Approach to Automated Bank Services ("ABS") by the Competition Authority in the matter of the mutual affinity between ABS and Bank Clearing Center ("BCC") and the Prima Facie existence of a restrictive agreement. In accordance with an Immediate Report by ABS dated October 29, 2019, the Competition Authority approached ABS on October 28, 2019, in the matter of the mutual affinity between ABS and BCC. The Authority is of the opinion that due to the significant affinity existing between the two companies (which jointly operate a head office and office premises, as well a joint technological infrastructure and back-up facilities, and more), alongside the competition potential between ABS and BCC, there exists Prima Facie, a restrictive agreement, which had not been approved or given a temporary permit by the Competition Tribunal or given an exemption by the Competition Commissioner. The position of the Authority is that it is doubtful whether the arrangement fulfills the class exemption condition under Section 15A of the Economic Competition Act. The Authority requested ABS to take immediate action in order to stop the violation and rectify the situation. In its Immediate Report ABS clarified that in its opinion the existing relations do not constitute a restrictive agreement, and that it studies the approach and its implications. The Bank owns 25% of the equity of BCC and 10% of the shares in ABS. In continuation thereof, the Competition Authority approached the companies with a request for information regarding the mutual services being granted by one of the companies to another, or the joint services being granted by a third party to the two companies. ABS and BCC submitted on May 10, 2020, a request for approval of the restrictive agreement between them. 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. 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. The Competition Commissioner filed a motion with the Competition Tribunal on December 29, 2020, in which it is argued that the cooperation between ABS and BCC constitute a restrictive agreement, which is in contradiction with the law and may impair competition even today, and has requested to issue an order for the termination of the violation within thirty days, by way of terminating the cooperation between the companies or the regulation thereof through one of the mechanisms stated in the law. The court rejected the motion.

Approach by the Competition Commissioner regarding exemptions from restrictive agreements. On November 10, 2019, the Bank received four letters from the Competition Authority regarding four decisions that had been made in the past by the Competition Commissioner regarding exemption from a restrictive agreement under certain conditions, with respect to the following arrangements: the credit cards cross-clearing arrangement, the arrangement between BCC and different banks, the arrangement regarding the holdings by different banks in ABS and the arrangement between different banks regarding the mutual recognition agreement for use of ATMs. The Bank is a party to each of the above arrangements. In accordance with the said letters, the Competition Commissioner had decided to use her authority under Section 15A(g) of the Economic Competition Act, and determine that with respect to each of the above arrangements and to any restrictive agreement regarding such matters, an exemption from a restrictive agreement, granted by the Act according to the class exemption rule, shall not apply. It is explained in the letters that the exemption decisions given with respect to each of the said arrangements shall remain in effect until the end of the effective period of each arrangement (December 31, 2023, March 20, 2020, September 24, 2022 and July 30, 2023, respectively), and the Bank may continue to operate in accordance with the said arrangements until the end of the effective periods without having to obtain the permit of the Competition Tribunal, on condition that no change occurs in a material item of such arrangements. To the understanding of the Bank, the meaning of the decision is that at the end of each of the said periods, the parties to the arrangements would be required to submit to the Competition Commissioner specific requests for extension of the exemption in respect of each of the said arrangements (as was already done with regard to the BCC exemption, as set forth above). A press release issued by the Competition Authority states that a similar decision had been made with respect to additional arrangements in the market.

Call to the public for comments on the Centralization Act. On December 28, 2020, the members of the team for the implementation of the Centralization Act issued a call to the public for comments regarding the effects of the implementation of Chapter "D" of the Centralization Act, and regarding the separation of significant non-financial corporations from significant financial corporations, on the extent of centralization in the economy. The call is being issued after six years since the enactment of the Centralization Act, and after all its provisions had taken effect. The implementation team asked also for comments on additional issues, including centralization failures, which had been disregarded by the Centralization Act or which had not been attended to by the Act in an optimal fashion.

Prohibition of money laundering and Prohibition of Financing Terror Activities

Prohibition of Money Laundering

The Prohibition on Money Laundering Law, 2000 (hereinafter - "Prohibition of Money Laundering Law") came into effect on August 17, 2000, under the power of which, Regulations and Orders have been enacted over the years. Also amended was Proper Conduct of Banking Business Directive No. 411, and the Supervisor of Banks issued clarifications and circulars in the matter. This set of legislation imposed upon banking corporations as well as on additional subsidiaries (like the company for Portfolio Management - Tafnit Discount Asset Management) identification, verification, reporting and record maintenance duties regarding customers and customer accounts managed by them. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

Promotion of reform of the Prohibition of Money Laundering Act. On February 4, 2021, the Money Laundering Prohibition Authority issued an approach to the private sector, including the Bank, stating that the Authority – in cooperation with the Consultation and (Criminal) Legislation Department at the Ministry of Justice and all the financial regulators – is promoting a major reform of the money Prohibition of laundering and the prohibition of terror financing regime in Israel. According to the approach, this will be done through a comprehensive amendment of the legislation aimed at prescribing uniform fundamental provisions, which will be part of the Money Laundering Prohibition Act or will be promulgated thereunder, and which will apply to all financial entities. Furthermore, the possibility is being considered of giving the financial regulators the authority to prescribe supplementary detailed arrangements through circulars and guidelines, including arrangements that will provide a response to unique characteristics of specific financial entities. According to the memorandum, the new provisions are still in the process of being drafted and examined by all the relevant government parties. The Authority has called for the submission of comments and positions with regard to the proposed principles of the reform.

Draft amendment of Proper Conduct of Banking Business Directive No. 411, Management of money laundering prohibition and finance of terror prohibition risks. An updated Draft was published on January 3, 2021, 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 in the Appendix, the proposed arrangement would apply in relation to all payments services, as defined in the Payment Services Act, 2019, which are provided by a banking corporation to the receiver of the service, including payment services that allow the accumulation of value in a limited amount, in accordance with the provisions stated in the proposed arrangement.

Prohibition of Money Laundering Order (Duties of identification, reporting and maintenance of records by providers of credit service avoiding money laundering and the finance of terror) (Amendment), 2021. On February 2, 2021, the Constitution, Law and Justice Committee approved the amendment to the Order, as part of the implementation of the Act for the supervision of regulated providers of financial services. The amended Order imposes, on providers of a financial asset service, identification, reporting and record keeping obligations in relation to their customers (in addition to the existing requirements under the existing order on providers of credit services), and also relates to activities in a virtual currency. The Order will go into effect eight months after its publication.

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.

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.

Provision of pension consulting services by digital means. A Memorandum of the Supervision over Financial Services Bill (Pension consultation, marketing and a clearing system) (Amendment No. 11), 2020, was published on July 9, 2020, the purpose of which is to allow banking corporations to provide pension consultation services by telephone or by digital means. The Capital Market, Insurance and Savings Authority announced on December 1, 2020, that it shall not adopt enforcement measures against banking corporations that would provide the said services to existing customers in the pension consultation field, so long as restrictions on operations exist under the new Special Powers for Combating the Corona Virus Act (Provisional Order), 2020, or under another legislation replacing it, provided that no other instruction has been issued by the Authority.

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.

Securitization – public issues of assets backed bonds. In September 2019, the Securities Authority published for public comment, a document regarding its preparations for the opening of the market in Israel to public securitization. The document is intended to increase the awareness and understanding of capital market players regarding the principal characteristics of securitization transactions, which raise questions on the part of Investors. Further to this, in June 2020, the Israel Securities Authority published a policy document with regard to public offerings of asset-backed bonds, within the framework of which, inter alia, the main characteristics of securitization transactions were presented.

Draft Proper Conduct of Banking Business Directive regarding a banking corporation's activity as a broker-dealer. On February 18, 2021, a draft was published, intended to represent a regulatory framework for the activity of banking corporations in the field of financial brokering with regard to the receipt and transfer of orders to execute transactions in securities and financial instruments for customers, both as brokers and also by way of trading on their own account (broker-dealer activity). The draft replaces Proper Conduct of Banking Business Directives Nos. 461 and 419.

U.S. Legislation

As owners of a U.S. bank, IDB Bank, the Bank is subject to a number of U.S. legislation provisions, which apply to entities, and companies related to them, and which have banking operations in the U.S., whether as a bank or as a branch office.

Within the framework of these provisions, significant exceptions have been determined with respect to non U.S. banking entities, such as the Bank, so that the regulation under these provisions relating to operations and investments, applies mostly to the said operations and investments of the bank in the U.S..

The operations of the Bank conform to the U.S. legislation provisions, to the extent that these apply to its operations, including conforming to the restriction imposed on the Bank under the Volcker Rule, enacted as part of the U.S. Dodd Frank reform.

Subject to certain exceptions the Volker Rule includes prohibition of proprietary trading and investment and sponsoring operations in private equity funds of certain types.

Following amendments made to the Dodd Frank reform, the Bank, including its subsidiaries, is no longer subject to enhanced prudential standards determined by the Dodd Frank reform.

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, which became 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.

Various Legislation Matters

Credit Data Act, 2016

The Act was published on the Official Gazette on April 12, 2016. The Act is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. According to the Act, the Bank of Israel is to establish and manage a central credit data base. Data would be assembled from sources determined in the Act and including banking corporations, would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit in accordance with the regulations stated in the Act. On March 4, 2021, the Credit Providers Regulations (Amendment), 2021 were published, thereby complimenting the provisions of the Credit Providers Act and outlining the supporting provisions in relation to arrangements not included in the Act. Following the publication of the Act, further regulations have been published intended to supplement the regulations stated in the Act, as well as the setting out of supporting regulations with respect to specific arrangements which are not regulated by the Act itself. For the purpose of implementing the Act, the Bank of Israel has taken measures to establish a system for sharing credit information, which includes setting up a central credit database.

It is noted, that providing of detailed data regarding Bank customers may expose the Bank to various claims, including customer arguments regarding the quality of the data in certain cases. The Bank is making timely preparations for the delivery of the data, in accordance with the Bank of Israel instructions, and acts to improve such data, where required (for details regarding a lawsuit together with a motion for its approval as a class action suit, regarding the implementation of the Credit Providers Act, see above Note 26 C to the financial statements, section 12.5).

Self-assessment process for testing compliance with the provisions of the Credit Data Act. In a letter dated November 18, 2019, the Supervisor of Credit Data Sharing at the Bank of Israel informed the corporations defined as users of credit data that they have to perform a self-assessment process for the testing of their compliance with the requirements of the Credit Data Act, and to deliver the findings of the examination to the Supervisor by June 30, 2020. The Bank is preparing for the performance of the process by means of an independent external factor. In a letter dated October 27, 2020, the Commissioner informed the Bank of his response regarding the self-assessment process performed by the Bank and its findings and requested that the Bank act accordingly. The Bank is required to implement a technological solution that will enable the customer to receive the credit report produced with respect to him on his personal page of the Bank's website, with this being done by the end of June 2021.

Amendment of the Credit Providers Regulations (Amendment No. 1), 2020. On January 6, 2021, the Knesset's Economic Affairs Committee approved a proposal to amend the Credit Providers Regulations, 2017, including amendments relating to ways of identifying the customer, obtaining his consent to transfer credit data relating to him and its documentation. The regulations have not yet been published and will go into effect within six months of their publication in the Official Gazette.

Payment Services Act, 2019

The Act was published on the Official Gazette on January 9, 2019. The Act amalgamates, under a single legislative umbrella, the majority of the "payment services" that are currently provided and that will be provided in the future to the general public (payers, on the one hand, and beneficiaries – the recipient of the payment, on the other hand) by various "providers of payment services", including the banks, the credit card companies, off-banking operators of advanced payment applications, etc. The Act prescribes consumer regulation which will apply uniformly (subject to the secondary legislature of each regulator) to all the providers of payment services in the market – to the banks, and also to other providers of payment services that are competing (or are planned to compete) with the payment services that are provided (or that will be provided in the future) by the banks to their customers. The Act will take effect following one year from date of publication thereof, except for several provisions that became effective in July 2020.

The Bank is preparing to implement the provisions of the Act in respect of its operations in the field of payment accounts and means of payments, inter alia, by way of updating agreements with customers, operational preparations, updating procedures and work processes.

On February 17, 2020, was approved by the Knesset the Payment Services Act (Amendment No. 1) (Deferral of the effective date), 2019, in which Section 77 of the Act was amended so that its effective date was deferred for nine months to October 14, 2020. On February 2, 2021, a draft was issued of the Payment Services Regulations (Exemption from Application of the Act), 2021, within the framework of which it is being proposed that the prohibition specified in Section 14 of the Act (pursuant to which a payment services provider may not deduct any fee or other charge from the funds regarding which the payment instruction was given) will not apply in a case where the performance of the payment transaction involves the receipt of financial brokerage services and providers of correspondence services.

Customer Protection Act (Amendment No. 57) (Human professional response on the automatic answering service), 2018

On July 25, 2018, the Amendment was published in the Official Gazette. The subject matter of the Amendment requires businesses that operate a phone call service that includes an automatic call routing system, to enable customers to transfer to a human voice response already at the first menu of the conversation and limiting the waiting time for a human response, as regards certain matters (treatment of failure, account information and termination of engagement) to six minutes. This requirement takes effect by way of an amendment of the Banking Act (Customer service).

On June 12, 2019, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 426 in the matter of "provision of professional human response by telephone", within the framework of which, banks had been given the possibility of deviation from the time for waiting on the line under conditions and at time-rates determined in the Directive. On January 1, 2020, the Section that requires priority for senior citizens waiting on line for a telephone call response entered into effect. In addition, it is required to monitor and control response patterns at the call center; as well as the publication of details on the Internet website of the banking corporation.

Reduction in Use of Cash Act, 2018

The Act was published on the Official Gazette on March 18, 2018, and took effect on January 1, 2019, whereas the instructions regarding checks took effect on July 1, 2019. Inter alia, the Act imposes restrictions on transactions the payment for which is in cash; A bank may not cash a check in which the name of the beneficiary is not stated (blank check); and may not cash a check in an amount exceeding NIS 10,000, if it had been assigned more than once (or twice, if the second assignment is in favor of a supervised financial body), or if it does not state the name of the assignor and his ID number as well as the name of the assignee. Whoever violates the provisions of the Act is exposed, inter alia, to penalties.

Banking Rules Amendment (Customer service) (Fees and commissions), 2019. The Amendment was published on May 1, 2019, the essence of which is the definition of "communication lines" with the banking corporations, possibility of obtaining the bank's price lists and for delivering a request for the cancellation of participation in a particular commission track; imposing a duty on banks to conduct during the fiscal year a monthly examination of the accounts of customers classified as a small/authorized business, with respect to the commission charged to them in comparison to the basic and expanded commission tracks, and attaching the customers to the commission track most beneficial to them in relation to the commission charged; reduction in the commission charged in respect of the granting of a bank guarantee secured by a specific deposit; and the addition of the possibility to charge a commission in respect of the following special services: pension consulting, withdrawal of cash from an ATM by means of a rechargeable card that is not connected to a current account, and the withdrawal of cash from an ATM by means of a charge card issued abroad or issued by an extension of a foreign bank. As a general rule, the Amendment takes effect on date of publication, excluding certain exceptions stated therein.

Proposed Amendment of the Banking Order (Dormant deposits), 2000. The Supervisor of Bank in conjunction with the Ministry of Finance are considering an amendment of the Order with respect to the investment of funds of dormant deposits. Concurrently, 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.

Directives of the Supervisor of Banks

Amendment to Proper Conduct of Banking Business Directive No. 332, "Self-Purchase by Banking Corporations". On February 28, 2019, an amendment was published, which removed the prohibition on the self-acquisition of shares of the banking corporation, allowing banking corporations to acquire their own shares, subject to certain conditions. Furthermore, an update was included of the restrictions applying to the granting of finance collateralized by securities that had been issued by the banking corporation.

Draft Proper Conduct of Banking Business Directive in the matter of engagement of a banking corporation in financial instrument operations on behalf of customers. On August 25, 2019 the draft was published, intended to comprise a framework for regulating broker/dealer operations at banking corporations, namely the receipt and delivery of orders for transactions in financial instruments on behalf of customers, both as brokers and by way of trading in their own accounts. The draft is intended to replace the existing instructions of Proper Conduct of Banking Business Directives Nos. 461 and 419.

Proper Conduct of Banking Business Directive in the matter of API. A Directive regarding the implementation in Israel of the open banking standard (Directive No. 368) was published on February 25, 2020. The Directive details the requirements of the Bank of Israel from the banks and credit card companies regarding this field, with the aim of defining the infrastructure for open banking in Israel.

The dates for the entry into effect of the Directive are as follows: Implementation of open banking for information viewing purposes only – March 31, 2021; Conducting a single payment operation and information regarding credit cards – October 10, 2020; Information regarding savings deposits, deposits, credit and securities – March 31, 2022. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. In accordance with the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2018 Annual Report (p. 355) and the Section "Technological improvements and innovation" above.

"E-Banking" - Amendment of Proper Conduct of Banking Business Directive No. 367. An amendment to the Directive was published on December 29, 2020, which also allows the online opening of an account and includes within the framework of the engagement agreement also future services. The Amendment abolishes the requirement for identification by way of two verification factors upon joining the services, which are not for information only.

"Notices by means of communication" – amendment to Proper Conduct of Banking Business Directive No. 420. On February 25, 2021, and amendment was published to the directive within the framework of which provisions were added in relation to the sending of a notice to a customer regarding the need to deposit funds in order to settle a check, with this being in continuance of the Checks Without Cover Act (Amendment No. 14), 2020.

"Online notices" – draft Amendment of Proper Conduct of Banking Business Directive No. 420. A draft Amendment to the Directive was published on December 31, 2020, which deals with the duty of delivering notices to customers. Inter alia, a duty has been added requiring delivery of different types of notices both in an immediate and accessible manner and in a manner allowing saving and printing, repeated delivery in case of indications regarding notices not received by the customer, and more. A duty has been added requiring the getting in touch with the customer to verify the details of communication where there are indications that the customer had not received a notice.

Letter regarding the replacement in foreign interest rate benchmarks. For details, see "Marker Risks" in Chapter C above.

Letter of the Supervisor of Banks regarding the encouragement of innovation at banks and at clearing agents. See above "Initiatives concerning the banking sector and its operations".

Amendment of the Banking Rules (Customer service) (The transfer between banks of the financial activity of customers), 2019, and Proper Conduct of Banking Business Directive no. 448 regarding the transfer between banks of the financial activity of customers in an online manner. The Directives were published on December 16, 2019. The amendment of the Rules relates to the types of financial activity in respect of which banks would be under duty to enable their customers to transfer their financial activity from one bank to another in an online and secured manner and at no cost to the customer, and this in accordance with the Amendment to the Banking Act (Customer service). The Proper Conduct of Banking Business Directive states general principles with respect to the mobility process, including the length of time allotted to this process, cancellation of the mobility request, transfer of information between entities during the mobility process, the possible actions which may be taken to retain the customer, situations in which a bank may refuse a mobility request, and more. The Directive and the rules will take effect on the date on which Section 5(b)(1) of the Act takes effect. For details regarding the date of entry into effect of the Act, see below.

Draft amendment to Proper Conduct of Banking Business Directive No. 432 regarding "Transferring Activity and Closing a Customer's Account". The draft was published in February 2020 and, according to which, inter alia, a banking corporation must allow a customer to apply for the transfer of his securities portfolio to another financial institution, at least through the Internet website of the corporation, without requiring the customer to personally appear at the bank's branch.

Proper Conduct of Banking Business Directive 311A, regarding "Consumer Credit Management". On February 2, 2021, the Directive, which was drawn up by the Banking Supervision Department jointly with the Capital Market Authority, was published. This with the purpose of creating consistent principles and standards for all the credit providers with regard to consumer credit in general and to credit marketing initiatives in particular. The Directive's purpose - to ensure the fair and proper conduct of granting consumer credit. The Directive goes into effect nine months after the publication of the circular relating thereto (November 4, 2021), while the sections relating to the marketing of consumer credit (sections 17-22) go into effect three months after the publication of the circular (May 4, 2021).

Letter of the Supervisor of Banks to banking corporations and credit card companies regarding environmental risk management. For details, see above "Environmental risks".

Amendment of Proper Conduct of Banking Business Directive No. 301 regarding the "Board of Directors"

The Supervisor of Banks published on July 5, 2017, an amendment to the Directive. Within the framework of the amendment the maximum number of directors of a banking corporation was reduced to ten, and additional instructions were included regarding the qualification of the Board and its composition, within the framework of which the number of directors required to have banking experience was increased from one fifth to one third, and it is required that at least one director must have proven experience in the field of information technology. In addition, additional directives have been prescribed aimed at making the work of the Board of Directors and its committees more efficient. The Amendment takes effect on date of publication thereof, excluding the instructions regarding the reduction in the number of Directors and qualification of its members, which will take effect on July 1, 2020.

On November 13, 2018, an update to the directive was published, within the framework of which a duty was determined to appoint a committee of the Board of Directors dealing with matters of IT and innovation, that at least one of the members of which should have knowledge and recognized experience in the field of IT. Furthermore, the draft adds a requirement for the adoption of a policy with respect to the maximum length of service of members of Board committees and their chairpersons. The amendments are to take effect on the date of publication of the Amendment, except for the requirement regarding the composition of the technology committee; the effective date thereof is July 1, 2020.

A draft Amendment of Proper Conduct of Banking Business Directive No. 301 was published on November 12, 2020, in which it is proposed to add to the duties of an audit committee the responsibility to implement, inter alia, the guidelines of the Basel Committee with respect to the external audit of banking corporations in the matter of its relations with the independent auditor. It is proposed that the Directive will take effect as from January 1, 2022.

Corporate governance

Companies Act Memorandum – corporate governance in public companies having no core controlling interest. On March 10, 2021, the Ministry of Justice published the Companies Act Memorandum (Amendment No. __) (Corporate Governance in Public Companies Not Having Controlling Shareholders), 2021. The aim of the Memorandum is to adjust and update the corporate governance principles applicable to companies with no core controlling interest. Inter alia, a revision is being proposed to the definition of control, whereby it will be presumed that anyone holding 25% or more of a particular class of means of control has control, if there is no other person holding half or more of a particular class of means of control in the corporation; it is proposed that the obligation to appoint external directors in a company having no core controlling interest be revoked and, instead of this, to require that the majority of the directors be independent; it is proposed that the board of directors of a company having no core controlling interest shall determine the minimum number of directors required to have accounting and financial expertise and that the board of directors also be required to set the policy with regard to the composition of the board of directors and the desired qualities and qualifications of its members; it is also being proposed that the Board of Directors of a company having no core controlling interest be required to appoint a nominations committee and that the process of proposing candidates to serve as directors on behalf of the board of directors be done by a committee that will be independent. The Memorandum does not refer to the relationship between the proposed arrangements and the arrangements prescribed in the Banking Ordinance and in Proper Conduct of Banking Business Directive No. 301.

A call for public reference to the need for adjustment of the corporate governance rules regarding corporations having no core controlling interest. On September 23, 2019, the Ministry of Justice and the Israeli Securities Authority issued a call to the public requesting reference regarding legislation amendments for the adjustment of the corporate governance rules applying to corporations having no core controlling interest. The request referred to different issues, including the definition of "control", the composition of the board of directors, the process of appointment of directors, transactions with interested parties, remuneration, etc. On December 15, 2019, the Union of Banks submitted its response regarding the "Public Consultation", in view of the special arrangements applying to a banking corporation having no core controlling interest.

Different instructions

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.

A Government program accelerating digital services to the public and promoting digital learning. The program was approved by Government decision of July 22, 2020, and is intended to accelerate the characterization and establishment of the required infrastructure, in order to enable the public to conduct at distance operations involving Government offices and additional public institutions. It is proposed by the program to promote the use of simple and easy digital identification means for the electronic signature in the financial system, and advance a digital process of submitting and saving guarantees issued to Government offices by financial institutions.

Guidance by the Attorney General to the Government regarding the guidelines for the formation of digital arrangements. Guidance by the Attorney General to the Government was published on October 10, 2019, determining the principle of "no-preference", according to which a physical arrangement has in principle no preference over a digital arrangement. In accordance with this principle, the legal validity of a document or its admissibility shall not be denied due only to its being electronic, and in many cases, the maintenance of an original document has no preference over the maintenance of its copy. It has been determined that with respect to the interpretation of an existing statute, so long as there is nothing in the legislation which denies the possibility of performing an operation by electronic means, it is possible to perform such operation electronically (e.g., with respect to the supply of a document). As to the matter of signature, the legal requirement for a signature does not mean that the original document has to be maintained, and the purpose of the requirement for a signature may be maintained by use of other tools.

Position of the Bank of Israel in the matter of payments and activity of digital wallets. In a press release dated February 14, 2021, the Bank of Israel stated its position in view of developments in the field of payments and activity of digital wallets. According to the Bank of Israel position, the new initiatives in this field may encourage competition, develop the payments world and create value for the Israeli consumer; therefore the Bank of Israel does not consider it proper to curb the entities involved in the matter, provided, inter alia, that at this stage in the developments in the payments market, no use should be made of the data collected within the framework of the digital wallet, for the purpose of providing financial services or sale of other financial products to customers having a charge card issued for them by issuers who are not owners of the wallet service, and this until this issue in all its aspects, would be examined; as well as that in the case of an "open wallet", within a short period of time, there would be the possibility to hold numerous cards of different issuers, so that customers would be able, easily and conveniently, to make use of a number of cards of their own choice. Also to be examined is the limitation imposed on the two large banks by the Concentration Act, regarding cooperation initiatives in this field, in which the two large banks are involved. The Bank of Israel shall continue to follow developments in this field, and where required will act for appropriate regulation.

Legislation and regulation initiatives

The years 2019-2020, in contrast to earlier years, were marked by sparse legislation initiatives and new legislation, and this on the background of the dissolution of the 21 and 22 Knesset. On the other hand, the passing of numerous new regulatory directives continues, including the Supervisor of Banks. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal and Regulatory Risks" in Chapter "Risks Review" above.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

For further details regarding "Legislation and Supervision", see the 2018 Annual Report (pp. 363-377) and the “Disclosure according to the third pillar of Basel and additional information regarding risks” document, which is available for perusal on the Bank’s website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Taxation

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.
Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".
Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made. On July 9, 2017, the validity of the agreement was extended up to and including the 2020 tax year.
In addition, on July 9, 2017, an agreement was signed with the Israeli Tax Authority regarding the timing of the recognition for tax purposes of allowances in respect to housing loans. As part of this agreement, which is valid up to and including the 2020 tax year, it is prescribed, inter alia, that 65% of the closing balances in respect problematic debts regarding housing loans granted, and for which an allowance was first recorded on January 1, 2014, will be adjusted for tax purposes.
A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.
Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group’s preparations to implement its provisions, see “exposure to cross-border risks” in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

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

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

Additional Legal Proceedings

1. **Approach in accordance with Section 198A of the Companies Act.** On December 14, 2016, the Bank received an approach headed "approach in accordance with Section 198A of the Companies Act, 1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 26 C to the financial statements, section 11.3).
   On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.
   On June 24, 2018, the power of a Court verdict was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file anew a disclosure motion under Section 198A of the Companies Act, and/or a motion for approval of a derivative action, this within ninety days from date of the verdict and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.
   On February 6, 2020, a motion for the disclosure of documents under Section 198A of the Companies Act was resubmitted to the Tel Aviv District Court. The motion requests the Court to instruct Discount Bank and MDB to deliver documents listed in the motion for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.
   The Bank 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 March 3, 2021, in the presence of the parties, regarding the motion for the stay of proceedings and has exempted the banks from providing a response, at this stage. During the hearing held on March 3, 2021, the Bank's position was admitted, and the proceedings were stayed by mutual consent. An internal reminder has been scheduled for September 14, 2021.
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. On December 31, 2020, the Bank submitted a motion for the in limine rejection of the Plea. The Petitioner responded to the motion on January 31, 2021. A decision in the matter is still pending. The Court has ruled that the Bank must respond to the motion within 45 days of the ruling on the motion for in limine dismissal. In the course of the hearing on March 3, 2021, the position of the Bank was admitted, and the proceedings were stayed by mutual consent. The date for an internal reminder was fixed for September 14, 2021.
3. **Motions for disclosure of documents under Section 198A of the Companies Act.** On December 22 and 23, 2020, two different requests under Section 198A of the Companies Act were delivered to the Bank regarding the disclosure of documents prior to a derivative action concerning the proceedings described in Note 26 C sub section 12.1. The tow requests are identical in substance. The first request was filed with the Haifa District Court while the second request was filed with the Tel Aviv District Court. On January 11, 2021, the Supreme Court instructed that the hearing of the first request be transferred to the Tel Aviv District Court and be consolidated there with the hearing of the second request. Each of the Petitioners has filed a motion with the Tel Aviv district Court requesting to delete the competing request. In accordance with the decisions of the District Court dated January 12 and 27, 2021, the Bank is not required to respond to the motions themselves until the motions for deletion are decided upon, and it is determined which of the motions will remain in effect.
4. **Legal proceeding in Belgium.** Within the framework of proceedings for the enforcement of a Court verdict given in Belgium, conducted by the Bank for some time against a Belgian corporation, which is not a customer of the Bank, the said corporation filed on May 13, 2019, a criminal action with a Court of first instance in Antwerp, Belgium, against the Bank and against its former employee, claiming that the Bank had forged and acts on the basis of forged documents. The Counsel representing the Bank in the proceedings for enforcement of the verdict in Belgium is of the opinion that the aim of the action filed by that corporation is to

delay the enforcement proceedings in Belgium. In accordance with Belgian law, the action is being investigated by an Investigating Magistrate appointed for this matter. No time limit exists with respect to the criminal investigation, and the investigation process is not open to the Bank. At the end of the investigation the case passes for a "pretrial", in which another Judge decides as to whether sufficient evidential matter exists for the case to be tried by a Central Court. The Bank has the right of appeal against such a decision. 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. On February 2, 2021, the Court dismissed the appeal against the Bank and against the former employee. The Appellants have submitted an additional appeal to the Supreme Court in Belgium.

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. Such a notice has been submitted. In accordance with the rulings of the Supreme Court and the District Court, the dates for filing a motion for leave to appeal and the statement of defense were extended to March 2, 2021. The parties have filed mutually agreed requests to further extend the date to April 4, 2021.
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 regarding different legal proceedings, see Note 26 C, sections 11 and 12.

Significant Legal Proceedings settled in 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 26 C section 11.3 (a) to the 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 26 C section 11.7 to the 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 Third Quarter of 2020 report (p. 227).

For details regarding the proceedings for which a compromise arrangement was signed on January 31, 2021, see Note 26 C to the financial statements, section 11.3.

It is noted that the Bank has not included in Note 26 C information regarding a certain legal action that was included therein in prior reporting periods, even though it has not yet ended, due to the fact that it no longer falls within the determined minimum disclosure requirements (section 12.2 to the financial statements as of December 31, 2019, p. 206).

Proceedings regarding Authorities

1) For details regarding various proceedings by the Competition Commissioner and the Competition Tribunal concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2) **Demand for data – The Competition Authority.** During 2020, requests for data regarding the following matters were received at the Bank and at its subsidiaries: clearing payments, diamonds and credit card fees rates. At the beginning of 2021, the Bank received a demand for information regarding the matter of payment applications, and MDB received a demand regarding the provision of banking services to customers belonging to the Arab sector.
3) **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 submitted its response in writing on December 9, 2020 and had requested an additional oral hearing.

Miscellaneous

Environmental Quality

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited, if any at all. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.

Most of the Bank's environmental effects are indirect effects stemming from the use of "administrative" resources, such as: energy, water, paper and such like. These indirect environmental effects do not expose the Bank to environmental risks (within the meaning of the term in the Securities Regulations), which have or might have a material effect upon the Bank. One of the Bank's targets as regards the environment is to reduce the indirect effect, as stated.

Details regarding the actions taken by the Bank to reduce the said indirect effect, as stated (including: reduced use of paper, recycling of paper and plastic bottles, reducing the use of water, energy and more) are reported in the social responsibility reports issued by the Bank from time to time. For details regarding environmental risks within their meaning in Directives of the Supervisor of Banks, see "Environmental risks" under "Exposure to risks and risk management" above.

Appendices to the Annual Report

Appendices – List of tables

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses

Part "A" - Average balances and interest rates - assets

	2020			2019			2018		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:[3]									
In Israel	151,501	5,439	3.59	139,837	5,575	3.99	128,200	5,284	4.12
Abroad	23,851	855	3.58	23,524	1,177	5.00	21,366	1,040	4.87
Total credit to the public	**175,352**	***6,294**	**3.59**	**163,361**	***6,752**	**4.13**	**149,566**	***6,324**	**4.23**
Credit to the Government:									
In Israel	3,895	76	1.95	3,370	92	2.73	2,194	63	2.87
Total credit to the Government	**3,895**	**76**	**1.95**	**3,370**	**92**	**2.73**	**2,194**	**63**	**2.87**
Deposits with banks:									
In Israel	3,431	17	0.50	3,009	48	1.60	3,007	27	0.90
Abroad	512	-	-	180	1	0.56	221	1	0.45
Total deposits with banks	**3,943**	**17**	**0.43**	**3,189**	**49**	**1.54**	**3,228**	**28**	**0.87**
Deposits with central banks:									
In Israel	27,128	36	0.13	12,683	31	0.24	15,426	17	0.11
Abroad	564	1	0.18	601	11	1.83	509	7	1.38
Total deposits with central banks	**27,692**	**37**	**0.13**	**13,284**	**42**	**0.32**	**15,935**	**24**	**0.15**
Securities borrowed or purchased under resale agreements:									
In Israel	738	-	-	676	-	-	758	-	-
Total securities borrowed or purchased under resale agreements	**738**	**-**	**-**	**676**	**-**	**-**	**758**	**-**	**-**
Bonds held for redemption and available for sale:[4]									
In Israel	28,163	327	1.16	25,110	380	1.51	23,049	328	1.42
Abroad	8,828	206	2.33	8,446	211	2.50	9,237	231	2.50
Total bonds held for redemption and available for sale	**36,991**	**533**	**1.44**	**33,556**	**591**	**1.76**	**32,286**	**559**	**1.73**
Trading bonds:[4]									
In Israel	1,720	9	0.52	2,200	22	1.00	1,997	33	1.65
Abroad	66	1	1.52	74	2	2.70	68	2	2.94
Total trading bonds	**1,786**	**10**	**0.56**	**2,274**	**24**	**1.06**	**2,065**	**35**	**1.69**
Other assets:									
Abroad	666	20	3.00	684	17	2.49	678	20	2.95
Total other assets	**666**	**20**	**3.00**	**684**	**17**	**2.49**	**678**	**20**	**2.95**
Total interest bearing assets	**251,063**	**6,987**	**2.78**	**220,394**	**7,567**	**3.43**	**206,710**	**7,053**	**3.41**
Debtors in respect of credit card operations	9,519			9,221			7,708		
Other non-interest bearing assets[5]	19,684			16,073			14,828		
Total assets	**280,266**			**245,688**			**229,246**		
Of which: Total interest bearing assets attributable to operations abroad	34,487	1,083	3.14	33,509	1,419	4.23	32,079	1,301	4.06
* Commissions included in interest income from credit to the public		317			345			330	

For footnotes see page 417.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	2020			2019			2018		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	52,494	11	0.02	40,871	14	0.03	34,544	5	0.01
In Israel - Time deposits	94,618	503	0.53	91,909	738	0.80	87,801	657	0.75
Total deposits from the public in Israel	**147,112**	**514**	**0.35**	**132,780**	**752**	**0.57**	**122,345**	**662**	**0.54**
Abroad - On call	16,031	125	0.78	12,340	200	1.62	11,447	118	1.03
Abroad - Time deposits	6,504	92	1.41	9,808	234	2.39	8,857	161	1.82
Total deposits from the public outside Israel	**22,535**	**217**	**0.96**	**22,148**	**434**	**1.96**	**20,304**	**279**	**1.37**
Total deposits from the public	**169,647**	**731**	**0.43**	**154,928**	**1,186**	**0.77**	**142,649**	**941**	**0.66**
Deposits from the Government:									
In Israel	156	-	-	165	2	1.21	187	2	1.07
Abroad	71	3	4.23	49	1	2.04	80	1	1.25
Total deposits from the Government	**227**	**3**	**1.32**	**214**	**3**	**1.40**	**267**	**3**	**1.12**
Deposits from central banks:									
In Israel	2,083	2	0.10	-	-	-	-	-	-
Total deposits from central banks	**2,083**	**2**	**0.10**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits from banks:									
In Israel	4,407	21	0.48	4,134	25	0.60	4,084	18	0.44
Abroad	1,810	29	1.60	2,055	46	2.24	1,788	34	1.90
Total deposits from banks	**6,217**	**50**	**0.80**	**6,189**	**71**	**1.15**	**5,872**	**52**	**0.89**
Securities loaned or sold under repurchase agreements:									
Abroad	402	5	1.24	944	21	2.22	1,669	96	5.75
Total securities loaned or sold under repurchase agreements	**402**	**5**	**1.24**	**944**	**21**	**2.22**	**1,669**	**96**	**5.75**
Bonds and subordinated debt notes:									
In Israel	11,813	296	2.51	8,603	389	4.52	7,379	433	5.87
Total bonds and subordinated debt notes	**11,813**	**296**	**2.51**	**8,603**	**389**	**4.52**	**7,379**	**433**	**5.87**
Other liabilities:									
In Israel	60	2	3.33	47	4	8.51	47	2	4.26
Total other liabilities	**60**	**2**	**3.33**	**47**	**4**	**8.51**	**47**	**2**	**4.26**
Total interest bearing liabilities	**190,449**	**1,089**	**0.57**	**170,925**	**1,674**	**0.98**	**157,883**	**1,527**	**0.97**
Non-interest bearing deposits from the public	49,069			38,569			38,562		
Creditors in respect of credit card operations	10,027			9,425			8,220		
Other non-interest bearing liabilities[(6)]	11,663			8,466			7,726		
Total liabilities	**261,208**			**227,385**			**212,391**		
Total capital resources	**19,058**			**18,303**			**16,855**		
Total liabilities and capital resources	**280,266**			**245,688**			**229,246**		
Interest margin		**5,898**	**2.21**		**5,893**	**2.45**			**2.44**
Net return on interest bearing assets:[(7)]									
In Israel	216,576	5,069	2.34	186,885	4,976	2.66	174,631	4,635	2.65
Abroad	34,487	829	2.40	33,509	917	2.74	32,079	891	2.78
Total net return on interest bearing assets	**251,063**	**5,898**	**2.35**	**220,394**	**5,893**	**2.67**	**206,710**	**5,526**	**2.67**
Of which: Total interest bearing liabilities attributable to operations abroad	24,818	254	1.02	25,196	502	1.99	23,841	410	1.72

For footnotes see page 417.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	2020			2019			2018		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	178,220	5,077	2.85	151,397	5,024	3.32	139,675	4,496	3.22
Total interest bearing liabilities	(132,396)	(381)	(0.29)	(114,270)	(418)	(0.37)	(104,443)	(331)	(0.32)
Interest margin		**4,696**	**2.56**		**4,606**	**2.95**		**4,165**	**2.90**
CPI-linked shekels:									
Total interest bearing assets	19,733	413	2.09	18,675	575	3.08	18,212	730	4.01
Total interest bearing liabilities	(10,960)	(233)	(2.13)	(10,438)	(373)	(3.57)	(10,684)	(505)	(4.73)
Interest margin		**180**	**(0.04)**		**202**	**(0.49)**		**225**	**(0.72)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	18,623	414	2.22	16,813	549	3.27	16,744	526	3.14
Total interest bearing liabilities	(22,275)	(221)	(0.99)	(21,021)	(381)	(1.81)	(18,915)	(281)	(1.49)
Interest margin		**193**	**1.23**		**168**	**1.46**		**245**	**1.65**
Total operations in Israel:									
Total interest bearing assets	216,576	5,904	2.73	186,885	6,148	3.29	174,631	5,752	3.29
Total interest bearing liabilities	(165,631)	(835)	(0.50)	(145,729)	(1,172)	(0.80)	(134,042)	(1,117)	(0.83)
Interest margin		**5,069**	**2.23**		**4,976**	**2.49**		**4,635**	**2.46**

For footnotes see next page.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	2020 Compared to 2019			2019 Compared to 2018		
	Increase (decrease) due to change[8]			Increase (decrease) due to change[8]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	419	(555)	(136)	464	(173)	291
Abroad	12	(334)	(322)	108	29	137
Total credit to the public	**431**	**(889)**	**(458)**	**572**	**(144)**	**428**
Other interest bearing assets:						
In Israel	129	(237)	(108)	8	97	105
Abroad	14	(28)	(14)	(18)	(1)	(19)
Total other interest bearing assets	**143**	**(265)**	**(122)**	**(10)**	**96**	**86**
Total interest income	**574**	**(1,154)**	**(580)**	**562**	**(48)**	**514**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	50	(288)	(238)	59	31	90
Abroad	4	(221)	(217)	36	119	155
Total deposits from the public	**54**	**(509)**	**(455)**	**95**	**150**	**245**
Other interest bearing liabilities:						
In Israel	97	(196)	(99)	41	(76)	(35)
Abroad	(12)	(19)	(31)	(11)	(52)	(63)
Total other interest bearing liabilities	**85**	**(215)**	**(130)**	**30**	**(128)**	**(98)**
Total interest expenses	**139**	**(724)**	**(585)**	**125**	**22**	**147**
Interest income, net	**435**	**(430)**	**5**	**437**	**(70)**	**367**

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 7 million and NIS 583 million, respectively; 2019 – NIS 9 million and NIS 243 million respectively; 2018 – NIS (12) million and NIS (135) million respectively.

(5) Including derivative instruments and other assets that are not interest brearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

Appendix no. 2 - Consolidated statement of profit and loss for each quarter - multi quarter data

Quarter	4	3	2	1
	In NIS millions			
	2020			
Interest income	1,724	1,730	1,742	1,791
Interest expenses	220	254	279	336
Net interest income	1,504	1,476	1,463	1,455
Credit loss expenses	200	330	532	656
Net interest income after credit loss expenses	**1,304**	**1,146**	**931**	**799**
Non-interest Income				
Non-interest financing income	148	301	276	417
Fees and commissions	739	698	650	739
Other income	24	7	8	-
Total non-interest income	**911**	**1,006**	**934**	**1,156**
Operating and other Expenses				
Salaries and related expenses	794	830	794	824
Maintenance and depreciation of buildings and equipment	337	289	274	285
Other expenses	689	628	515	422
Total operating and other expenses	**1,820**	**1,747**	**1,583**	**1,531**
Profit before taxes	395	405	282	424
Provision for taxes on profit	159	134	105	151
Profit after taxes	236	271	177	273
Bank's share in profit of associates, net of tax effect	36	6	4	4
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	272	277	181	277
Attributed to the non-controlling interests in consolidated companies	(8)	(19)	(7)	2
Net Profit attributed to bank's shareholders	**264**	**258**	**174**	**279**
	2019			
Interest income	1,860	1,751	2,150	1,806
Interest expenses	381	353	555	385
Net interest income	1,479	1,398	1,595	1,421
Credit loss expenses	261	152	136	141
Net interest income after credit loss expenses	**1,218**	**1,246**	**1,459**	**1,280**
Non-interest Income				
Non-interest financing income	145	195	230	172
Fees and commissions	768	765	729	710
Other income	38	10	1	8
Total non-interest income	**951**	**970**	**960**	**890**
Operating and other Expenses				
Salaries and related expenses	815	824	857	847
Maintenance and depreciation of buildings and equipment	294	272	269	263
Other expenses	557	437	444	420
Total operating and other expenses	**1,666**	**1,533**	**1,570**	**1,530**
Profit before taxes	503	683	849	640
Provision for taxes on profit	168	240	300	224
Profit after taxes	335	443	549	416
Bank's share in profit (loss) of associates, net of tax effect	5	-	12	(1)
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	340	443	561	415
Attributed to the non-controlling interests in consolidated companies	(15)	(16)	(16)	(10)
Net Profit attributed to bank's shareholders	**325**	**427**	**545**	**405**

Appendix no. 3 - Condensed Consolidated balance sheet - multi quarter data

	2020				2019			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	42,936	40,469	39,608	29,392	(1)26,044	21,746	21,245	18,894
Securities	42,785	41,431	40,037	42,605	37,745	37,303	35,470	35,618
Securities borrowed or purchased under agreements to resell	1,074	679	832	488	531	464	683	823
Credit to the public	192,479	190,300	186,841	186,215	(1)182,991	175,810	174,553	172,604
Provision for credit loss	(3,761)	(3,644)	(3,405)	(3,028)	(2,524)	(2,373)	(2,318)	(2,308)
Net credit to the public	188,718	186,656	183,436	183,187	180,467	173,437	172,235	170,296
Credit to Governments	3,473	4,276	4,219	4,406	3,515	3,478	3,495	3,223
Investments in associates	348	269	154	152	171	172	173	196
Buildings and equipment	2,995	2,805	2,648	2,641	2,577	2,496	2,467	2,443
Intangible assets and goodwill	164	164	164	164	164	160	160	160
Assets in respect of derivative instruments	6,400	5,451	5,856	7,757	4,545	5,601	4,263	3,405
Other assets	5,076	5,478	5,146	5,612	4,064	3,921	4,122	4,382
Total Assets	**293,969**	**287,678**	**282,100**	**276,404**	**259,823**	**248,778**	**244,313**	**239,440**
Liabilities and Equity								
Deposits from the public	226,118	225,108	222,048	213,667	(1)201,450	194,462	192,814	190,839
Deposits from banks	13,107	9,384	7,717	7,339	6,419	5,980	6,416	4,970
Deposits from the Government	344	226	232	235	181	186	190	251
Securities loaned or sold under buy-back arrangements	161	-	174	892	346	1,481	536	637
Bonds and Subordinated debt notes	10,201	11,314	11,377	13,069	(1)13,129	8,131	8,158	8,271
Liabilities in respect of derivative instruments	7,365	5,586	6,064	7,878	4,839	6,079	4,345	3,395
Other liabilities	16,946	16,361	14,965	13,880	14,266	13,486	13,186	12,932
Total liabilities	274,242	267,979	262,577	256,960	240,630	229,805	225,645	221,295
Equity capital attributed to the Bank's shareholders	19,182	19,160	19,004	18,929	18,678	18,457	18,168	17,618
Non-controlling interests in consolidated companies	545	539	519	515	515	516	500	527
Total equity	19,727	19,699	19,523	19,444	19,193	18,973	18,668	18,145
Total Liabilities and Equity	**293,969**	**287,678**	**282,100**	**276,404**	**259,823**	**248,778**	**244,313**	**239,440**

Footnote:
(1) The increase in the fourth quarter is due mainly to the Municipal Bank merger.

Appendix no. 4 - Consolidated statement of profit and loss for the last five years

	As at December 31				
	2020	2019	2018	2017	2016
	in NIS millions				
Interest income	6,987	7,567	7,053	6,213	5,659
Interest expenses	1,089	1,674	1,527	1,238	1,102
Net interest income	5,898	5,893	5,526	4,975	4,557
Credit loss expenses	1,718	690	540	574	469
Net interest income after credit loss expenses	**4,180**	**5,203**	**4,986**	**4,401**	**4,088**
Non-interest Income					
Non-interest financing income	1,142	742	586	595	754
Fees and commissions	2,826	2,972	2,851	2,676	2,556
Other income	39	57	57	87	100
Total non-interest income	**4,007**	**3,771**	**3,494**	**3,358**	**3,410**
Operating and other Expenses					
Salaries and related expenses	3,242	3,343	3,385	3,204	3,169
Maintenance and depreciation of buildings and equipment	1,185	1,098	1,039	1,044	1,067
Other expenses	2,254	1,858	1,724	1,446	1,549
Total operating and other expenses	**6,681**	**6,299**	**6,148**	**5,694**	**5,785**
Profit before taxes	1,506	2,675	2,332	2,065	1,713
Provision for taxes on profit	549	932	789	747	741
Profit after taxes	957	1,743	1,543	1,318	972
Bank's share in profit of associates, net of tax effect	50	16	6	1	15
Net Profit :					
Before attribution to non-controlling interests	1,007	1,759	1,549	1,319	987
Attributed to the non-controlling interests	(32)	(57)	(44)	(60)	(82)
Net Profit attributed to bank's shareholders	**975**	**1,702**	**1,505**	**1,259**	**905**
Total earnings per share attributed to Bank's shareholders	**0.84**	**1.46**	**1.29**	**1.09**	**0.84**

Appendix no. 5 - Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2020	2019	2018	2017	2016
	In NIS millions				
Assets					
Cash and deposits with banks	42,936	26,044	21,858	28,026	29,311
Securities	42,785	37,745	37,898	32,703	38,818
Securities borrowed or purchased under agreements to resell	1,074	531	774	954	440
Credit to the public	192,479	182,991	167,078	150,868	142,904
Provision for credit loss	(3,761)	(2,524)	(2,274)	(2,111)	(2,144)
Net credit to the public	188,718	180,467	164,804	148,757	140,760
Credit to Governments	3,473	3,515	3,336	1,493	737
Investments in associates	348	171	135	153	157
Buildings and equipment	2,995	2,577	2,437	2,366	2,322
Intangible assets and goodwill	164	164	160	160	160
Assets in respect of derivative instruments	6,400	4,545	3,726	2,953	3,283
Other assets	5,076	4,064	4,048	3,656	3,589
Total Assets	**293,969**	**259,823**	**239,176**	**221,221**	**219,577**
Liabilities and Equity			-		
Deposits from the public	226,118	201,450	188,916	175,170	172,318
Deposits from banks	13,107	6,419	6,886	4,804	5,342
Deposits from the Government	344	181	257	267	303
Securities loaned or sold under buy-back arrangements	161	346	1,126	1,943	3,543
Bonds and Subordinated debt notes	10,201	13,129	8,476	7,639	8,498
Liabilities in respect of derivative instruments	7,365	4,839	3,249	3,232	3,570
Other liabilities	16,946	14,266	12,597	12,098	11,067
Total liabilities	274,242	240,630	221,507	205,153	204,641
Equity capital attributed to the Bank's shareholders	19,182	18,678	17,151	15,594	14,512
Non-controlling interests in consolidated companies	545	515	518	474	424
Total equity	19,727	19,193	17,669	16,068	14,936
Total Liabilities and Equity	**293,969**	**259,823**	**239,176**	**221,221**	**219,577**

Appendix no. 6 - Additional details - securities portfolio

1. Available for sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	December 31 ,2020			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	2,085	2,177	94	2
Financial services[1]	8,257	8,411	161	7
Total non government bonds	**10,342**	**10,588**	**255**	**9**
Government bonds				
U.S. government	766	771	24	19
Israel Government	20,745	21,209	488	24
Other Governments	64	65	1	-
Total government bonds	**21,575**	**22,045**	**513**	**43**
Total bond in the available-for-sale portfolio	**31,917**	**32,633**	**768**	**52**
	December 31 ,2019			
Total non governmental bonds and bills	**10,580**	**10,663**	**114**	**31**
Total government bonds and bills	**18,511**	**18,899**	**396**	**8**
Total available-for-sale bonds	**29,091**	**29,562**	**510**	**39**

* Including the investment of IDB Bank in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 62-207 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

	December 31 ,2020			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	504	514	10	-
Ginnie Mae	6,155	6,282	130	3
Freddie Mac	203	209	6	-
Fannie Mae	187	194	7	-
Other	1,208	1,212	8	4
Total financial services	**8,257**	**8,411**	**161**	**7**

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

	December 31 ,2020			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America	36	36	-	-
Western Europe[3]	142	142	-	-
Israel	102	103	1	-
Australia	224	233	9	-
Total banks and banking holding companies	**504**	**514**	**10**	**-**

Appendix no. 6 - Additional details - securities portfolio

1. Available for sale bonds - data according to economic sectors

(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe

Britain	22	22	-	-
France	120	120	-	-
Total	**142**	**142**	**-**	**-**

2. Held-to-maturity securities - data according to economic sectors

Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

	December 31 ,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	164	168	6	2
Financial services*	165	170	6	1
Total non government bonds	**329**	**338**	**12**	**3**
Total Government bonds	**7,594**	**7,895**	**301**	**-**
Total bonds in the held-to-maturity portfolio	**7,923**	**8,233**	**313**	**3**
	December 31 ,2019			
Total non governmental bonds and bills	**500**	**503**	**9**	**6**
Total government bonds and bills	**4,253**	**4,495**	**242**	**-**
Total held-to-maturity bonds	**4,753**	**4,998**	**251**	**6**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	69	72	3	-
Freddie Mac	57	57	1	1
Fannie Mae	39	41	2	-
Total financial services	**165**	**170**	**6**	**1**

Appendix no. 6 - Additional details - securities portfolio (continued)

3. Trading Bonds - data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	December 31 ,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	15	12	1	4
Financial services	40	41	1	-
Total non government bonds	**55**	**53**	**2**	**4**
Total government bonds	**1,075**	**1,083**	**8**	**-**
Total bonds in the trading portfolio	**1,130**	**1,136**	**10**	**4**
	December 31 ,2019			
Total non governmental bonds	**134**	**135**	**4**	**3**
Total government bonds	**2,308**	**2,315**	**8**	**1**
Total trading bonds in the trading portfolio	**2,442**	**2,450**	**12**	**4**

Appendix no. 7 - Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 28 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2020	2019
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	117	125
With an A+ rating	1,670	657
With an A rating	236	59
With an A- rating	3	5
With a BBB+ rating	85	43
With a B+ rating	2	-
Not rated	94	108
Total against foreign banks	**2,207**	**997**
Total against Israeli banks	**594**	**382**
Total Balance-sheet balances of assets deriving from derivative instruments	**2,801**	**1,379**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2020	2019
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	2	4
With an AA- rating	-	2
With an A+ rating	111	75
With an A rating	-	7
With an A- rating	-	3
With an BBB+ rating	1	3
With an B+ rating	1	-
Total against foreign banks	**115**	**94**
Total against Israeli banks	**10**	**9**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**125**	**103**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 28 B to the financial statements according to the overall credit to the public risk per economic sectors

	As of December 31, 2020		As of December 31, 2019	
	in NIS million			
Agriculture		1		-
Industry:				
Machines, electrical and electronic equipment	19		25	
Mining, chemical industry and oil products	144		75	
Other	62		30	
Total industry		225		130
Construction and real estate:				
Acquisition of real estate for construction	123		79	
Real estate holdings	426		154	
Other	12		11	
Total Construction and real estate		561		244
Electricity and water		346		356
Commerce		349		215
Hotels, hotel services and food		30		30
Transportation and storage		28		33
Communications and computer services		46		34
Financial services:				
Financial institution (excluding banks)	1,048		1,106	
Private customers active on the capital market	663		270	
Financial holding institutions	664		1,083	
Insurance and provident fund services	-		-	
Total financial services		2,375		2,459
Business and other services		40		31
Public and community services		104		62
Private individuals - housing loans		-		-
Private individuals - other		8		9
Total credit risk in respect of derivative instruments		**4,113**		**3,603**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.		(1,878)		(1,971)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)		**2,234**		**1,632**

Appendix no. 7 - Additional details (continued)

3. Credit levels in excess of NIS 800 million - additional details

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

General details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[1] (Consolidated)

	As at December 31	
	2020	2019
	in NIS thousands	
Field of activity:		
Financial services[2]	6,385,485	5,655,810
Industry	2,121,503	2,251,772
Electricity and water	1,066,992	1,409,606
Financial services	1,286,294	934,716
Real estate	1,187,554	1,002,774
Financial services	22,387	2,326,504
Transportation and Storage	351,578	1,081,376
Real estate	1,037,644	775,345
Industry	1,202,941	34,548
Financial services	1,317,487	1,302,433
Real estate	764,557	1,066,828
Real estate	1,004,357	1,013,433
Public and Community Services	974,638	955,838
Commerce	1,029,288	810,079

Footnotes:
(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.
(2) Including mortgage backed securities issued by GNMA.

Appendix no. 7 - Additional details (continued)

4. Details of the investment in government bonds

Note 12 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	December 31, 2020		December 31, 2019	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	29,860	30,161	23,784	24,026
U.S. government	797	797	1,591	1,591
Other governments	65	65	92	92
Total	**30,722**	**31,023**	**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. 8 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313. Special Mention Debt - A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as "impaired", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net 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 that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 8 – Glossary (continued)

Forward looking information	Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968. The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans. Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to…", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain. The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets. The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.
Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: A. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. B. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 9 – Index

Main Office

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.co.il

Subsidiaries In Israel

Banking
Mercantile Discount Bank

Capital Market And Investments
Tafnit Discount Asset Management
Discount Capital
Discount Capital Underwriting
Discount Manpikim

Credit Cards Companies
Israel Credit Cards
Diners Club

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head Office: 511 Fifth Avenue, New York
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative office
in Long Island